

DOLLAR GENERAL CORP  
Form PRER14A  
May 09, 2007

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

**SCHEDULE 14A**

**Proxy Statement Pursuant to Section 14(a)  
of the Securities Exchange Act of 1934 (Amendment No. 1)**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

**DOLLAR GENERAL CORPORATION**

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(Name of Registrant as Specified In Its Charter)

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(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:  
Common Stock, par value \$.50 per share ("Common Stock") of Dollar General Corporation

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(2) Aggregate number of securities to which transaction applies:  
314,616,813 shares of Common Stock, 17,561,933 options to purchase shares of Common Stock;  
restricted stock units with respect to 1,425,958 shares of Common Stock; and deferred equity  
units with respect to 130,967 shares of Common Stock.

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule  
0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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The maximum aggregate value was determined based upon the sum of (A) 314,616,813 shares of Common Stock multiplied by \$22.00 per share; (B) options to purchase 17,561,933 shares of Common Stock with exercise prices less than \$22.00 multiplied by \$3.45 (which is the difference between \$22.00 and the weighted average exercise price of \$18.55 per share); (C) restricted stock units with respect to 1,425,958 shares of Common Stock multiplied by \$22.00 per share; and (D) deferred equity units with respect to 130,967 shares of Common Stock multiplied by \$22.00. In accordance with Section 14(g) of the Securities Exchange Act of 1934, as amended, the filing fee was determined by multiplying 0.00003070 by the sum calculated in the preceding sentence.

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(4) Proposed maximum aggregate value of transaction:  
\$7,016,410,904.85

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(5) Total fee paid:  
\$216,000

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ý Fee paid previously with preliminary materials.

o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

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(2) Form, Schedule or Registration Statement No.:

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(3) Filing Party:

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(4) Date Filed:

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100 Mission Ridge  
Goodlettsville, Tennessee 37072

, 2007

Dear Fellow Shareholder:

You are cordially invited to attend a special meeting of Dollar General Corporation shareholders to be held on [ ], 2007, starting at [ ] a.m., local time, at [ ].

At the special meeting, you will be asked to consider and vote upon a proposal to approve a merger agreement under which Dollar General would be acquired by Buck Holdings, L.P., an entity controlled by investment funds affiliated with Kohlberg Kravis Roberts & Co. L.P., a private equity firm. We entered into this merger agreement on March 11, 2007. If the merger agreement is approved by our shareholders and the merger is completed, as a shareholder you will be entitled to receive \$22.00 in cash, without interest and less any applicable withholding tax, for each share of Dollar General common stock owned by you at completion of the merger, as more fully described in the enclosed proxy statement.

**Dollar General's board of directors has unanimously adopted and declared advisable the merger agreement and the transactions contemplated by the merger agreement, determined that the transactions contemplated by the merger agreement are advisable and in the best interests of Dollar General and its shareholders and resolved to recommend that Dollar General's shareholders vote in favor of the approval of the merger agreement.**

**Accordingly, our board of directors unanimously recommends that you vote "FOR" the approval of the merger agreement and "FOR" the adjournment or postponement of the special meeting, if necessary or appropriate, to solicit additional proxies.**

**Your vote is very important, regardless of the number of shares of common stock you own.** We cannot complete the merger unless the merger agreement is approved by the affirmative vote of the holders of outstanding shares of our common stock representing at least a majority of all the votes entitled to vote at the special meeting. **Therefore, the failure of any shareholder to vote on the proposal to approve the merger agreement will have the same effect as a vote by that shareholder against the approval of the merger agreement.**

The attached proxy statement provides you with detailed information about the special meeting, the merger agreement and the merger. A copy of the merger agreement is attached as Annex A to this document. We encourage you to read this document and the merger agreement carefully and in their entirety. You may also obtain more information about Dollar General from documents we have filed with the Securities and Exchange Commission.

Whether or not you plan to attend the special meeting, please complete, date, sign and return, as promptly as possible, the enclosed proxy card in the accompanying reply envelope, or submit your proxy by telephone or the Internet. If you have Internet access, we encourage you to record your vote via the Internet. If you attend the special meeting and vote in person, your vote by ballot will revoke any proxy previously submitted.

Thank you in advance for your cooperation and continued support.

Sincerely,

David A. Perdue  
*Chairman and Chief Executive Officer*

**Neither the Securities and Exchange Commission nor any state securities regulatory agency has approved or disapproved the merger, passed upon the merits or fairness of the merger or passed upon the adequacy or accuracy of the disclosure in this document. Any representation to the contrary is a criminal offense.**

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The proxy statement is dated [ ], 2007, and is first being mailed to shareholders on or about [ ], 2007.

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**Dollar General Corporation  
100 Mission Ridge  
Goodlettsville, Tennessee 37072**

**NOTICE OF SPECIAL MEETING OF SHAREHOLDERS**

**To Be Held On [ ], 2007**

To the Shareholders of Dollar General Corporation:

A special meeting of shareholders of Dollar General Corporation, a Tennessee corporation, will be held on [ ], 2007, starting at [ ] a.m., local time, at [ ], for the following purposes:

1. To consider and vote on a proposal to approve the Agreement and Plan of Merger (the "merger agreement"), dated as of March 11, 2007, by and among Buck Holdings, L.P., a Delaware limited partnership ("Parent"), Buck Acquisition Corp., a Tennessee corporation and a wholly owned subsidiary of Parent ("Merger Sub"), and Dollar General Corporation. A copy of the merger agreement is attached as Annex A to the accompanying proxy statement. Pursuant to the terms of the merger agreement, Merger Sub will merge with and into Dollar General (the "merger") and upon the merger becoming effective each outstanding share of Dollar General's common stock, par value \$0.50 per share (excluding shares owned, directly or indirectly, by Parent or Merger Sub or held by any direct or indirect wholly owned subsidiary of Dollar General, but including shares held by Dollar General in trust under certain pension and deferred compensation arrangements), will be converted into the right to receive \$22.00 in cash, without interest and less any applicable withholding tax, as described in the accompanying proxy statement.
2. To consider and vote on any proposal to adjourn or postpone the special meeting to a later date or time, if necessary or appropriate, to solicit additional proxies in favor of the proposal to approve the merger agreement if there are insufficient votes at the time of such adjournment or postponement to approve the merger agreement.
3. To consider and vote on such other business as may properly come before the special meeting or any adjournments or postponements thereof.

Our board of directors has specified [ ], 2007, as the record date for the purpose of determining the shareholders who are entitled to receive notice of, and to vote at, the special meeting. Only shareholders of record at the close of business on the record date are entitled to notice of and to vote at the special meeting and at any adjournment or postponement thereof.

**Our board of directors has unanimously adopted and declared advisable the merger agreement and the transactions contemplated by the merger agreement, determined that the transactions contemplated by the merger agreement are advisable and in the best interests of Dollar General and its shareholders and resolved to recommend that Dollar General's shareholders vote in favor of the approval of the merger agreement and the transactions contemplated by the merger agreement, including the merger.**

**THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT YOU VOTE "FOR" APPROVAL OF THE MERGER AGREEMENT AND "FOR" THE ADJOURNMENT OR POSTPONEMENT OF THE SPECIAL MEETING, IF NECESSARY OR APPROPRIATE, TO SOLICIT ADDITIONAL PROXIES.**

Your vote is important. The approval of the merger agreement requires the affirmative vote of the holders of outstanding shares of our common stock representing at least a majority of all the votes entitled to vote at the special meeting. Therefore, your failure to vote in person at the special meeting or to submit a signed proxy card will have the same effect as a vote by you "AGAINST" the approval of the merger agreement. Properly executed proxy cards with no instructions indicated on the proxy card will be voted "**FOR**" the approval of the merger agreement and "**FOR**" the adjournment or postponement of the special meeting, if necessary or appropriate, to solicit additional proxies. Even if you plan to attend the special meeting in person, we request that you complete, sign, date and return

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the enclosed proxy or submit your proxy by telephone or the Internet prior to the special meeting to ensure that your shares will be represented at the special meeting if you are unable to attend. If you have Internet access, we encourage you to record your vote via the Internet. If you fail to return your proxy card or fail to submit your proxy by phone or the Internet and you fail to attend the special meeting, your shares will not be counted for purposes of determining whether a quorum is present at the meeting, but will not affect the outcome of the vote regarding the adjournment proposal, if necessary. If you hold your shares through a bank, broker or other custodian, you must obtain a legal proxy from such custodian in order to vote in person at the special meeting. If you attend the special meeting, you may revoke your proxy and vote in person if you wish, even if you have previously returned your proxy card. Your prompt attention is greatly appreciated.

Shareholders of Dollar General will not have dissenters' rights under Tennessee law unless our common stock is delisted from the New York Stock Exchange prior to consummation of the merger.

Please note that space limitations make it necessary to limit attendance at the special meeting to shareholders as of the record date (or their authorized representatives). If you attend, please note that you may be asked to present valid photo identification. If your shares are held by a bank or broker, please bring to the special meeting your statement evidencing your beneficial ownership of common stock. The list of shareholders entitled to vote at the special meeting will be available for inspection at our principal executive offices at 100 Mission Ridge, Goodlettsville, Tennessee 37072, beginning two business days after notice of the special meeting is given and continuing through the meeting.

By Order of the Board of Directors,

Christine L. Connolly

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*Corporate Secretary and Chief Compliance Officer*

Goodlettsville, Tennessee  
[ ], 2007

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## SUMMARY TERM SHEET

*The following summary highlights selected information in this proxy statement and may not contain all the information that may be important to you. Accordingly, we encourage you to read carefully this entire proxy statement, its annexes and the documents referred to or incorporated by reference in this proxy statement. Each item in this summary includes a page reference directing you to a more complete description of that topic. See "Where You Can Find More Information" beginning on page 64. We sometimes make reference to Dollar General Corporation and its subsidiaries in this proxy statement by using the terms "Dollar General," the "Company," "we," "our" or "us."*

### **The Merger (Page 15)**

The Agreement and Plan of Merger, dated as of March 11, 2007, which we refer to as the merger agreement, by and among Dollar General, Buck Holdings, L.P. (which we refer to as Parent) and Buck Acquisition Corp. (which we refer to as Merger Sub), provides that Merger Sub, an entity controlled through Parent by investment funds affiliated with Kohlberg Kravis Roberts & Co. L.P., a private equity firm (which we refer to as KKR), will merge with and into Dollar General. As a result of the merger, Dollar General will become a private company, controlled by investment funds affiliated with KKR. Dollar General will be the surviving corporation in the merger (which we refer to as surviving corporation) and, following the merger, will continue to do business as "Dollar General Corporation." As a private company, the registration of Dollar General's common stock and the reporting obligations with respect to the common stock under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), will be terminated upon application to the Securities and Exchange Commission (the "SEC"). In addition, upon completion of the proposed merger, shares of Dollar General's common stock will no longer be listed on any stock exchange or quotation system, including the New York Stock Exchange ("NYSE").

### **Effects of the Merger (Page 42)**

If the merger is completed, each outstanding share of Dollar General common stock will be converted into the right to receive \$22.00 in cash, without interest and less any applicable withholding tax. We refer to this amount in this proxy statement as the merger consideration. As a shareholder, you will be entitled to receive the merger consideration for each share of our common stock owned by you. Following the merger, you will no longer own any shares of the surviving corporation and Dollar General will cease to be a publicly traded company. If the merger agreement is not approved, Dollar General will remain an independent public company and our common stock will continue to be listed and traded on the NYSE.

### **Completion of the Merger (Page 41)**

We are working toward completing the merger as quickly as possible, and we currently anticipate that it will be completed in the third quarter of 2007. However, we cannot predict the exact timing of the completion of the merger and whether the merger will be completed. In order to complete the merger, we must obtain shareholder approval and the other closing conditions under the merger agreement must be satisfied or waived. In addition, Parent is not obligated to complete the merger until the expiration of a 20-business day "Marketing Period" that it may use to complete its financing for the merger.

### **The Parties to the Merger (Page 11)**

***Dollar General Corporation.*** Dollar General is a leading value discount retailer of quality general merchandise at everyday low prices. Through conveniently located stores, Dollar General offers a focused assortment of basic consumable merchandise including health and beauty aids, packaged food

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and refrigerated products, home cleaning supplies, housewares, stationery, seasonal goods, basic clothing and domestics. Dollar General® stores serve primarily low-, middle- and fixed-income families.

Dollar General was founded in 1939 as J.L. Turner and Son, Wholesale and opened its first dollar store in 1955, when it was first incorporated as a Kentucky corporation under the name J.L. Turner & Son, Inc. The Company changed its name to Dollar General Corporation in 1968 and reincorporated as a Tennessee corporation in 1998. As of March 2, 2007, Dollar General operated 8,260 stores in 35 states, primarily in the southern, southwestern, midwestern and eastern United States.

**Buck Holdings, L.P.** Buck Holdings, L.P. is a Delaware limited partnership, managed by its general partner, Buck Holdings, LLC, a Delaware limited liability company, which is controlled by investment funds affiliated with KKR. Each of Buck Holdings, L.P. and Buck Holdings, LLC was formed solely for the purpose of acquiring Dollar General and has not carried on any activities to date, except for activities incidental to its formation and activities undertaken in connection with the transactions contemplated by the merger agreement.

**Buck Acquisition Corp.** Buck Acquisition Corp. is a Tennessee corporation and a wholly owned subsidiary of Parent, which was formed solely for the purpose of facilitating Parent's acquisition of Dollar General. Merger Sub has not carried on any activities to date, except for activities incidental to its formation and activities undertaken in connection with the transactions contemplated by the merger agreement. Upon consummation of the proposed merger, Merger Sub will merge with and into Dollar General and will cease to exist, with Dollar General continuing as the surviving corporation.

### The Special Meeting (Page 12)

**Date, Time and Place.** The special meeting will be held on [ ], 2007, starting at [ ] a.m., local time, at [ ].

**Purpose.** You will be asked to consider and vote upon (1) the approval of the merger agreement, (2) the adjournment or postponement of the special meeting to a later date, if necessary or appropriate, to solicit additional proxies in favor of the proposal to approve the merger agreement if there are insufficient votes at the time of the meeting to approve the merger agreement and (3) such other business as may properly come before the special meeting or any adjournments or postponements thereof.

**Record Date and Quorum.** You are entitled to vote at the special meeting if you owned shares of our common stock at the close of business on [ ], 2007, the record date for the special meeting. You will have one vote for each share of our common stock that you owned on the record date. As of the record date, there were [ ] shares of our common stock issued and outstanding and entitled to vote. A majority of our common stock issued, outstanding and entitled to vote at the special meeting constitutes a quorum for the purpose of considering the proposals.

**Vote Required.** The approval of the merger agreement requires the affirmative vote of the holders of outstanding shares of our common stock representing at least a majority of all the votes entitled to vote at the special meeting. Approval of any proposal to adjourn or postpone the special meeting, if necessary or appropriate, for the purpose of soliciting additional proxies requires the affirmative vote of the holders of a majority of the shares of our common stock present in person or represented by proxy at the special meeting and entitled to vote on the matter.

**Common Stock Ownership of Directors and Executive Officers.** As of the record date, the directors and executive officers of Dollar General beneficially owned in the aggregate approximately [ ]% of the shares of our common stock entitled to vote at the special meeting. All of our directors and executive officers have informed Dollar General that they currently intend to vote all of their shares of common stock "**FOR**" the approval of the merger agreement and "**FOR**" the postponement proposal.

**Voting and Proxies.** Any shareholder of record entitled to vote at the special meeting may submit a proxy by telephone, via the Internet, by returning the enclosed proxy card by mail, or by voting in person at the special meeting. If you intend to submit your proxy by telephone or the Internet you must do so no later than 11:59 p.m. Eastern Daylight Savings Time on [ ], 2007, and if you intend to submit your proxy by mail it must be received by the Company prior to the commencement of the special meeting. If your shares of our common stock are held in "street name" by your broker, you should instruct your broker on how to vote such shares of common stock using the instructions provided by your broker. If you do not provide your broker with instructions, your shares of our common stock will not be voted, which will have the same effect as a vote "AGAINST" the approval of the merger agreement. The persons named in the accompanying proxy will also have discretionary authority to vote on any adjournments or postponements of the special meeting. Even if you plan to attend the special meeting, after carefully reading and considering the information contained in this proxy statement, if you hold your shares of common stock in your own name as the shareholder of record, please vote your shares by completing, signing, dating and returning the enclosed proxy card or by using the telephone number printed on your proxy card or by using the Internet voting instructions printed on your proxy card.

If you return your signed proxy card, but do not mark the boxes showing how you wish to vote, your shares will be voted "**FOR**" the proposal to approve the merger agreement and "**FOR**" the adjournment proposal, if applicable.

**Revocability of Proxy.** Any shareholder of record who executes and returns a proxy card (or submits a proxy via telephone or the Internet) may revoke the proxy at any time before it is voted at the special meeting by attending the special meeting and voting in person. Your attendance at the special meeting will not, by itself, revoke your proxy. To revoke your proxy, you must vote in person at the special meeting. If you hold your shares in your name as a shareholder of record, you may also revoke the proxy by notifying the Investor Relations Department, Attn.: Emma Jo Kauffman, at 100 Mission Ridge, Goodlettsville, Tennessee 37072. Further, the proxy may be revoked by submitting a later-dated proxy card, or, if you voted by telephone or the Internet, by voting a second time by telephone or Internet. In the event you have instructed a broker, bank or other nominee to vote your shares of our common stock, you have to follow the directions received from your broker, bank or other nominee and change those instructions in order to revoke your proxy.

**Sale of Shares.** The record date of the special meeting is earlier than the date of the special meeting and the date that the merger is expected to be completed. If you transfer your shares of common stock after the record date but before the special meeting, you will retain the right to vote at the special meeting, but you will have transferred the right to receive the merger consideration. In order to receive the merger consideration, you must beneficially own your shares of common stock through completion of the merger.

**Dissenters' Rights.** Our shareholders do not have dissenters' rights in connection with the merger under the Tennessee Business Corporation Act unless our common stock is delisted from the NYSE prior to the consummation of the merger.

**Solicitation of Proxies; Costs.** Dollar General will pay all expenses of this solicitation, including the cost of preparing and mailing this document. The proxies are being solicited by and on behalf of our board of directors. In addition to solicitation by use of the mails, proxies may be solicited by our directors, officers and employees in person or by telephone, telegram, electronic mail, facsimile transmission or other means of communication. Those persons will not be additionally compensated for solicitation activities, but may be reimbursed for out-of-pocket expenses in connection with any solicitation. We also may reimburse custodians, nominees and fiduciaries for their expenses in sending proxies and proxy material to beneficial owners. In addition, we have retained D.F. King & Co., Inc. to assist in the solicitation of proxies for the special meeting for a fee of approximately \$10,000, plus a

nominal fee per shareholder contact, reimbursement of reasonable out-of-pocket expenses and indemnification against certain losses, costs and expenses.

**Treatment of Options and Other Awards (Page 34)**

**Stock Options.** Immediately prior to the effective time of the merger, except as separately agreed by a holder and Parent, all options to acquire our common stock issued and outstanding under our equity incentive plans or otherwise will become fully vested and be converted into the right to receive a cash payment equal to the number of shares of our common stock underlying the options multiplied by the amount (if any) by which \$22.00 exceeds the exercise price, without interest and less any applicable withholding taxes.

**Restricted Shares.** Immediately prior to the effective time of the merger, except as separately agreed by a holder and Parent, each share of restricted stock issued and outstanding under our equity incentive plans or otherwise and any accrued stock dividends will vest in full and be converted into the right to receive \$22.00 in cash, less any required withholding taxes.

**Restricted Stock Units.** Immediately prior to the effective time of the merger, each restricted stock unit issued and outstanding under our equity incentive plans will vest in full and be converted into the right to receive \$22.00 in cash, less any required withholding taxes.

**Deferred Equity Units.** Immediately prior to the effective time of the merger, all amounts held in participant accounts and denominated in our common stock under our CDP/SERP Plan and Deferred Compensation Plan for Non-Employee Directors, will vest in full and be converted into cash equal to \$22.00 multiplied by the number of shares deemed held in such participant accounts, payable or distributable in accordance with the terms of the agreement, plan or arrangement relating to such participant account, less any required withholding taxes.

**Recommendation of Our Board of Directors (Page 18)**

Our board of directors unanimously adopted and declared advisable the merger agreement and the transactions contemplated by the merger agreement, determined that the transactions contemplated by the merger agreement are advisable and in the best interests of Dollar General and its shareholders and resolved to recommend that Dollar General's shareholders vote in favor of the approval of the merger agreement and the transactions contemplated by the merger agreement, including the merger. The board of directors unanimously recommends that our shareholders vote "**FOR**" the approval of the merger agreement and "**FOR**" the adjournment or postponement of the special meeting, if necessary or appropriate, to solicit additional proxies.

**Opinion of Dollar General's Financial Advisor (Page 19)**

The board of directors received a written opinion, dated March 11, 2007, from its financial advisor, Lazard Frères & Co. LLC, which we refer to as Lazard, to the effect that, as of the date of its opinion and subject to the matters described in its opinion, the \$22.00 per share in cash consideration to be paid to the holders of Dollar General's common stock, other than Parent and its affiliates, in the merger was fair to such holders from a financial point of view. The opinion is attached as Annex B to this proxy statement.

Lazard's written opinion does not address the relative merits of the merger as compared to other business strategies or transactions that might be available with respect to Dollar General or the underlying business decision by Dollar General to engage in the merger, and is not intended to and does not constitute a recommendation to any holder of Dollar General common stock as to how such holder should vote with respect to the merger or any matter relating thereto. We encourage you to

read the opinion and the section "The Merger Opinion of Financial Advisor" beginning on page 19 carefully and in its entirety.

**Interests of the Company's Directors and Executive Officers in the Merger (Page 32)**

In considering the recommendation of the board of directors, you should be aware that our directors and executive officers may be considered to have interests in the merger that are different from, or in addition to, your interests as a shareholder. Such interests include (i) severance payments and benefits payable to executive officers upon termination of employment under a qualifying actual or constructive termination of employment pursuant to agreements previously entered into between the executive officers and Dollar General, (ii) the accelerated vesting and cashing out of certain equity, compensation and equity awards and the accelerated vesting and/or payment of deferred compensation arrangements for certain directors and officers and (iii) rights to continued indemnification and insurance coverage after the merger for acts or omissions occurring prior to the merger. In addition, a number of our executive officers may, prior to the closing of the merger, enter into new arrangements with Parent or the surviving corporation regarding employment with, or the right to purchase or participate in the equity of, the surviving corporation.

**Financing (Page 27)**

Parent estimates that the total amount of funds necessary to complete the merger is anticipated to be approximately \$7.65 billion, a portion of which is payable to Dollar General's shareholders and holders of other equity-based interests, with the remainder used to repay and refinance existing indebtedness, and to pay customary fees and expenses in connection with the merger, the financing arrangements and related transactions.

**Equity Financing.** Parent has received an equity commitment letter from KKR 2006 Fund L.P., a private equity fund affiliated with KKR, pursuant to which, and subject to the conditions contained therein, KKR 2006 Fund L.P., has committed to make a capital contribution equal to \$2.775 billion to Parent in connection with the completion of the merger. Such equity commitment obligation may be assigned to affiliates of KKR 2006 Fund L.P. or other co-investors, whereby KKR 2006 Fund L.P. remains obligated to perform such obligation to the extent not performed by its assignees. As of the date of this proxy statement, KKR 2006 Fund L.P. has assigned, and intends to further assign, a portion of its commitment to other private equity and third party investors, as further described under "The Merger Financing of the Merger Equity Financing" beginning on page 31.

**Debt Financing.** Parent has received a debt commitment letter from Goldman Sachs Credit Partners L.P., Citicorp North America, Inc. and/or its affiliates, including Citigroup Global Markets Inc., Lehman Brothers Inc., Lehman Commercial Paper Inc., Lehman Brothers Commercial Bank, Wachovia Bank, National Association, Wachovia Investment Holdings, LLC and Wachovia Capital Markets, LLC to provide (a) up to \$3.5 billion comprised of a senior secured term loan facility and a senior secured asset-based revolving credit facility, (b) up to \$1.45 billion of senior unsecured notes or a senior unsecured bridge facility up to such amount and (c) up to \$650 million of senior subordinated notes or a senior subordinated bridge facility up to such amount.

**Regulatory Approvals (Page 40)**

Under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and the rules and regulations promulgated thereunder (the "HSR Act"), the merger may not be completed until notification and report forms have been filed with the U.S. Federal Trade Commission (the "FTC") and the Antitrust Division of the U.S. Department of Justice (the "Antitrust Division") and the applicable waiting period has expired or been terminated. On March 23, 2007, Dollar General and KKR 2006 Fund L.P. each filed its notification and report form under the HSR Act with the FTC and

the Antitrust Division. The FTC granted early termination of the applicable waiting period on April 2, 2007.

**Material U.S. Federal Income Tax Consequences (Page 38)**

The exchange of shares of our common stock for cash pursuant to the merger agreement generally will be a taxable transaction for U.S. federal income tax purposes. Shareholders who exchange their shares of our common stock in the merger will generally recognize gain or loss in an amount equal to the difference, if any, between the cash received in the merger and their adjusted tax basis in their shares of our common stock. You should consult your tax advisor for a complete analysis of the effect of the merger on your federal, state and local and/or foreign taxes.

**Conditions to the Merger (Page 55)**

**Conditions to Each Party's Obligations.** Each party's obligation to complete the merger is subject to the satisfaction or waiver of the following mutual conditions:

approval of the merger agreement by Dollar General's shareholders;

no governmental entity of competent jurisdiction having enacted, issued or entered any order or injunction or legal prohibition which remains in effect that enjoins or otherwise prohibits completion of the merger or the other transactions contemplated by the merger agreement; and

the expiration or earlier termination of any applicable waiting period under the HSR Act.

**Conditions to Dollar General's Obligations.** Our obligation to complete the merger is subject to the satisfaction or waiver of further conditions, including:

Parent and Merger Sub's representations and warranties must be true and correct, as of March 11, 2007, and as of the closing date of the merger; and

Parent and Merger Sub must have performed, in all material respects, their covenants and agreements in the merger agreement.

**Conditions to Parent's and Merger Sub's Obligations.** The obligation of Parent and Merger Sub to complete the merger is subject to the satisfaction or waiver of further conditions, including:

our representations and warranties must be true and correct without regard to the materiality thresholds specified in the merger agreement, as of March 11, 2007, and as of the closing date of the merger, except to the extent the failure of such representations and warranties to be true and correct would not constitute a material adverse effect on the Company; and

we must have performed, in all material respects, our covenants and agreements in the merger agreement.

**No Solicitations of Transactions (Page 50)**

The merger agreement restricts our ability to, among other things, solicit or engage in discussions or negotiations with a third party regarding specified transactions involving us or our subsidiaries and our board of directors' ability to change or withdraw its recommendation in favor of the merger agreement. Notwithstanding these restrictions, under circumstances specified in the merger agreement, in order to comply with its fiduciary duties under applicable law, our board of directors may respond to certain unsolicited competing proposals or terminate the merger agreement and enter into an agreement with respect to a superior competing proposal or withdraw its recommendation in favor of the approval of the merger agreement. See "The Merger Agreement No Solicitation of Transactions" beginning on page 50.



**Termination of the Merger Agreement (Page 56)**

We and Parent may terminate the merger agreement by mutual written consent at any time before the completion of the merger (including after our shareholders have approved the merger agreement). In addition, either Parent or Dollar General may terminate the merger agreement at any time before the completion of the merger:

if the merger has not been completed by October 31, 2007;

if any court of competent jurisdiction has issued or entered a final non-appealable order prohibiting the completion of the merger; or

if the merger agreement has been submitted to our shareholders for approval and the required vote has not been obtained.

Dollar General may also terminate the merger agreement if:

Parent has breached or failed to perform any of its representations, warranties, covenants or other agreements in the merger agreement and such breach or failure would result in the failure of a closing condition and cannot be cured by October 31, 2007, so long as we have given Parent 30 days' written notice and are not in material breach of our representations, warranties, covenants or other agreements in the merger agreement;

prior to the receipt of the shareholder vote, our board of directors has received a superior proposal, notified Parent of the termination in accordance with the merger agreement, provided Parent a three business day period to revise the terms of the merger agreement, determined after such period that the proposal continues to be a superior proposal, and paid the termination fee as further described under "The Merger Agreement No Solicitation of Transactions," "The Merger Agreement Termination" and "The Merger Agreement Fees and Expenses" beginning on page 50, 56 and 58, respectively; or

the merger has not been completed on the second business day after the final day of the Marketing Period as described in "The Merger Agreement Effective Time; Marketing Period," beginning on page 41 and all of the mutual closing conditions and all of the conditions to the obligations of Parent and Merger Sub have been satisfied and at the time of such termination such conditions continue to be satisfied.

Parent may also terminate the merger agreement if:

we have breached or failed to perform any of our representations, warranties, covenants or other agreements in the merger agreement and such breach or failure would result in the failure of a closing condition and cannot be cured by October 31, 2007, so long as Parent has given us 30 days' written notice and is not in material breach of its representations, warranties, covenants or other agreements in the merger agreement;

our board of directors withdraws, modifies or qualifies in a manner adverse to Parent or Merger Sub, its recommendation of the merger agreement; fails to include in this proxy statement its recommendation to our shareholders that they approve the merger agreement; approves, endorses or recommends, or publicly proposes to approve, endorse or recommend, any alternative proposal; or fails to recommend against acceptance of a tender or exchange offer for any outstanding shares of our capital stock that constitutes an alternative proposal; or

we have notified Parent in writing of our intention to terminate the merger agreement in order to enter into a transaction that is a Superior Proposal as described under "The Merger Agreement No Solicitation of Transactions" beginning on page 50.



**Termination Fees (Page 58)**

If the merger agreement is terminated under certain specified circumstances:

we would be obligated to pay a termination fee of \$225 million as directed by Parent; or

Parent and Merger Sub would be obligated to pay a termination fee of \$225 million to us. KKR 2006 Fund L.P. has agreed to guarantee the obligation of Parent and Merger Sub to pay this termination fee, as further described under "Financing of the Merger Guarantee; Remedies" beginning on page 31.

**Market Price of Common Stock (Page 61)**

The closing sale price of our common stock on the NYSE on March 9, 2007, the last trading day prior to the announcement of the merger, was \$16.78. The \$22.00 per share to be paid for each share of our common stock in the merger represents a premium of approximately 31% to the closing price on March 9, 2007, and a premium of approximately 29% to the average closing share price for the 30 trading days prior to the announcement of the merger.

**Additional Information**

**For additional questions about the merger, assistance in submitting proxies or voting shares of our common stock, or additional copies of the proxy statement or the enclosed proxy card, please contact:**

Dollar General  
Attn: Investor Relations  
100 Mission Ridge  
Goodlettsville, Tennessee  
(615) 855-5525

or our proxy solicitor,

D.F. King & Co., Inc.  
48 Wall Street  
New York, NY 10005  
Toll-Free: (888) 644-6071  
Banks and Brokers call collect: (212) 269-5550

**CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING INFORMATION**

This proxy statement, and the documents to which we refer you in this proxy statement, include forward-looking statements based on estimates and assumptions. There are forward-looking statements throughout this proxy statement, including, without limitation, under the headings "Summary Term Sheet," "Questions and Answers about the Special Meeting and the Merger," "The Merger," "Opinion of Financial Advisor," "Projected Financial Information," "Regulatory Approvals," and "Litigation Related to the Merger," and in statements containing words such as "believes," "estimates," "anticipates," "continues," "contemplates," "expects," "may," "will," "could," "should" or "would" or other similar words or phrases. These statements, which are based on information currently available to us, are not guarantees of future performance and may involve risks and uncertainties that could cause our actual growth, results of operations, performance and business prospects, and opportunities to materially differ from those expressed in, or implied by, these statements. These forward-looking statements speak only as of the date on which the statements were made and we expressly disclaim any obligation to release publicly any updates or revisions to any forward-looking statement included in this proxy statement or elsewhere. In addition to other factors and matters contained or incorporated in this document, these statements are subject to risks, uncertainties, and other factors, including, among others:

the occurrence of any event, change or other circumstances that could give rise to the termination of the merger agreement;

the outcome of any legal proceedings that have been or may be instituted against Dollar General and others relating to the merger agreement including the terms of any settlements of such legal proceedings that may be subject to court approval;

the inability to complete the merger due to the failure to obtain shareholder approval or the failure to satisfy other conditions to consummation of the merger;

the failure by Parent or Merger Sub to obtain the necessary debt financing contemplated by the commitment letter received in connection with the merger;

the failure of the merger to close for any other reason;

risks that the proposed transaction disrupts current plans and operations and the potential difficulties in employee retention as a result of the merger;

the effect of the announcement of the merger on our business relationships, operating results and business generally;

the amount of the costs, fees, expenses and charges related to the merger;

adverse developments in general business, economic and political conditions or any outbreak or escalation of hostilities on a national, regional or international basis;

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

intense competition that could limit our growth opportunities and reduce our profitability;

our failure to comply with regulations and any changes in regulations;

seasonal fluctuation in the retail business;

local and regional conditions in the areas where our retail operations are located;

our inability to access capital markets on a favorable basis; and

the loss of any of our senior management.

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In addition, for a more detailed discussion of these risks and uncertainties and other factors, please refer to our annual report on Form 10-K for the fiscal year ended February 2, 2007, filed with the SEC on March 29, 2007. Many of the factors that will determine our future results are beyond our ability to control or predict. In light of the significant uncertainties inherent in the forward-looking statements contained herein, readers should not place undue reliance on forward-looking statements, which reflect management's views only as of the date hereof. We cannot guarantee any future results, levels of activity, performance or achievements. The statements made in this proxy statement represent our views as of the date of this proxy statement, and it should not be assumed that the statements made herein remain accurate as of any future date. Moreover, we assume no obligation to update forward-looking statements or update the reasons that actual results could differ materially from those anticipated in forward-looking statements, except as required by law.

## THE PARTIES TO THE MERGER

### **Dollar General**

Dollar General is a leading value discount retailer of quality general merchandise at everyday low prices. Through conveniently located stores, Dollar General offers a focused assortment of basic consumable merchandise including health and beauty aids, packaged food and refrigerated products, home cleaning supplies, housewares, stationery, seasonal goods, basic clothing and domestics. Dollar General® stores serve primarily low-, middle- and fixed-income families.

Dollar General was founded in 1939 as J.L. Turner and Son, Wholesale and opened its first dollar store in 1955, when it was first incorporated as a Kentucky corporation under the name J.L. Turner & Son, Inc. The Company changed its name to Dollar General Corporation in 1968 and reincorporated as a Tennessee corporation in 1998. As of March 2, 2007, Dollar General operated 8,260 stores in 35 states, primarily in the southern, southwestern, midwestern and eastern United States.

Dollar General's principal address is 100 Mission Ridge, Goodlettsville, Tennessee 37072. The telephone number is (615) 855-4000. For more information about Dollar General, please visit our website at [www.dollargeneral.com](http://www.dollargeneral.com). Our website address is provided as an inactive textual reference only. The information provided on our website is not part of this proxy statement, and is not incorporated herein by reference. See also "Where You Can Find More Information" beginning on page 64. Dollar General's common stock is publicly traded on the NYSE under the symbol "DG."

### **Buck Holdings, L.P.**

Buck Holdings, L.P., which we refer to as Parent, is a Delaware limited partnership, managed by its general partner, Buck Holdings, LLC, a Delaware limited liability company, which is controlled by investment funds affiliated with KKR. Each of Parent and Buck Holdings, LLC was formed solely for the purpose of acquiring Dollar General and has not carried on any activities to date, except for activities incidental to its formation and activities undertaken in connection with the transactions contemplated by the merger agreement. Parent's principal address is 2800 Sand Hill Road, Suite 200, Menlo Park, California 94025. The telephone number is (650) 233-6560.

### **Buck Acquisition Corp.**

Buck Acquisition Corp., which we refer to as Merger Sub, is a Tennessee corporation and a wholly owned subsidiary of Parent, which was formed solely for the purpose of facilitating Parent's acquisition of Dollar General. Merger Sub has not carried on any activities to date, except for activities incidental to its formation and activities undertaken in connection with the transactions contemplated by the merger agreement. Upon consummation of the proposed merger, Merger Sub will merge with and into Dollar General and will cease to exist with Dollar General continuing as the surviving corporation. Merger Sub's principal address is 2800 Sand Hill Road, Suite 200, Menlo Park, California 94025. The telephone number is (650) 233-6560.

## THE SPECIAL MEETING

### Date, Time, Place and Purpose of the Special Meeting

This proxy statement is being furnished to our shareholders as part of the solicitation of proxies by our board of directors for use at the special meeting to be held on [ ], 2007, starting at [ ] a.m., local time, at [ ], or at any postponement or adjournment thereof. The purpose of the special meeting is for our shareholders to consider and vote upon approval of the merger agreement (and to approve the adjournment or postponement of the special meeting, if necessary or appropriate, to solicit additional proxies). Our shareholders must approve the merger agreement in order for the merger to occur. If our shareholders fail to approve the merger agreement, the merger will not occur. A copy of the merger agreement is attached to this proxy statement as Annex A. You are urged to read the merger agreement in its entirety. This proxy statement and the enclosed form of proxy are first being mailed to our shareholders on or about [ ], 2007.

### Record Date and Quorum

We have fixed the close of business on [ ], 2007, as the record date for the special meeting, and only holders of record of our common stock on the record date are entitled to vote at the special meeting. On the record date, there were [ ] shares of our common stock outstanding and entitled to vote. Each share of our common stock entitles its holder to one vote on all matters properly coming before the special meeting.

A majority of the shares of our common stock issued, outstanding and entitled to vote at the special meeting constitutes a quorum for the purpose of considering the proposals. Shares of our common stock represented at the special meeting but not voted, including shares of our common stock for which proxies have been received but for which shareholders have abstained, will be treated as present at the special meeting for purposes of determining the presence or absence of a quorum for the transaction of all business. In the event that a quorum is not present at the special meeting, it is expected that the meeting will be adjourned or postponed to solicit additional proxies.

### Vote Required for Approval

You may vote FOR or AGAINST, or you may ABSTAIN from voting on, the proposal to approve the merger agreement. Abstentions will not be counted as votes cast or shares voting on the proposal to approve the merger agreement, but will count for the purpose of determining whether a quorum is present.

Completion of the merger requires the approval of the merger agreement by the affirmative vote of the holders of outstanding shares of our common stock representing at least a majority of all the votes entitled to vote at the special meeting. **Therefore, if you abstain, it will have the same effect as a vote "AGAINST" the approval of the merger agreement.**

Under the rules of the NYSE, brokers who hold shares in street name for customers have the authority to vote on "routine" proposals when they have not received instructions from beneficial owners. However, brokers are precluded from exercising their voting discretion with respect to approving non-routine matters such as the approval of the merger agreement and, as a result, absent specific instructions from the beneficial owner of such shares, brokers are not empowered to vote those shares, referred to generally as "broker non-votes." **Therefore, while "broker non-votes" will be counted for the purpose of determining a quorum, because completion of the merger requires the approval of the merger agreement by the affirmative vote of the holders of outstanding shares of our common stock representing at least a majority of the holders entitled to vote at the special meeting, any "broker non-votes" will have the same effect as a vote "AGAINST" the approval of the merger agreement.**

As of [ ], 2007, the record date for the special meeting, our directors and executive officers held and are entitled to vote, in the aggregate, [ ] shares of our common stock, representing [ ]% of our outstanding common stock. All of our directors and executive officers have informed Dollar General that they currently intend to vote all of their shares of common stock "**FOR**" the approval of the merger agreement and "**FOR**" the postponement proposal.

### Proxies and Revocation

If you submit a proxy by telephone or the Internet or by returning a signed and dated proxy card by mail, your shares will be voted at the special meeting as you indicate. If you sign your proxy card without indicating your vote, your shares will be voted "**FOR**" the approval of the merger agreement and "**FOR**" the adjournment or postponement of the special meeting, if necessary or appropriate, to solicit additional proxies, and in accordance with the recommendations of our board of directors on any other matters properly brought before the special meeting for a vote.

If your shares of common stock are held in street name, you will receive instructions from your broker, bank or other nominee that you must follow in order to have your shares voted. If you do not instruct your broker, bank or nominee to vote your shares, it has the same effect as a vote against approval of the merger agreement.

Proxies received at any time before the special meeting, and not revoked or superseded before being voted, will be voted at the special meeting. You have the right to change or revoke your proxy at any time before the vote taken at the special meeting:

if you hold your shares in your name as a shareholder of record, by notifying our Investor Relations Department, Attn.: Emma Jo Kauffman, at 100 Mission Ridge, Goodlettsville, Tennessee 37072;

by attending the special meeting and voting in person (your attendance at the meeting will not, by itself, revoke your proxy; you must vote in person at the meeting);

by submitting a later-dated proxy card;

if you voted by telephone or the Internet, by voting again by telephone or Internet; or

if you have instructed a broker, bank or other nominee to vote your shares, by following the directions received from your broker, bank or other nominee to change those instructions.

### Adjournments and Postponements

Although it is not currently expected, the special meeting may be adjourned or postponed for the purpose of soliciting additional proxies. Any adjournment may be made without notice (if the adjournment is to a date that is not greater than four months after the original date fixed for the special meeting), other than by an announcement made at the special meeting of the time, date and place of the adjourned meeting. Whether or not a quorum exists, holders of a majority of the shares of our common stock present in person or represented by proxy at the special meeting and entitled to vote thereat may adjourn the special meeting. Any signed proxies received by Dollar General in which no voting instructions are provided on such matter will be voted "FOR" an adjournment or postponement of the special meeting, if necessary or appropriate, to solicit additional proxies. Any adjournment or postponement of the special meeting for the purpose of soliciting additional proxies will allow Dollar General's shareholders who have already sent in their proxies to revoke them at any time prior to their use at the special meeting as adjourned or postponed.

**No Dissenters' Rights**

Shareholders are not entitled to statutory dissenters' rights in connection with the merger under the Tennessee Business Corporation Act unless our common stock is delisted from the NYSE prior to consummation of the merger.

**Solicitation of Proxies**

This proxy solicitation is being made and paid for by Dollar General on behalf of its board of directors. In addition, we have retained D.F. King & Co., Inc. to assist in the solicitation of proxies for the special meeting for a fee of approximately \$10,000, plus a nominal fee per shareholder contact, reimbursement of reasonable out-of-pocket expenses and indemnification against certain losses, costs and expenses. Our directors, officers and employees may also solicit proxies by personal interview, mail, e-mail, telephone, facsimile or other means of communication. These persons will not be paid additional remuneration for their efforts. We will also request brokers and other fiduciaries to forward proxy solicitation material to the beneficial owners of shares of our common stock that the brokers and fiduciaries hold of record. Upon request, we will reimburse them for their reasonable out-of-pocket expenses.

**Questions and Additional Information**

If you have more questions about the merger or how to submit your proxy, or if you need additional copies of this proxy statement or the enclosed proxy card or voting instructions, please call Dollar General Investor Relations at (615) 855-5525 or D.F. King & Co., Inc., our proxy solicitor, at (212) 269-5550 (Banks and Brokers call collect) or (888) 644-6071 (Toll-Free).

**Availability of Documents**

Documents incorporated by reference (excluding exhibits to those documents unless the exhibit is specifically incorporated by reference into those documents) will be provided without charge, to each person to whom this proxy statement is delivered, upon written or oral request of such person and by first class mail. In addition, our list of shareholders entitled to vote at the special meeting will be available for inspection at our principal executive offices beginning two business days after notice of the special meeting is given and continuing through the meeting.



## THE MERGER

*This discussion of the merger is qualified in its entirety by reference to the merger agreement, which is attached to this proxy statement as Annex A. You should read the entire merger agreement carefully as it is the legal document that governs the merger.*

### Background of the Merger

Dollar General regularly reviews and considers strategic developments and alternatives. To this end, our board of directors from time to time meets, together with management, to discuss management presentations concerning strategic matters. In the past these discussions have included management presentations concerning possible transactions, investments and other business initiatives intended to create or enhance shareholder value.

During the second half of 2006, Dollar General's Chairman and CEO, Mr. David A. Perdue, was contacted on several occasions by private equity firms and investment bankers regarding potential interest in a transaction involving Dollar General. In September of 2006, Dollar General engaged Lehman Brothers Inc. (which we refer to as Lehman) to act as financial advisor with respect to Dollar General's review of strategic and financial alternatives.

On October 5, 2006, Mr. Perdue, Mr. David Wilds, Dollar General's Presiding Director, and former Dollar General CEO Cal Turner, Jr., met with representatives of KKR in response to KKR's expression of an interest in acquiring Dollar General. At this meeting, KKR requested permission to conduct due diligence with a view to potentially making an offer to acquire the Company.

The following day, Mr. Perdue and Mr. Wilds notified Mr. Dennis Bottorff, Chairperson of the Nominating & Corporate Governance Committee of the Company's board of directors (which we refer to as the Governance Committee) of the initial meeting with KKR. Mr. Bottorff and Mr. Wilds determined that the full board of directors should be made aware of the contact from KKR and consider what steps it should take in response to the contact.

The board of directors and the Governance Committee each met in early- and mid-October 2006 to discuss the contact with KKR and the appropriate process for responding. As a result of these meetings, it was determined that it would be beneficial to establish an advisory committee to assist the board of directors with the expression of interest from KKR and other potentially significant strategic matters that might arise and to handle any contacts with outside parties relating to these matters. The board of directors established a Strategic Planning Committee consisting of Mr. Bottorff, Mr. Richard Thornburgh, Mr. David Beré (who later resigned from that Committee when he was appointed the Company's President and Chief Operating Officer on November 28, 2006, effective December 4, 2006), and Ms. Barbara Bowles.

The Strategic Planning Committee first met on November 1, 2006. Mr. Edward Herlihy of the law firm Wachtell, Lipton, Rosen & Katz (which we refer to as Wachtell Lipton) was retained by the Strategic Planning Committee and the board of directors as independent, outside legal counsel and advised the Strategic Planning Committee on the directors' legal and fiduciary duties in connection with considering possible strategic transactions. Also at the meeting, Mr. Perdue reviewed the Company's financial performance and outlook and discussed management's progress on the development of potential strategic initiatives and changes to the Company's operating model (see discussion below regarding "Project Alpha"). In addition to Lehman, which had been advising the board of directors on its ongoing evaluation of the Company's business plans and strategic alternatives, the Strategic Planning Committee determined to retain an independent investment banking firm to advise the Strategic Planning Committee and the board of directors in connection with its considering possible transactions. In that connection, the Strategic Planning Committee and the board of directors retained Lazard.

In late November 2006, after consultation with Lazard and Lehman regarding the Company's ongoing business operations, the board of directors announced its intention to take certain steps to modify its business plan. These initiatives were referred to as Project Alpha and include, among other things, closing certain stores, reducing future new store openings over the next two years, upgrading the existing store base through remodels and relocations, and eliminating, with a few exceptions, the Company's long standing inventory packaway practice by the end of fiscal 2007.

The Strategic Planning Committee and the board of directors each met again in late November 2006 and discussed business and legal issues in connection with exploring strategic alternatives, including likely financial and strategic parties that might be interested in a potential transaction involving the Company and that would also have the capacity to undertake a transaction in the foreseeable future. As a result of these discussions, the board of directors determined to proceed with obtaining more formal expressions of interest from potential acquirors. In early December 2006, the Company entered into confidentiality agreements with private equity firms, including KKR, relating to a possible transaction.

Also in early December 2006, the members of the Strategic Planning Committee and Lazard met with representatives of KKR and separately with another private equity firm. Each of the private equity firms provided preliminary and non-binding indications of interest, including price ranges, predicated on conducting detailed confirmatory due diligence.

The board of directors met in early January 2007. Representatives of Lazard discussed what information the potential bidders had been given to date and discussed market considerations and valuation methodologies. The board of directors discussed with its advisors whether to continue the process as well as other potentially interested parties and considered the potential advantages and disadvantages of bringing other parties into the process. Representatives of Wachtell Lipton discussed with the board of directors its legal duties. The board of directors determined to permit the private equity firms to conduct further due diligence with a view to obtaining firm offers from these firms.

Subsequently, each of the two private equity firms brought an additional private equity firm into the process as a potential equity partner in a transaction involving Dollar General, bringing to a total of four the number of private equity firms participating in the due diligence process.

During the next several weeks, the four private equity firms and their representatives and potential financing sources conducted detailed due diligence investigations.

In late February 2007, Lazard provided instructions to each of the private equity firms for submitting "best and final" offers for the acquisition of the Company and the deadline for doing so. The instructions were accompanied by a draft merger agreement and instructions to include any comments to the draft agreement together with any final bids.

During the following weeks, the due diligence investigation of the Company continued.

On March 9, 2007, KKR submitted a proposal to acquire all of Dollar General's outstanding shares of common stock for \$22.00 per share in cash, which was above the top of the preliminary range that KKR had previously indicated to the Company in December 2006. KKR's proposal was accompanied with a revised draft of the merger agreement, proposed forms of sponsor guarantee, equity commitment letter and debt commitment letter. KKR indicated that its proposal was best and final, requested a period of exclusive negotiations with the Company, and stated that its proposal would be withdrawn if its contents were disclosed to another bidder or if another bidder were granted exclusivity. Dollar General's financial advisors were informed that the private equity firm that had previously been identified as partnering with KKR in the process, had decided not to participate. No bid was received from the other private equity firms. Lazard had been informed that, following due diligence, the other firms were unwilling or unable to submit an offer that would reach the preliminary range previously indicated.

The Strategic Planning Committee met telephonically later that morning to discuss the KKR proposal with its advisors. The Strategic Planning Committee discussed with Wachtell Lipton legal issues including KKR's changes to the draft merger agreement and the ancillary documents. At the end of these discussions, the Strategic Planning Committee determined that it would recommend that the full board of directors meet the following day to consider the offer.

That afternoon, at the direction of the Strategic Planning Committee, Dollar General and its counsel prepared a response to KKR's markup of the merger agreement. KKR's requested changes included, among other things, provision for a "marketing" period after shareholder approval of the merger agreement but prior to closing, to allow a period of time for KKR to arrange the required high yield financing contemplated by its financing commitments to fund the merger consideration, inclusion of an expense reimbursement provision for the benefit of KKR in the event the merger agreement were terminated under certain circumstances, language limiting the amount and type of relief Dollar General could obtain from Parent in the event the merger was not completed, changes to and additional representations and warranties of Dollar General, changes to the covenants of the parties, language requiring Dollar General to commence a debt tender offer with respect to certain outstanding Dollar General notes and changes to the termination and termination fee provisions. Subsequently, Dollar General sent a revised draft of the merger agreement to counsel for KKR, responding to various issues raised by KKR's markup, which, among other things, limited some representations and warranties to be made by Dollar General, reduced some limitations on Dollar General's ability to operate its business between signing and closing, expanded KKR's obligations with respect to obtaining requisite regulatory approvals for the merger and eliminated the expense reimbursement provision proposed by KKR. Later, counsel for each party met telephonically to discuss the remaining open points on the merger agreement.

The parties continued to negotiate the terms of the definitive merger agreement, and the parties also discussed changes to the other associated documents, including the draft debt and equity commitment letters, limited guarantee and the disclosure schedules related to the merger agreement.

The board of directors met the next day with its advisors. Representatives of Lazard discussed with the board of directors the financial aspects of the proposed transaction including the proposed financing arrangements and Lazard rendered to the board of directors its oral opinion, subsequently confirmed in writing, dated March 11, 2007, that, as of March 11, 2007 and based on and subject to the matters described in its opinion, the \$22.00 per share cash merger consideration to be received by holders of shares of Dollar General common stock (other than Parent and its affiliates) pursuant to the proposed merger agreement was fair, from a financial point of view, to such holders. Representatives of Lehman also provided the board of directors with Lehman's views and advice on the financial aspects of the proposed transaction. Representatives of Wachtell, Lipton reviewed with the board of directors its legal obligations relative to considering the proposal and summarized the proposed merger agreement and related agreements and updated the board of directors on the status of the documentation with respect to the potential transaction. There was also a discussion of next steps and the estimated timetable should the board of directors decide to approve the proposed agreement, including communications plans. The board of directors also discussed the status of the implementation of Dollar General's previously announced Project Alpha initiatives, as well as other strategic alternatives available to Dollar General, and the benefits and risks associated with each as compared, and as an alternative, to the benefits and risks associated with the proposed merger agreement.

Following further discussion, the board of directors, by unanimous vote of all of its members adopted resolutions (i) adopting and declaring advisable the proposed merger agreement and the transactions contemplated by the proposed merger agreement, (ii) determining that the transactions contemplated by the proposed merger agreement were advisable and in the best interests of Dollar General and its shareholders and (iii) recommending that Dollar General's shareholders vote in favor

of the approval of the proposed merger agreement and the transactions contemplated by the merger agreement, including the merger.

Following the board of directors meeting, the parties and their representatives continued to make final changes to the definitive documentation, including the disclosure schedules and ancillary documents. On Sunday, March 11, 2007, the parties entered into the merger agreement.

#### **Reasons for the Merger; Recommendation of Our Board of Directors**

The board of directors, acting with the advice and assistance of its outside legal and financial advisors, unanimously (i) adopted and declared advisable the merger agreement and the transactions contemplated by the merger agreement, (ii) determined that the transactions contemplated by the merger agreement were advisable and in the best interests of Dollar General and its shareholders and (iii) resolved to recommend that Dollar General's shareholders vote in favor of the approval of the merger agreement and the transactions contemplated by the merger agreement, including the merger.

In the course of reaching its determination, the board of directors considered a number of factors. The material factors considered by the board of directors were:

the value of the cash consideration to be paid to Dollar General shareholders upon consummation of the merger;

the current and historical market prices of our common stock and the fact that the price of \$22.00 per share represented a premium of approximately 31% over the market closing price of \$16.78 on March 9, 2007, the last trading day prior to the announcement of the transaction, and a premium of approximately 29% over the average closing share price during the previous 30 trading days;

the board of directors' understanding of Dollar General's business, historical and current financial performance, competitive and operating environment, operations, management strength and future prospects;

the board of directors' understanding of the changes in Dollar General's operating model being implemented and management's views regarding how these changes may impact both the short- and long-term financial performance of Dollar General as well as risks associated with these changes;

the board of directors' understanding of current trends in the markets and the retail sector in which Dollar General operates;

financial analyses, information and perspectives provided to the board of directors by management and the Company's financial advisors;

the opinion of Lazard that, as of the date of the opinion and based upon and subject to the matters described in its opinion, the consideration to be paid in the merger was fair, from a financial point of view, to the holders of Dollar General common stock, other than Parent and its affiliates;

the process leading to the announcement of the merger agreement and the board of directors' belief, as a result of that process, that the proposed merger consideration represented a full and fair price for the shares of common stock of Dollar General and that accepting the proposal would be in the best interests of Dollar General's shareholders;

the proposed financial and other terms of the merger and the merger agreement, and the terms and conditions of the merger agreement;

the fact that the consideration to be paid to Dollar General shareholders is all cash, which will provide Dollar General's shareholders certainty of value and the ability to monetize their investment in Dollar General in the near future and will eliminate future risks inherent in holding our shares;

the fact that completion of the merger requires the approval by the shareholders of Dollar General;

the board of directors' understanding of the reputation and experience of KKR, the current state of the capital markets and the likelihood that Parent could successfully obtain the equity and debt financing required to fully fund the payment of the merger consideration, and its understanding of the proposed debt and equity financing term sheets and other arrangements for the merger;

the fact that receipt of the merger consideration will be taxable to U.S. shareholders of Dollar General for U.S. federal income tax purposes;

the fact that, if the merger is completed, our shareholders will receive cash for their shares and accordingly will not participate in any potential future earnings or growth of our business and will not benefit from any potential appreciation in our value;

the fact that Dollar General is required to pay a termination fee of \$225 million if the board of directors terminates the merger agreement to accept a superior proposal or the merger agreement is terminated under certain other circumstances; and

the risks and costs to us if the merger does not close, including the diversion of management and employee attention and potential effects on our relationships with suppliers, vendors and other business partners.

In addition, the board of directors was aware of and considered the interests that certain of our directors and executive officers may have with respect to the merger that differ from, or are in addition to, their interests as shareholders of Dollar General, as described in " Interests of Dollar General's Directors and Executive Officers in the Merger."

The foregoing discussion summarizes the material factors considered by the board of directors in its consideration of the merger. After considering these factors, as well as others, the board of directors concluded that the positive factors relating to the merger agreement and the merger significantly outweighed the potential negative factors and the merger agreement and the merger were advisable and in the best interests of Dollar General and its shareholders. In view of the wide variety of factors considered by the board of directors, and the complexity of these matters, the board of directors did not find it practicable to quantify or otherwise assign relative weights to the foregoing factors. In addition, individual members of the board of directors may have assigned different weights to various factors. The board of directors unanimously recommended the merger agreement and the merger based upon the totality of the information presented to and considered by it.

**Our board of directors recommends that you vote "FOR" the approval of the merger agreement and "FOR" the adjournment or postponement of the special meeting, if necessary or appropriate, to solicit additional proxies.**

#### **Opinion of Financial Advisor**

Under an engagement letter, dated as of March 10, 2007, Dollar General retained Lazard to perform financial advisory services and to render an opinion to the board of directors of Dollar General as to the fairness, from a financial point of view, to holders of Dollar General's common stock, other than Parent and its affiliates, of the consideration to be paid to such holders in the merger. Lazard has delivered to Dollar General's board of directors a written opinion, dated March 11, 2007,

that, as of that date, the \$22.00 per share in cash consideration to be paid to the holders of Dollar General's common stock, other than Parent and its affiliates, in the merger was fair to such holders, from a financial point of view.

The full text of the Lazard opinion is attached as Annex B to this proxy statement and is incorporated into this proxy statement by reference. The description of the Lazard opinion set forth in this proxy statement is qualified in its entirety by reference to the full text of the Lazard opinion set forth as Annex B. You are urged to read the Lazard opinion in its entirety for a description of the procedures followed, assumptions made, matters considered and qualifications and limitations on the review undertaken by Lazard in connection with the opinion. Lazard's written opinion is directed to Dollar General's board of directors and only addresses the fairness to the holders of Dollar General's common stock of the consideration to be paid to such holders in the merger from a financial point of view as of the date of the opinion. Lazard's written opinion does not address the relative merits of the merger as compared to other business strategies or transactions that might be available with respect to Dollar General or the underlying business decision by Dollar General to engage in the merger, and is not intended to and does not constitute a recommendation to any holder of Dollar General common stock as to how such holder should vote with respect to the merger or any matter relating thereto. Lazard's opinion is necessarily based on economic, monetary, market and other conditions as in effect on, and the information made available to Lazard as of, the date of the Lazard opinion. Lazard assumed no responsibility for updating or revising its opinion based on circumstances or events occurring after the date of the opinion. The following is only a summary of the Lazard opinion. You are urged to read the entire opinion carefully.

In the course of performing its review and analyses in rendering its opinion, Lazard:

reviewed the financial terms and conditions of the merger agreement;

analyzed certain publicly available historical business and financial information relating to Dollar General;

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reviewed various financial forecasts and other data provided to Lazard by the management of Dollar General relating to its business;

held discussions with members of the senior management of Dollar General with respect to the business and prospects of Dollar General;

reviewed public information with respect to certain other companies in lines of business Lazard believed to be generally comparable to the business of Dollar General;

reviewed the financial terms of certain business combinations involving companies in lines of business Lazard believed to be generally comparable to those of Dollar General and in other industries generally;

reviewed the historical stock prices and trading volumes of Dollar General common stock; and

conducted such other financial studies, analyses and investigations as Lazard deemed appropriate.

Lazard relied upon the accuracy and completeness of the foregoing information, and did not assume any responsibility for any independent verification of such information or any independent valuation or appraisal of any of the assets or liabilities of Dollar General or concerning the solvency or fair value of Dollar General, and was not furnished with any such valuation or appraisal. With respect to financial forecasts, Lazard assumed that they had been reasonably prepared on bases reflecting the best currently available estimates and judgments of management of Dollar General as to the future financial performance of Dollar General. Lazard assumed no responsibility for and expressed no view as to such forecasts or the assumptions on which they were based.

In rendering its opinion, Lazard assumed that the merger would be consummated on the terms described in the merger agreement, without any waiver or modification of any material terms or conditions of the agreement by Dollar General. Lazard further assumed that obtaining the necessary regulatory approvals and contractual consents for the merger would not have an adverse effect on Dollar General or the merger. In addition, Lazard assumed that the representations and warranties contained in the merger agreement and all agreements related thereto were true and complete. Lazard did not express any opinion as to any tax or other consequences that might result from the merger, nor did its opinion address any legal, tax, regulatory or accounting matters, as to which Lazard understood that Dollar General obtained such advice as it deemed necessary from qualified professionals. Lazard did not express any opinion as to the price at which shares of Dollar General common stock might trade subsequent to the announcement of the merger.

The following is a summary of the material financial and comparative analyses which Lazard deemed appropriate for this type of transaction and that were performed by Lazard in connection with rendering its opinion. The summary of Lazard's analyses described below is not a complete description of the analyses underlying Lazard's opinion. The preparation of a fairness opinion is a complex analytical process involving various determinations as to the most appropriate and relevant methods of financial analyses and the application of those methods to the particular circumstances, and, therefore, is not readily susceptible to summary description. In arriving at its opinion, Lazard considered the results of all the analyses and did not attribute any particular weight to any factor or analysis considered by it; rather, Lazard made its determination as to fairness on the basis of its experience and professional judgment after considering the results of all of the analyses. For purposes of Lazard's review, Lazard utilized, among other things, certain projections of the future financial performance of Dollar General as described below, as prepared by the management of Dollar General.

In its analyses, Lazard considered industry performance, general business, economic, market and financial conditions and other matters, many of which are beyond the control of Dollar General. No company, transaction or business used in Lazard's analyses as a comparison is identical to Dollar General or the proposed merger, and an evaluation of the results of those analyses is not entirely

mathematical. Rather, the analyses involve complex considerations and judgments concerning financial and operating characteristics and other factors that could affect the acquisition, public trading or other values of the companies or transactions analyzed. The estimates contained in Lazard's analyses and the ranges of valuations resulting from any particular analysis are not necessarily indicative of actual values or predictive of future results or values, which may be significantly more or less favorable than those suggested by the analyses. In addition, analyses relating to the value of businesses or securities do not purport to be appraisals or to reflect the prices at which businesses or securities actually may be sold. Accordingly, the estimates used in, and the results derived from, Lazard's analyses are inherently subject to substantial uncertainty.

The financial analyses summarized below include information presented in tabular format. In order to fully understand Lazard's financial analyses, the tables must be read together with the text of each summary. The tables alone do not constitute a complete description of the financial analyses. Considering the data in the tables below without considering the full narrative description of the financial analyses, including the methodologies and assumptions underlying the analyses, could create a misleading or incomplete view of Lazard's financial analyses.

The financial analyses that Lazard utilized in providing its opinion were based upon two alternative sets of management projections for fiscal years 2007 to 2009 that were based on two different scenarios of the possible future financial performance of Dollar General. Information in the following summary referred to as the "Alpha Case" for Dollar General represents financial projections for fiscal years 2007 to 2009 developed by Dollar General's management in connection with certain of the strategic changes announced by Dollar General in November 2006, and information in the following summary referred to as the "Alternative Case" for Dollar General means financial projections developed by Dollar General's management for the fiscal years 2007 to 2009 based on the Alpha Case but which assumed slightly more favorable variables, including assuming higher comparable sales growth, higher gross margin and lower retail and administrative expenses as a percentage of sales.

#### ***Discounted Cash Flow Analysis***

Lazard performed a discounted cash flow analysis of Dollar General's shares of common stock. Using the projections for fiscal years 2007 to 2009 under the Alpha Case and the Alternative Case provided by management of Dollar General and extrapolations of those projections for fiscal years 2010 and 2011, Lazard performed an analysis of the present value, as of January 31, 2007, of the free cash flows that Dollar General could generate from 2007 and beyond. The extrapolated projections for the fiscal years 2010 and 2011 for the Alpha Case and the Alternative Case, respectively, which were prepared by Lazard, were reviewed by Dollar General's management and deemed reasonable by them. The extrapolated projections were prepared solely for the purpose of performing Lazard's discounted cash flow analyses for both the Alpha Case and the Alternative Case and were not shared with potential buyers. Assumptions utilized for the extrapolations for the fiscal years 2010 and 2011 projections included a 9.0% sales growth for the Alpha Case, a 9.5% sales growth for the Alternative Case and EBITDA margin constant at the 2009 level. In calculating the terminal value of Dollar General, Lazard assumed perpetuity growth rates ranging from 2.00% to 2.50% for the projected free cash flows for periods subsequent to 2011. The perpetuity growth rates were applied to the projected free cash flow for 2011, as adjusted to reflect no additional store openings in perpetuity, resulting in a lower sales growth rate and lower capital expenditures. The projected free cash flows were then discounted to present value using a range of discount rates from 10.00% to 10.50%, which was based on Dollar General's estimated weighted average cost of capital.

Based on the foregoing, Lazard calculated an implied price per share range for Dollar General common stock of \$18.00 to \$19.50 for the Alpha Case and an implied price per share range for Dollar General common stock of \$19.50 to \$21.25 for the Alternative Case, as compared to the merger consideration of \$22.00 per share of Dollar General common stock.



*Illustrative Present Value of Future Stock Price Analysis*

Lazard performed an illustrative analysis of the present value of the future price of Dollar General common stock, which is designed to provide an indication of the present value of a company's potential future stock price as a function of a company's estimated future earnings and its assumed price to future earnings per share, or EPS, multiple. For this analysis, Lazard used the financial forecasts under the Alpha Case and the Alternative Case. Lazard first calculated implied per share prices for Dollar General common stock for the beginning of fiscal year 2009 by applying price to forward earnings per share, or EPS, multiples ranging from 15.0x to 16.0x to estimates of Dollar General's EPS for fiscal year 2009 under the Alpha Case and the Alternative Case. Lazard also added the value of the dividends to be paid through such date, based on the Alpha Case and the Alternative Case. Lazard then calculated the present values of the implied per share future stock prices for Dollar General common stock in fiscal year 2009, plus projections of the dividends to be received through such date, discounted to March 2007, using a discount rate of 12.25% based on estimates relating to Dollar General's cost of equity capital.

Based on the foregoing, Lazard calculated an implied price per share range for Dollar General common stock under the Alpha Case of \$18.00 to \$19.25 per share and an implied price per share range for Dollar General common stock under the Alternative Case of \$19.50 to \$20.75 per share, as compared to the merger consideration of \$22.00 per share of Dollar General common stock.

*Comparable Public Companies Analysis*

Lazard reviewed and analyzed selected public companies in the dollar store, discounters and clubs, and drugstore subcategories of the retail industry that it viewed as reasonably comparable to Dollar General based on Lazard's knowledge of the retail industry. In performing these analyses, Lazard reviewed and analyzed certain financial information, valuation multiples and market trading data relating to the selected comparable companies and compared such information to the corresponding information for Dollar General.

Lazard compared Dollar General to the 10 publicly traded companies in the three retail subcategories identified in the preceding paragraph. Using publicly available Wall Street research estimates and other public information, Lazard reviewed, among other things, price per share as a multiple of fiscal year 2008 EPS, also referred to as P/E, and enterprise values of the selected comparable companies as a multiple of the comparable company's earnings before interest, taxes, depreciation and amortization, or EBITDA, for the 2008 fiscal year. A company's enterprise value is equal to its short and long-term debt plus the market value of its common equity and the value of any preferred stock (at liquidation value), minus its cash and cash equivalents.

The dollar store retail companies were:

Big Lots, Inc.;

Dollar Tree Stores, Inc.;

Family Dollar Stores, Inc.; and

Fred's, Inc.

The discounters and clubs retail stores were:

BJ's Wholesale Club, Inc.;

Costco Wholesale Corporation;

Target Corporation; and

Wal-Mart Stores, Inc.



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The drugstores were:

CVS Corporation; and

Walgreen Co.

Lazard calculated the following trading multiples for each subcategory of the above comparable companies:

	<b>Enterprise Value/ 2008E EBITDA(a)</b>	<b>2008E P/E(a)</b>
Dollar Stores (median)	7.2x	15.5x
Discounters and Clubs (median)	7.8x	16.2x
Drugstores (mean)	8.7x	16.5x

(a)

All multiples are calendarized for a fiscal year 2008 ending on January 31, 2009.

Based on the foregoing, and specifically on the selected dollar stores retail companies, Lazard applied enterprise value/EBITDA multiples of 7.0x to 7.5x to Dollar General's projected fiscal year 2008 EBITDA and P/E multiples of 15x to 16x to Dollar General's projected fiscal year 2008 EPS and determined an implied price per share range for Dollar General common stock under the Alpha Case of \$17.00 to \$18.00 per share and an implied price per share range for Dollar General common stock under the Alternative Case of \$19.00 to \$20.00 per share, as compared to the merger consideration of \$22.00 per share of Dollar General common stock.

### *Precedent Transactions Analysis*

Lazard reviewed and analyzed selected recent precedent merger and acquisition transactions involving companies in the food and drug, department store and specialty retailer subcategories of the retail industry it viewed as comparable to the merger. In performing these analyses, Lazard analyzed certain financial information and transaction multiples relating to companies in the selected transactions and compared such information to the corresponding information for Dollar General.

Specifically, Lazard reviewed 17 merger and acquisition transactions since November 2004 involving companies in the retail subcategories identified in the preceding paragraph and for which sufficient public information was available. To the extent publicly available, Lazard reviewed, among other things, the transaction enterprise values implied by the precedent transactions as a multiple of the target's EBITDA.

The precedent transactions involving food and drug stores were (listed by acquiror followed by the acquired company and the date these transactions were publicly announced):

Whole Foods Market Inc. / Wild Oats Markets Inc. February 21, 2007;

The Great Atlantic & Pacific Tea Co. / Pathmark Stores Inc. February 27, 2007;

Rite Aid Corporation / Jean Coutu Group (Brooks-Eckerd) August 24, 2006;

Supervalu Inc., CVS Corporation, Cerberus Capital Management, L.P. / Albertson's, Inc. January 23, 2006; and

Bain Capital LLC / Dollarama Inc. November 24, 2004.

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The precedent transactions involving department stores were (listed by acquiror followed by the acquired company and the date these transactions were publicly announced):

Maple Leaf Heritage Investments Acquisition Corp. / Hudson's Bay Co. October 28, 2005;

Bon-Ton Stores Inc. / Saks Inc. (Northern) October 31, 2005;

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Sun Capital Partners Inc. / ShopKo Stores Inc. October 18, 2005;

Texas Pacific Group, Warburg Pincus LLC / The Neiman Marcus Group, Inc. May 2, 2005;

Federated Department Stores Inc. / The May Department Stores Company February 28, 2005; and

Kmart Holding Corp. / Sears Roebuck & Co. November 17, 2004.

The precedent transactions involving specialty retailers were (listed by acquiror followed by the acquired company and the date these transactions were publicly announced):

Texas Pacific Group, Leonard Green & Partners, L.P. / PETCO Animal Supplies, Inc. July 14, 2006;

Bain Capital Partners LLC, The Blackstone Group / Michaels Stores Inc. June 30, 2006;

Bain Capital Partners LLC / Burlington Coat Factory Warehouse Corp. January 18, 2006;

Leonard Green & Partners, L.P. / The Sports Authority, Inc. January 23, 2006;

Apollo Management V, L.P., Silver Point Capital Fund Investments, LLC / Linens 'n Things, Inc. November 8, 2005; and

Kohlberg, Kravis Roberts & Co. L.P., Bain Capital Partners LLC, Vornado Realty Trust / Toys "R" Us, Inc. March 17, 2005.

Lazard calculated the following multiples for each subcategory of the selected transactions used in its analysis:

	<b>Enterprise Value as a Multiple of EBITDA (Median)</b>
Food & Drug Stores	10.5x
Department Stores	6.8x
Specialty Retailers	8.4x
All Transactions	8.6x

Based on the foregoing, Lazard determined an EBITDA multiple reference range of 8.5x to 10.5x and applied such range to the fiscal year 2006 pro forma EBITDA for Dollar General to calculate an implied price per share range for Dollar General common stock of \$17.00 to \$21.00, as compared to the merger consideration of \$22.00 per share of Dollar General common stock.

### *Miscellaneous*

Lazard's opinion and financial analyses were not the only factors considered by Dollar General's board of directors in its evaluation of the merger and should not be viewed as determinative of the views of Dollar General's board of directors or Dollar General's management.

The Lazard engagement letter with Dollar General provides that, for its services, Lazard is entitled to receive from Dollar General a fee of \$5 million due on the date Lazard rendered its fairness opinion to our board of directors and \$10 million upon consummation of the merger. Dollar General has also agreed to reimburse Lazard for its reasonable out-of-pocket expenses, including the reasonable expenses of legal counsel, and to indemnify Lazard and related parties against liabilities, including liabilities under the federal securities laws, arising out of its engagement. Lazard has provided, and may currently or in the future provide, investment banking services to KKR or its affiliates or to one or more of their respective portfolio companies, for which Lazard has received or may receive customary fees. Lazard has also provided financial advisory services to Dollar General in connection with certain



of the strategic changes announced by Dollar General in November 2006. The fee in the amount of \$1 million associated with such advisory services will be credited against the portion of the merger fee payable to Lazard upon consummation of the merger. In addition, in the ordinary course of their respective businesses, affiliates of Lazard and LFCM Holdings LLC (an entity indirectly owned in large part by managing directors of Lazard) may actively trade securities of Dollar General for their own accounts and for the accounts of their customers and, accordingly, may at any time hold a long or short position in such securities.

Lazard is an internationally recognized investment banking firm and is continually engaged in the valuation of businesses and their securities in connection with mergers and acquisitions, negotiated underwritings, secondary distributions of listed and unlisted securities, private placements, leveraged buyouts, and valuations for real estate, corporate and other purposes. Lazard was selected to act as investment banker to Dollar General because of its expertise and its reputation in investment banking and mergers and acquisitions and its independence with respect to the merger and the transactions contemplated by the merger agreement.

### **Projected Financial Information**

We have included certain financial projections in this proxy statement to provide our shareholders access to certain nonpublic information considered by Parent and/or our financial advisors for purposes of considering and evaluating the merger. The inclusion of this information should not be regarded as an indication that Parent, Merger Sub, our board of directors, KKR or Lazard, or any other recipient of this information considered, or now considers, it to be a reliable prediction of future results.

The projections below set forth two different sets of future cash flows for Dollar General. The "Alpha Case" represents financial projections for the fiscal years 2007 to 2009 developed by Dollar General's management in connection with certain strategic changes announced by Dollar General in November 2006, and the "Alternative Case" represents financial projections for the fiscal years 2007 to 2009 developed by Dollar General's management based on the Alpha Case but which assumed slightly more favorable variables, including assuming higher comparable sales growth, higher gross margin and lower retail and administrative expenses as a percentage of sales. The extrapolated projections set forth below for the fiscal years 2010 and 2011 were prepared by Lazard and reviewed and deemed reasonable by Dollar General's management and were prepared only for the purpose of completing Lazard's discounted cash flow analyses for both the Alpha Case and the Alternative Case. They were not shared with potential buyers.

The projections reflect numerous estimates and assumptions with respect to industry performance, general business, economic, regulatory, market and financial conditions, as well as matters specific to Dollar General's business, many of which are beyond Dollar General's control. As a result, there can be no assurance that the projected results will be realized or that actual results will not be significantly higher or lower than projected. The projections cover multiple years and such information by its nature becomes less reliable with each successive year. The financial projections were prepared solely for internal use or for the use of Parent, our board of directors and our board of directors' advisors in connection with the potential transaction and not with a view toward public disclosure or toward complying with United States generally accepted accounting principles, the published guidelines of the SEC regarding projections or the guidelines established by the American Institute of Certified Public Accountants for preparation and presentation of prospective financial information. Neither the Company's independent registered public accounting firm, nor any other independent accountants, have compiled, examined, or performed any procedures with respect to the prospective financial information contained herein, nor have they expressed any opinion or any other form of assurance on such information or its achievability. Furthermore, the financial projections do not take into account any circumstances or events occurring after the date they were prepared.

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Readers of this proxy statement are cautioned not to place undue reliance on the projections set forth below. No one has made or makes any representation to any shareholder regarding the information included in these projections. The inclusion of projections in this proxy statement should not be regarded as an indication that such projections will be an accurate prediction of future events, and they should not be relied on as such. Dollar General undertakes no obligation to update, or otherwise revise the material projections to reflect circumstances existing after the date when made or to reflect the occurrence of future events, even in the event that any or all of the assumptions are shown to be in error.

(\$ amounts in millions)

<b>Alpha Case</b>	<b>2007E</b>	<b>2008E</b>	<b>2009E</b>	<b>2010E<sup>(a)</sup></b>	<b>2011E<sup>(a)</sup></b>
Revenue	\$ 9,560.0	\$ 10,092.3	\$ 11,064.2	\$ 12,060.0	\$ 13,145.4
Growth	4.2%	5.6%	9.6%	9.0%	9.0%
Gross Profit	\$ 2,611.5	\$ 2,850.7	\$ 3,216.6	N/A	N/A
Margin	27.3%	28.2%	29.1%	N/A	N/A
EBIT	\$ 340.9	\$ 549.6	\$ 699.8	760.4	827.5
Margin	3.6%	5.4%	6.3%	6.3%	6.3%
Net Income	\$ 196.7	\$ 331.0	\$ 423.4	N/A	N/A
Margin	2.1%	3.3%	3.8%	N/A	N/A
EPS	\$ 0.64	\$ 1.13	\$ 1.48	N/A	N/A
Same Store Sales	1.7%	3.3%	4.5%	N/A	N/A
Stores Operated (End of Year)	8,354	8,664	9,279	N/A	N/A
<b>Alternative Case</b>	<b>2007E</b>	<b>2008E</b>	<b>2009E</b>	<b>2010E<sup>(a)</sup></b>	<b>2011E<sup>(a)</sup></b>
Revenue	\$ 9,635.0	\$ 10,216.5	\$ 11,242.0	\$ 12,310.0	\$ 13,479.4
Growth	5.0%	6.0%	10.0%	9.5%	9.5%
Gross Profit	\$ 2,632.4	\$ 2,932.0	\$ 3,302.8	N/A	N/A
Margin	27.3%	28.7%	29.4%	N/A	N/A
EBIT	\$ 344.6	\$ 612.8	\$ 756.8	827.6	906.1
Margin	3.6%	6.0%	6.7%	6.7%	6.7%
Net Income	\$ 199.1	\$ 370.0	\$ 459.0	N/A	N/A
Margin	2.1%	3.6%	4.1%	N/A	N/A
EPS	\$ 0.65	\$ 1.27	\$ 1.61	N/A	N/A
Same Store Sales	2.5%	3.8%	5.0%	N/A	N/A
Stores Operated (End of Year)	\$ 8,354	\$ 8,664	\$ 9,279	N/A	N/A

(a) Extrapolated projections prepared by Lazard using Dollar General's projections for fiscal years 2007 to 2009. These projections were reviewed and deemed reasonable by Dollar General's management. These projections were not provided to Parent or its advisers.

**Financing of the Merger**



Parent estimates that the total amount of funds necessary to complete the merger is anticipated to be approximately \$7.65 billion payable to Dollar General's shareholders and holders of other equity-

based interests, with the remainder used to repay and refinance existing indebtedness, and to pay customary fees and expenses in connection with the merger, the financing arrangements and related transactions.

Pursuant to the merger agreement, Parent is obligated to use its reasonable best efforts to obtain the financing described below on the terms and conditions described in the related financing commitment papers or terms that would not adversely impact the ability of Parent or Merger Sub to timely consummate the transactions contemplated by the merger agreement. In the event that Parent becomes aware of any event or circumstance that makes procurement of any portion of the debt financing unlikely to occur on the terms and conditions contemplated in the debt commitment letter, Parent must use its reasonable best efforts to arrange to obtain alternative financing for such portion from alternative sources on terms and conditions that are no less favorable to Parent and Merger Sub and no more adverse to the ability of Parent to consummate the merger (in each case, as determined in the reasonable judgment of Parent) than as contemplated by the debt commitment letter as promptly as practicable following the occurrence of such event but no later than one day prior to the closing date.

The following arrangements are intended to provide the necessary financing for the merger:

***Debt Financing***

Parent has received a debt commitment letter, dated as of March 11, 2007, as amended, from Goldman Sachs Credit Partners L.P. ("GSCP"), Citicorp North America, Inc. and/or its affiliates, including Citigroup Global Markets Inc. ("Citigroup"), Lehman Brothers Inc. ("LBI"), Lehman Commercial Paper Inc., Lehman Brothers Commercial Bank, Wachovia Bank, National Association, Wachovia Investment Holdings, LLC and Wachovia Capital Markets, LLC ("Wachovia Securities") (collectively, the "Debt Financing Sources"), to provide the following, subject to the conditions set forth in the debt commitment letter:

to the Merger Sub (the "Borrower"), up to \$3.5 billion comprised of a \$2.5 billion senior secured term loan facility and a \$1.0 billion senior secured asset-based revolving credit facility (of which up to \$300 million will be available on the date of the initial borrowing) for the purpose of financing the merger, repaying or refinancing certain existing indebtedness of Dollar General and its subsidiaries, paying fees and expenses incurred in connection with the merger and for providing ongoing working capital and for other general corporate purposes of the surviving corporation and its subsidiaries;

to Borrower, at its option, either up to (x) \$1.45 billion in aggregate principal amount of senior unsecured notes (the "Senior Unsecured Notes") or (y) if the Senior Unsecured Notes are not issued prior to the closing of the merger, \$1.45 billion in senior unsecured increasing rate loans under the senior unsecured bridge facility for the purpose of financing the merger, repaying or refinancing certain existing indebtedness of Dollar General and its subsidiaries and paying fees and expenses incurred in connection with the merger; and

to Borrower, at its option, either up to (x) \$650 million in aggregate principal amount of senior subordinated notes (the "Senior Subordinated Notes") or (y) if the Senior Subordinated Notes are not issued prior to the closing of the merger, \$650 million in senior subordinated increasing rate loans under the senior subordinated bridge facility for the purpose of financing the merger, repaying or refinancing certain existing indebtedness of Dollar General and its subsidiaries and paying fees and expenses incurred in connection with the merger.

The debt commitments expire on November 30, 2007. The documentation governing the debt financings has not been finalized and, accordingly, their actual terms may differ from those described in

this proxy statement. Parent has agreed to use its reasonable best efforts to arrange the debt financing on the terms and conditions described in the debt commitment letter or on terms that would not adversely impact the ability of Parent or Merger Sub to timely consummate the merger (as determined in the reasonable judgment of Parent).

Although the debt financing described in this proxy statement is not subject to a due diligence or "market out," such financing may not be considered assured. As of the date of this proxy statement, no alternative financing arrangements or alternative financing plans have been made in the event the debt financing described herein is not available as anticipated.

***Conditions Precedent to the Debt Commitments***

The availability of the facilities contemplated by the debt financing commitments is subject, among other things, to consummation of the merger in accordance with the merger agreement (without giving effect to any amendments or waivers thereto that are material and adverse to the lenders under such facilities without the consent of the lead arrangers thereunder), payment of required fees and expenses, the funding of the equity financing, the repayment or refinancing of certain of our existing debt and the absence of certain types of other debt, delivery of certain historical and pro forma financial information, the execution of certain guarantees and the creation of security interests and the negotiation, execution and delivery of definitive documentation.

***Senior Secured Term and Asset-Based Revolving Credit Facilities (the "Senior Facilities")***

**General.** The borrower under the Senior Facilities will be the surviving corporation upon consummation of the merger. The Senior Facilities will be comprised of (1) a \$2.5 billion term loan facility with a term of seven years and (2) an asset-based revolving credit facility with a term of six years equal to \$1.0 billion; provided that if the Borrower determines prior to the merger that the available amount under the revolving credit facility will be less than \$1.0 billion then the lenders will increase the term loan facility by the difference between \$1.0 billion and the available amount under the revolver, and the revolving credit facility will be reduced on a dollar-for-dollar basis.

GSCP, Citigroup, LBI and Wachovia Securities have been appointed as joint lead arrangers and joint bookrunners for the Senior Facilities. It is expected that an entity to be determined will act as administrative agent for the Senior Facilities, with CIT Corp. expected to act as administrative agent for the asset-based revolving credit facility.

**Interest Rate and Fees.** Loans under the Senior Facilities are expected to bear interest, at the Borrower's option, at a rate equal to the adjusted London interbank offer rate or an alternate base rate, in each case plus a spread. After the Borrower's delivery of financial statements with respect to at least one full fiscal quarter ending after the effective date of the merger, interest rates under the Senior Facilities shall be subject to pricing grids to be agreed upon between the Borrower and the Debt Financing Sources and, in the case of the term credit facility, such grid will be based on a senior secured leverage ratio (which means the ratio of the Borrower's total net senior secured debt to adjusted EBITDA).

**Guarantors.** All obligations under the Senior Facilities and under any interest rate protection, currency exchange, or other hedging or swap arrangement entered into with a lender or any of its affiliates will be unconditionally guaranteed jointly and severally by each of the existing and subsequently acquired or organized direct and indirect, wholly owned domestic subsidiaries of the Borrower (other than certain subsidiaries to be mutually agreed upon).

**Security.** The obligations of the Borrower and the guarantors under the term credit facility and the guarantees, and under any interest rate protection or other hedging arrangement entered into with a lender or any of its affiliates, will be secured, subject to permitted liens and other agreed upon exceptions, (1) on a first-lien basis, by all the capital stock of the Borrower and its subsidiaries (limited, in the case of foreign subsidiaries, to 100% of the non-voting capital stock and 65% of the voting capital stock of such subsidiaries) directly held by the Borrower or any guarantor, (2) on a first-lien basis, by substantially all present and future assets of the Borrower and each guarantor (other than account receivables, inventory, cash, deposit accounts and the intangible assets and proceeds relating to such account receivables, inventory, cash and deposit accounts) and (3) on a second lien basis, by all account receivables, inventory, cash, deposit accounts and the intangible assets and proceeds relating to such account receivables, inventory, cash and deposit accounts. The obligations of the Borrower and the guarantors under the revolving credit facility and the guarantees, and under any interest rate protection or other hedging arrangement entered into with a lender or any of its affiliates, will be secured, subject to permitted liens and other agreed upon exceptions, on a first-lien basis, by all account receivables, inventory, cash, deposit accounts and the intangible assets and proceeds relating to such account receivables, inventory, cash and deposit accounts. If certain security is not provided at closing despite the use of commercially reasonable efforts to do so, the delivery of such security will not be a condition precedent to the availability of the senior secured credit facilities on the closing date, but instead will be required to be delivered following the closing date pursuant to arrangements to be agreed upon.

**Other Terms.** The Senior Facilities will contain customary representations and warranties and customary affirmative and negative covenants, including, among other things, restrictions on indebtedness, investments, sales of assets, mergers and consolidations, prepayments of subordinated indebtedness, liens and dividends and other distributions. The Senior Facilities will also include customary events of defaults including a change of control to be defined.

#### ***Bridge Facilities***

The Borrower is expected to issue up to \$2.1 billion aggregate principal amount of senior unsecured notes and/or senior subordinated unsecured notes. The notes will not be registered under the Securities Act and may not be offered in the United States absent registration or an applicable exemption from registration requirements.

If the offering of notes by the Borrower is not completed on or prior to the closing of the merger, the Debt Financing Sources have committed to provide up to \$2.1 billion in loans comprised of a senior unsecured increasing rate bridge facility of up to \$1.45 billion, including a senior unsecured PIK option bridge facility of up to \$725 million and a senior subordinated bridge facility of up to \$650 million. The Borrower would be the borrower under each bridge facility. The bridge facilities will be guaranteed (on a senior subordinated basis, in the case of the senior subordinated bridge facility) by the domestic subsidiaries of the surviving corporation that guarantee the Senior Facilities.

GSCP, Citigroup, LBI and Wachovia Securities have been appointed as joint lead arrangers and joint bookrunners for each of the bridge facilities.

**Equity Financing**

Pursuant to an equity commitment letter, dated March 11, 2007, KKR 2006 Fund L.P. has agreed to cause up to \$2.775 billion of cash to be contributed to Parent, which will constitute the equity portion of the merger financing. Such equity commitment obligation may be assigned to affiliates and other co-investors, provided KKR 2006 Fund L.P. remains obligated to perform such obligation to the extent not performed by such assignee. As of the date of this proxy statement, KKR 2006 Fund L.P. has assigned (i) \$300 million of its commitment to Citigroup Global Markets Inc. (the "Bridge Financing Source"), (ii) \$200 million of its commitment to Citigroup Capital Partners II Employee Master Fund, L.P., Citigroup Capital Partners II 2007 Citigroup Investment, L.P., Citigroup Capital Partners II Onshore, L.P., Citigroup Capital Partners II Cayman Holdings, L.P. and CPE Co-Investment (Dollar General) LLC, and (iii) \$500 million of its commitment to GS Capital Partners VI Fund, L.P., GS Capital Partners VI Parallel, L.P., GS Capital Partners VI GmbH & Co. KG and GS Capital Partners VI Offshore Fund, L.P., of which such entities may further assign up to \$100 million in the aggregate to affiliated funds or entities (provided, such entities will remain obligated for their commitments to the extent not performed by such assignee). In addition, as of the date of this proxy statement KKR 2006 Fund L.P. and the Bridge Financing Source have assigned \$65 million of their commitments to certain other third parties and intend to further assign their commitments in the future.

The equity commitments described above are generally subject to the satisfaction or waiver of all of the conditions to the obligations of Parent and Merger Sub to effect the closing of the merger under the merger agreement in accordance with its terms.

The equity commitment letter provided by KKR 2006 Fund L.P. will terminate:

- upon the valid termination of the merger agreement;
- if Parent or Merger Sub breaches any representation, warranty, covenant or agreement under the merger agreement;
- if Dollar General or any of its affiliates asserts a claim against KKR 2006 Fund L.P. under its guarantee (described below);
- if any person other than Parent seeks to enforce (or cause Parent to enforce) the equity commitment letter; or
- if KKR 2006 Fund L.P. has paid all of its obligations under the guarantee.

**Guarantee; Remedies**

In connection with the merger agreement, KKR 2006 Fund L.P. (which we refer to as guarantor) provided Dollar General a guarantee of certain payment obligations of Parent, including the parent termination fee described below, up to a maximum amount equal to \$225 million. The guarantee may be assigned in connection with any assignment of the equity commitment and has been assigned by KKR 2006 Fund L.P. in connection with the assignments described above (other than the assignment to the Bridge Financing Source); however, no such assignment relieves the guarantor of its obligation to Dollar General under the guarantee. The guarantee will remain in full force and effect until the earliest of (1) the effective time of the merger (but only if Parent's obligation to deposit the merger consideration with the paying agent has been performed in full), (2) termination of the merger agreement in accordance with its terms by mutual consent of Parent and Dollar General under circumstances set forth in the merger agreement in which Parent and Merger Sub would not be obligated to pay the termination fee payable by Parent or otherwise make payments pursuant to the merger agreement and (3) the one-year anniversary of any termination of the merger agreement pursuant to which Parent and Merger Sub are obligated to make termination payments, provided that the guarantee will not terminate as to any claim for payments for which notice has been given to the respective guarantor prior to such one year anniversary until final resolution of such claim. However, if

we bring certain legal claims relating to certain provisions of the guarantee with respect to the merger and related transactions, then (1) the guarantor's obligations under the guarantee may terminate and (2) the guarantor may be entitled to recover certain payments made to Dollar General under the guarantee.

We cannot seek specific performance to require Parent or Merger Sub to complete the merger, and our exclusive remedy for the failure of Parent and Merger Sub to complete the merger is a termination fee of \$225 million payable to us under the circumstances described under "The Merger Agreement Fees and Expenses" beginning on page 58. The merger agreement also provides that in no event can we seek to recover in excess of \$225 million for a breach of the merger agreement by Parent or Merger Sub.

## **Interests of the Company's Directors and Executive Officers in the Merger**

### *Pre-Existing Employment Agreements and Other Arrangements*

We are a party to employment agreements with each of David A. Perdue (our Chairman and Chief Executive Officer), David M. Tehle (our Executive Vice President and Chief Financial Officer), Beryl J. Buley (our Division President Merchandising, Marketing and Supply Chain), Kathleen R. Guion (our Division President Store Operations and Store Development), Susan S. Lanigan (our Executive Vice President and General Counsel), Challis M. Lowe (our Executive Vice President, Human Resources), Anita C. Elliott (our Senior Vice President & Controller) and Wayne Gibson (our Senior Vice President Dollar General Markets). In addition, we have a Letter of Agreement regarding employment with David L. Beré (our President and Chief Operating Officer). We refer to all of these persons as the "Executive Officers."

Mr. Perdue's employment agreement provides that, in the event of his termination of employment by us for any reason other than death, disability or "cause" (as defined in the agreement) or by Mr. Perdue for "good reason" (as defined in the agreement) within the two-year period immediately following a change in control of Dollar General, upon execution of a release of certain claims against us and our affiliates in the form attached to his employment agreement, Mr. Perdue will be entitled to the payment of any earned but unpaid base salary, expenses and vacation pay that have accrued through the termination date, any other unpaid accrued amount or benefit required under any employee benefit plan in which he participates, any unpaid compensation previously deferred, together with any accrued interest or earnings (unless Mr. Perdue has elected a different payout date in a prior deferral election or unless the plan provides for another payout date), and a lump sum severance payment equal to three times the sum of his annual base salary in effect on his service termination date and his actual annual incentive bonus earned in the year immediately prior to the year in which his employment terminated (or his target annual incentive bonus for the year in which the termination occurs, if greater). In addition, for 36 months after his termination date, we will pay the premium of his participation in our retiree medical plan, if any, in accordance with his elected coverage in place on his termination date (no such retiree medical plan is currently in place). We will also gross-up our payments of those premiums to the extent they are taxable to Mr. Perdue. If any payments or benefits to Mr. Perdue that are contingent on the completion of the merger would cause him to be subject to the excise tax under federal income tax rules, we will pay an additional amount to him to cover the excise tax and any resulting taxes. However, if after receiving this payment Mr. Perdue's after-tax benefit is not at least \$25,000 more than it would be without this payment, then it will not be made and the severance plan and other benefits due will be reduced so that an excise tax is not incurred. The completion of the merger will constitute a change in control for purposes of Mr. Perdue's employment agreement. If Mr. Perdue's employment were terminated other than for death, disability or cause, or by Mr. Perdue for good reason immediately following the completion of the merger, Mr. Perdue would be entitled to cash severance payments in the aggregate amount of approximately \$6,798,000.

The employment agreements with Messrs. Tehle and Buley and Mss. Guion, Lanigan and Lowe provide that, in the event of the executive's termination of employment by us (or a successor) without cause (and other than due to death or disability) or by the executive for good reason within two years following a change in control (as defined in the agreements), in addition to any earned but unpaid base salary through the service termination date, along with any other benefits owed under any of our plans or agreements covering the executive (which benefits will be governed by the terms of that plan or agreement), upon execution of a release of certain claims against us and our affiliates in the form attached to the executive's employment agreement, the executive will be entitled to severance payments consisting of a lump-sum payment equal to two times the executive's annual base salary in effect immediately prior to the change in control plus two times the executive's target incentive bonus in effect immediately prior to the change in control and a lump-sum payment equal to two times our annual contribution for the executive's participation in our medical, dental and vision benefits program. We will also provide the executive with outplacement services, at our expense, for one year or, if earlier, until other employment is secured. If any payments or benefits to the executives that are contingent on the completion of the merger would cause any of them to be subject to the excise tax under federal income tax rules, we will pay an additional amount to the executive to cover the excise tax and any resulting taxes. However, if after receiving this payment the executive's after-tax benefit is not at least \$25,000 more than it would be without this payment, then it will not be made and the severance and other benefits due will be reduced so that an excise tax is not incurred. The completion of the merger will constitute a change in control for purposes of the executives' employment agreements. If the executives' employment were terminated other than for death, disability or cause, or by the executive for good reason, immediately following the completion of the merger, Messrs. Tehle and Buley and Mss. Guion, Lanigan and Lowe would be entitled to cash severance payments in the aggregate amount of approximately \$1,988,588, \$1,964,938, \$1,710,760, \$1,410,758 and \$1,404,850, respectively.

The employment agreements with Ms. Elliott and Mr. Gibson provide that, in the event of the executive's termination of employment by us (or a successor) without cause (and other than due to death or disability) or by the executive for good reason within two years following a change in control (as defined in the agreements), in addition to any earned but unpaid base salary through the service termination date, along with any other benefits owed under any of our plans or agreements covering the executive (which benefits will be governed by the terms of that plan or agreement), upon execution of a release of certain claims against us and our affiliates in the form attached to the executive's employment agreement, the executive will be entitled to severance payments consisting of a lump-sum payment equal to two times the executive's annual base salary in effect immediately prior to the change in control plus two times the executive's target incentive bonus in effect immediately prior to the change in control and a lump-sum payment equal to two times our annual contribution for the executive's participation in our medical, dental and vision benefits program. We will also provide the executive with outplacement services, at our expense, for one year or, if earlier, until other employment is secured. If any payments or benefits to the executives that are contingent on the completion of the merger would cause any of them to be subject to the excise tax on excess parachute payments under federal income tax rules, we will reduce the amount payable to the executive so that no amount paid will subject to the excise tax. However, if the executive's after-tax benefit determined without the reduction will be at least \$25,000 more than it would be with the reduction, then we will not implement the reduction, and the severance and other benefits due will be paid in full and subject to the excise tax. The completion of the merger will constitute a change in control for purposes of the executives' employment agreements. If the executives' employment were terminated other than for death, disability or cause, or by the executive for good reason, immediately following the completion of the merger, Ms. Elliott and Mr. Gibson would be entitled to cash severance payments in the aggregate amount of approximately \$871,805 and \$1,162,622, respectively.

Mr. Beré's Letter of Agreement provides that, in the event of his termination of employment by us (or a successor) without cause (and other than due to death or disability) or by him for good reason (each of "cause" and "good reason" as defined in the agreement), upon execution of a release of certain claims against us and our affiliates in a form acceptable to us and if he agrees to non-compete, non-solicitation and confidentiality limitations, all on the same terms as are customarily required of our Executive Officers, he will be entitled to severance payments consisting of an amount, payable in equal installments over a 12 month period, equal to his annual base salary in effect on his termination date. If Mr. Beré's employment were terminated for one of the reasons identified above immediately following the completion of the merger, he would be entitled to cash severance payments in the aggregate amount of approximately \$700,000.

### *Equity Awards*

#### *Restricted Stock Units*

At the effective time of the merger, all restricted stock units issued and outstanding under our equity incentive plans will become fully vested and will be cancelled and converted into the right to receive a cash payment equal to the number of restricted stock units multiplied by \$22.00, without interest and less any applicable withholding taxes. The table below sets forth the number and aggregate value of restricted stock units held by the Named Executive Officers and directors as of March 29, 2007.

Name	Number of RSUs	Aggregate Value
David A. Perdue	529,171.86	\$ 11,641,780.92
David L. Beré	14,082.56	\$ 309,816.32
David M. Tehle	29,248.88	\$ 643,475.36
Beryl J. Buley	36,768.92	\$ 808,916.24
Kathleen R. Guion	28,432.07	\$ 625,505.54
Susan S. Lanigan	20,610.07	\$ 453,421.54
Challis M. Lowe	28,060.45	\$ 617,329.90
Anita C. Elliott	12,889.67	\$ 283,572.74
Wayne Gibson	14,103.20	\$ 310,270.40
Dennis C. Bottorff	14,082.56	\$ 309,816.32
Barbara L. Bowles	14,082.56	\$ 309,816.32
Reginald D. Dickson	14,082.56	\$ 309,816.32
E. Gordon Gee	14,082.56	\$ 309,816.32
Barbara M. Knuckles	14,082.56	\$ 309,816.32
J. Neal Purcell	14,062.38	\$ 309,372.36
James D. Robbins	14,082.56	\$ 309,816.32
Richard E. Thornburgh	4,629.82	\$ 101,856.04
David M. Wilds	14,082.56	\$ 309,816.32

#### *Restricted Shares*

At the effective time of the merger, except as otherwise agreed by a holder and Parent, each award of restricted company common stock issued and outstanding under our equity incentive plans or otherwise and any accrued stock dividends will become fully vested and will be converted into the right to receive a cash payment equal to the number of shares of restricted company common stock multiplied by \$22.00, without interest and less any applicable withholding tax. The table below sets forth the number and aggregate value of shares of restricted company common stock held by the



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Executive Officers as of March 29, 2007. None of our directors, other than Mr. Perdue, held any restricted company common stock as of that date.

Name	Number of Restricted Shares	Aggregate Value
David A. Perdue	31,546	\$ 694,012.00
David M. Tehle	5,000	\$ 110,000.00

### *Deferred Equity Units*

At the effective time of the merger, all deferred amounts held in unit accounts denominated in shares of our common stock under our Compensation Deferral Plan (which we refer to as CDP), our Supplemental Executive Retirement Plan (which we refer to as SERP) and our Deferred Compensation Plan for Non-Employee Directors (which we refer to as DDC) will vest and be converted into cash equal to the number of shares deemed held in such unit accounts multiplied by \$22.00, payable or distributable in accordance with the terms of the agreement, plan or arrangement relating to such unit account, less any required withholding taxes. The table below sets forth the number and aggregate value of shares of deferred amounts held in unit accounts by the Named Executive Officers and directors as of March 29, 2007.

Name	Number of Deferred Equity Units	Aggregate Value
David A. Perdue	0	\$ 0
David L. Beré	0	\$ 0
David M. Tehle	0	\$ 0
Beryl J. Buley	0	\$ 0
Kathleen R. Guion	0	\$ 0
Susan S. Lanigan	0	\$ 0
Challis M. Lowe	0	\$ 0
Anita C. Elliott	0	\$ 0
Wayne Gibson	0	\$ 0
Dennis C. Bottorff	0	\$ 0
Barbara L. Bowles	0	\$ 0
Reginald D. Dickson	0	\$ 0
E. Gordon Gee	0	\$ 0
Barbara M. Knuckles	5,122	\$ 112,684
J. Neal Purcell	7,207	\$ 158,554
James D. Robbins	0	\$ 0
Richard Thornburgh	0	\$ 0
David M. Wilds	0	\$ 0

### *Stock Options*

At the effective time of the merger, except as otherwise agreed to by the holder and Parent, all outstanding options to acquire our common stock issued and outstanding under our equity incentive plans or otherwise will become fully vested and, subject to the terms of those equity incentive plans, be cancelled and converted into the right to receive a cash payment equal to the number of shares of our common stock underlying the options multiplied by the amount (if any) by which \$22.00 exceeds the exercise price, without interest and less any applicable withholding taxes. The table below includes the number, weighted average exercise price and aggregate value of options to acquire our common stock held by the Executive Officers and directors as of March 29, 2007.

	In-The-Money Options (1)			Underwater Options to be Cancelled in the Merger(2)
	Number of Shares Underlying Options	Weighted Avg. Exercise Price	Aggregate Value	Number of Shares Underlying Options
David A. Perdue	1,313,630	\$ 14.73	\$ 9,555,223	0
David L. Beré	9,444	\$ 12.71	\$ 87,751	0
David M. Tehle	235,217	\$ 18.94	\$ 720,034	63,000
Beryl J. Buley	195,683	\$ 17.99	\$ 784,780	0
Kathleen R. Guion	200,483	\$ 19.52	\$ 497,956	50,300
Susan S. Lanigan	186,333	\$ 18.44	\$ 663,706	42,000
Challis M. Lowe	127,733	\$ 18.90	\$ 396,380	0
Anita C. Elliot	76,767	\$ 18.93	\$ 235,602	0
Wayne Gibson	93,767	\$ 19.01	\$ 280,102	0
Dennis C. Bottorff	23,299	\$ 15.52	\$ 151,026	0
Barbara L. Bowles	12,780	\$ 14.21	\$ 99,565	0
Reginald D. Dickson	23,568	\$ 15.34	\$ 156,906	0
E. Gordon Gee	15,938	\$ 15.16	\$ 109,039	0
Barbara M. Knuckles	17,842	\$ 16.90	\$ 90,942	0
J. Neal Purcell	0	N/A	N/A	0
James D. Robbins	9,345	\$ 12.84	\$ 85,579	0
Richard E. Thornburgh	0	N/A	N/A	0
David M. Wilds	23,568	\$ 15.34	\$ 156,906	0

(1) Exercise price of the options is below the \$22.00 per share merger consideration.

(2) Exercise price of options exceeds the \$22.00 per share merger consideration.

***Compensation Deferral Plan (CDP) and Supplemental Executive Retirement Plan (SERP)***

The CDP, in which the Executive Officers participate, and the associated grantor trust agreement provide that the full amount of the benefits due under the CDP will be funded in the grantor trust within 30 days following a change in control of Dollar General, and will be payable in accordance with the terms of the CDP and trust. The completion of the merger will constitute a change in control for purposes of the CDP. Upon completion of the merger, Messrs. Perdue, Beré, Tehle, Buley and Gibson and Mss. Guion, Lanigan, Lowe and Elliott will have benefits under the CDP having approximate values as determined on March 29, 2007 of \$344,685, \$11,725, \$114,291, \$79,012, \$46,105, \$121,563, \$34,890, \$62,460 and 136,958, respectively.

The SERP, in which the Executive Officers other than Mr. Perdue participate, provides that, in the event of a change in control of Dollar General, benefits will become immediately vested. The associated grantor trust agreement provides that the full amount of the benefits due under the SERP will be funded in the grantor trust within 30 days following a change in control and will be payable in accordance with the terms of the SERP and the trust. The completion of the merger will constitute a change in control for purposes of the SERP. Messrs. Beré and Tehle and Mss. Guion and Lowe are already vested in benefits under the SERP having approximate values as determined on March 29, 2007 of \$0, \$95,931, \$78,460 and \$39,407, respectively. Upon the completion of the merger, Messrs. Buley and Gibson and Mss. Lanigan and Elliott would become vested in benefits under the SERP having an approximate value of \$35,628, \$18,899, \$101,016 and \$15,815, respectively, as determined on March 29, 2007.

***Director Deferred Compensation Plan (DDC)***

We sponsor a voluntary nonqualified compensation deferral plan in which our non-employee directors are eligible to participate. All deferred compensation held in directors' accounts will be fully funded in the existing grantor trust and will be immediately due and payable within 15 days following a change in control of Dollar General. The completion of the merger will constitute a change in control for purposes of the DDC. The aggregate balance held by our directors under the deferred compensation plan as of March 29, 2007 is \$311,797.

***Individual Supplemental Executive Retirement Plan for Mr. Perdue***

We maintain an individual supplemental executive retirement plan for Mr. Perdue that provides that, in the event of his termination by us without cause at any time or his voluntary resignation for good reason within two years after a change in control of Dollar General, Mr. Perdue will be deemed to have five additional years of credited service and his compensation will be deemed to continue for purposes of calculating his vesting and benefit. The SERP provides that the full amount of benefits due will be funded into the existing grantor trust within 30 days following a change in control of Dollar General and payable in accordance with the terms of the plan. The completion of the merger will constitute a change in control for purposes of the plan and trust. The amount that would be funded into the grantor trust upon completion of the merger assuming an estimated closing date of July 31, 2007, is approximately \$5,873,086.

***New Employment Arrangements***

As of the date of this proxy statement, none of our executive officers has entered into any agreement, arrangement or understanding with KKR, Parent or Merger Sub or any of their respective affiliates regarding employment with, or the right to purchase or participate in the equity of, the surviving corporation. However, prior to the closing, some or all of our executive officers may discuss or enter into such arrangements and/or amendments to their existing agreements.

***Indemnification and Insurance***

Parent and Merger Sub agreed that all rights to exculpation, indemnification and advancement of expenses for acts or omissions occurring at or prior to the effective time of the merger, whether asserted or claimed prior to, at or after the effective time of the merger, now existing in favor of the current or former directors, officers or employees, as the case may be, of the Company or its subsidiaries as provided in their respective charters or by-laws or other organizational documents or in any agreement as in effect on the date of the merger agreement will survive the merger and continue in full force and effect. Parent and the surviving corporation will maintain in effect any and all exculpation, indemnification and advancement of expenses provisions of the Company's and any of its subsidiaries' charters and by-laws or similar organizational documents in effect immediately prior to the effective time of the merger or in any indemnification agreements of the Company or its subsidiaries with any of their respective current or former directors, officers or employees in effect as of the date of the merger agreement, and will not, for a period of six years from the date of the merger agreement, amend, repeal or otherwise modify any such provisions in any manner that would adversely affect the rights thereunder of any individuals who at the effective time of the merger were current or former directors, officers or employees of the Company or any of its subsidiaries and all rights to indemnification thereunder in respect of any action pending or asserted or any claim made within such period will continue until the disposition of such action or resolution of such claim.

From and after the effective time of the merger, the surviving corporation will, and in the event the coverage under the directors' and officers' liability insurance policies referred to in the immediately following paragraph has been fully paid by all applicable carriers or is otherwise no longer available,

Parent will, to the fullest extent permitted under applicable law, indemnify and hold harmless (and advance funds in respect of each of the foregoing) each current and former director, officer or employee of the Company or any of its subsidiaries against any costs or expenses, judgments, fines, losses, claims, damages, liabilities and amounts paid in settlement in connection with any actual or threatened action, arising out of, relating to or in connection with any action or omission occurring or alleged to have occurred whether before or at the effective time of the merger in connection with such person's serving as an officer, director or other fiduciary in any entity if such service was at the request or for the benefit of the Company.

For a period of six years from the effective time of the merger, Parent will either cause to be maintained in effect the current policies of directors' and officers' liability insurance and fiduciary liability insurance maintained by the Company and its subsidiaries or cause to be provided substitute policies or purchase, or cause the surviving corporation to purchase, a "tail policy," in either case of at least the same coverage and amounts containing terms and conditions that are not less advantageous in the aggregate than such policy with respect to matters arising on or before the effective time of the merger. However, after the effective time of the merger, Parent will not be required to pay with respect to such insurance policies in respect of any one policy year annual premiums in excess of 500% of the last annual premium paid by the Company prior to the date of the merger agreement in respect of the coverage required to be obtained, but in such case will purchase as much coverage as reasonably practicable for such amount. If the surviving corporation purchases a "tail policy" and the coverage costs more than 500% of such last annual premium, the surviving corporation will purchase the maximum amount of coverage that can be obtained for 500% of such last annual premium. At the Company's option, the Company may purchase, prior to the effective time of the merger, a six-year prepaid "tail policy" on terms and conditions (in both amount and scope) providing substantially equivalent benefits as the current policies of directors' and officers' liability insurance and fiduciary liability insurance maintained by the Company and its subsidiaries with respect to matters arising on or before the effective time of the merger, covering without limitation the transactions contemplated by the merger agreement.

#### **Material U.S. Federal Income Tax Consequences of the Merger to Our Shareholders**

The following discussion is a summary of the material U.S. federal income tax consequences of the merger to "U.S. holders" (as defined below) of Dollar General common stock whose shares are converted into the right to receive cash in the merger. This summary is based on the provisions of the Internal Revenue Code of 1986, as amended (the "Code"), U.S. Treasury regulations promulgated thereunder, judicial authorities and administrative rulings, all as in effect as of the date of the proxy statement and all of which are subject to change, possibly with retroactive effect.

For purposes of this discussion, the term "U.S. holder" means a beneficial owner of shares of our common stock that is, for U.S. federal income tax purposes:

an individual who is a citizen or resident of the United States;

a corporation (including any entity treated as a corporation for U.S. federal income tax purposes) created or organized under the laws of the United States, any state thereof, or the District of Columbia;

a trust that (i) is subject to the supervision of a court within the United States and the control of one or more U.S. persons or (ii) has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person; or

an estate that is subject to U.S. federal income tax on its income regardless of its source.

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Holders of our common stock who are not U.S. holders may be subject to different tax consequences than those described below and are urged to consult their tax advisors regarding their tax treatment under U.S. and non-U.S. tax laws.

The following does not purport to consider all aspects of U.S. federal income taxation of the merger that might be relevant to U.S. holders in light of their particular circumstances, or those U.S. holders that may be subject to special rules (for example, dealers in securities or currencies, brokers, banks, financial institutions, insurance companies, mutual funds, tax-exempt organizations, shareholders subject to the alternative minimum tax, partnerships or other flow-through entities and their partners or members), persons whose functional currency is not the U.S. dollar, shareholders who hold our stock as part of a hedge, straddle, constructive sale or conversion transaction or other integrated investment, shareholders who acquired our common stock pursuant to the exercise of an employee stock option or otherwise as compensation, or U.S. holders who exercise statutory appraisal rights, if available), nor does it address the U.S. federal income tax consequences to U.S. holders that do not hold our common stock as "capital assets" within the meaning of Section 1221 of the Code (generally, property held for investment). In addition, the discussion does not address any aspect of foreign, state, local, estate, gift or other tax law that may be applicable to a U.S. holder.

The tax consequences to shareholders that hold our common stock through a partnership or other pass-through entity, generally, will depend on the status of the shareholder and the activities of the partnership. Partners in a partnership or other pass-through entity holding our common stock should consult their tax advisors.

**This summary of certain material U.S. federal income tax consequences is for general information only and is not tax advice. Holders are urged to consult their tax advisors with respect to the application of U.S. federal income tax laws to their particular situations as well as any tax consequences arising under the U.S. federal estate or gift tax rules, or under the laws of any state, local, foreign or other taxing jurisdiction or under any applicable tax treaty.**

*Exchange of Shares of Common Stock for Cash Pursuant to the Merger Agreement.* The receipt of cash in exchange for shares of our common stock pursuant to the merger will be a taxable transaction for U.S. federal income tax purposes. In general, a U.S. holder whose shares of common stock are converted into the right to receive cash in the merger will recognize capital gain or loss for U.S. federal income tax purposes in an amount equal to the difference, if any, between the amount of cash received with respect to such shares and the shareholder's adjusted tax basis in such shares. Gain or loss will be determined separately for each block of shares (*i.e.*, shares acquired at the same cost in a single transaction) surrendered for cash pursuant to the merger. Such gain or loss will be long-term capital gain or loss provided that a shareholder's holding period for such shares is more than 12 months at the time of the consummation of the merger. Long-term capital gains of individuals are generally eligible for reduced rates of taxation. The deductibility of capital losses is subject to certain limitations.

*Backup Withholding and Information Reporting.* A shareholder may be subject to backup withholding at the applicable rate (currently 28 percent) on the cash payments to which such shareholder is entitled pursuant to the merger, unless the shareholder properly establishes an exemption or provides a taxpayer identification number and otherwise complies with the backup withholding rules. Each shareholder should complete and sign the substitute Internal Revenue Service ("IRS") Form W-9 included as part of the letter of transmittal and return it to the paying agent, in order to provide the information and certification necessary to avoid backup withholding, unless an applicable exemption applies and is established in a manner satisfactory to the paying agent. Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules generally will be allowable as a refund or a credit against a shareholder's U.S. federal income tax liability provided the required information is timely furnished to the IRS.

## **Regulatory Approvals**

Under the provisions of the HSR Act, the merger may not be completed until the expiration of a 30-day waiting period following the filing of notification and report forms with the Antitrust Division and the FTC, unless a request for additional information and documentary material is received from the Antitrust Division or the FTC or unless early termination of the waiting period is granted. On March 23, 2007, Dollar General and KKR 2006 Fund L.P. filed their respective notification and report forms with the FTC and the Antitrust Division. The FTC granted early termination of the applicable waiting period on April 2, 2007.

At any time before or after the merger, the Antitrust Division, the FTC, or a state attorney general could take such action under the antitrust laws as it deems necessary or desirable in the public interest, including seeking to enjoin the merger or seeking divestiture of substantial assets of Dollar General, Parent, or their subsidiaries and affiliates. Private parties may also bring legal actions under the antitrust laws under certain circumstances.

There can be no assurance that a challenge to the merger on antitrust grounds will not be made or, if a challenge is made, of the result of such challenge. Under the terms of the merger agreement, Parent is obligated without limitation to use its best efforts to sell, divest or otherwise dispose of, or to take any action that would limit its freedom of action with respect to, any business, product line or assets of Dollar General, Parent, or any of their respective subsidiaries or affiliates, in each case as may be required in order to resolve any objections under the antitrust laws to the merger or to avoid the entry of, or to effect the dissolution of, any injunction, temporary restraining order, or other order in any suit or proceeding, which would otherwise have the effect of preventing or delaying beyond the end date the consummation of the merger.

## **Delisting and Deregistration of Common Stock**

If the merger is completed, our common stock will be delisted from the NYSE and deregistered under the Exchange Act and we will no longer file periodic reports with the SEC on account of our common stock.

## **Litigation Related to the Merger**

Subsequent to the announcement of the merger agreement, Dollar General, its directors, and in certain cases KKR and Buck Holdings, L.P. and Buck Acquisition Corp., were named in seven putative class actions filed in Tennessee state courts arising out of alleging claims for breach of fiduciary duty and aiding and abetting such breaches arising out of the proposed sale of Dollar General to Parent. The complaints alleged, among other things, that Dollar General's directors engaged in "self-dealing" by agreeing to recommend the transaction to the shareholders of Dollar General and that the consideration available to Dollar General shareholders in the proposed transaction is unfairly low. On motion of the plaintiffs, each of these cases was transferred to the Sixth Court for Davidson County, Twentieth Judicial District, at Nashville (the "Court"). By order dated April 26, 2007, the seven lawsuits were consolidated in the Court under the caption "In re: Dollar General," Case No. 07MD-1. On May 1, 2007, plaintiffs submitted to the Court a proposed order that would require the plaintiffs in the consolidated actions to file a consolidated complaint within thirty days of the date of entry of the order. According to the terms of the proposed order, the consolidated complaint would supersede all previously-filed complaints. Defendants intend to defend any claims raised in the consolidated complaint vigorously.

## **Amendment to Dollar General's Shareholder Rights Agreement**

On March 12, 2007, Dollar General and Registrar and Transfer Company (the "Rights Agent") entered into a Second Amendment to the Rights Agreement dated February 29, 2000, as amended August 30, 2006, between the Company and the Rights Agent. The amendment permits the execution of the merger agreement and the performance and consummation of the transactions contemplated by the merger agreement, including the merger, without triggering the provisions of the Rights Agreement.

## THE MERGER AGREEMENT

The summary of the material provisions of the merger agreement below and elsewhere in this proxy statement is qualified in its entirety by reference to the merger agreement, a copy of which is attached to this proxy statement as Annex A and which we incorporate by reference into this document. This summary does not purport to be complete and may not contain all of the information about the merger agreement that is important to you. We encourage you to read carefully the merger agreement in its entirety.

The description of the merger agreement in this proxy statement has been included to provide you with information regarding its terms. It is not intended to provide any factual information about the Company. Such information can be found elsewhere in this proxy statement and in the other public filings the Company makes with the Securities and Exchange Commission, which are available without charge at [www.sec.gov](http://www.sec.gov).

### **The Merger**

The merger agreement provides for the merger of Merger Sub with and into Dollar General upon the terms, and subject to the conditions, of the merger agreement. As the surviving corporation, Dollar General will continue to exist following the merger. Upon consummation of the merger, the directors of Merger Sub will be the initial directors of the surviving corporation and the officers of Dollar General will be the initial officers of the surviving corporation.

### **Effective Time; Marketing Period**

The effective time of the merger will occur at the time that we file the articles of merger with the Secretary of State of the State of Tennessee on the closing date of the merger (or such later time as Parent and Dollar General may agree and as provided in the articles of merger). The closing date will occur on the date following the satisfaction or waiver of the conditions described under " Conditions to the Merger" beginning on page 55 that is the earlier to occur of a date during the Marketing Period (as defined below) specified by Parent on at least three business days' notice to us and the final day of the Marketing Period, or such other date as Dollar General and Parent may agree.

For purposes of the merger agreement, "Marketing Period" means the first period of twenty consecutive business days during which (i) Parent has received certain required, current financial information from us and (ii) the mutual closing conditions have all been satisfied and nothing has occurred and no condition exists that would cause any of the conditions to the obligations of Parent and Merger Sub to fail to be satisfied assuming the closing date was to be scheduled at any time during such 20 business day period. Furthermore, if the Marketing Period has not ended on or prior to August 16, 2007, the Marketing Period will commence no earlier than September 4, 2007.

The purpose of the Marketing Period is to provide Parent a reasonable and appropriate period of time during which it can market and place the permanent debt financing contemplated by the debt financing commitment for the purposes of financing the merger. To the extent Parent determines it does not need the benefit of the Marketing Period to market and place the debt financing, it may, in its sole discretion, determine to waive the Marketing Period and close the merger prior to the expiration of the Marketing Period if all closing conditions are otherwise satisfied or waived.

## Merger Consideration

Each share of our common stock issued and outstanding immediately prior to the effective time of the merger will be converted into the right to receive \$22.00 in cash, without interest and less certain applicable withholding taxes, other than the following shares:

shares held by any direct or indirect wholly owned subsidiary of Dollar General (which will remain outstanding); and

shares owned, directly or indirectly, by Parent or Merger Sub, or held by Dollar General (other than any such shares held on behalf of third parties or shares held in the trust that funds the obligations under certain Company employee benefit plans) (which will be cancelled without any consideration).

After the merger is effective, each holder of any shares of our common stock (other than the excepted shares described above) will no longer have any rights with respect to the shares, except for the right to receive the merger consideration.

## Treatment of Options and Other Awards

**Stock Options.** Immediately prior to the effective time of the merger, except as separately agreed by Parent and a holder thereof, all outstanding options to acquire our common stock, whether or not then vested or exercisable, will become fully vested (based on a deemed achievement of performance awards at the maximum level, if applicable) and be converted into the right to receive, on or as soon as reasonably practicable after the effective time of the merger, but in any event within five business days thereafter, a cash payment equal to the number of shares of our common stock underlying the options multiplied by the amount (if any) by which \$22.00 exceeds the exercise price, without interest and less any applicable withholding taxes.

**Restricted Shares.** Immediately prior to the effective time of the merger, except as separately agreed by Parent and a holder thereof, each outstanding share of restricted stock and any accrued stock dividends will vest in full and be converted into the right to receive \$22.00 in cash, less any required withholding taxes. The surviving corporation will vest and pay all cash dividends accrued on such shares of restricted stock to the holders thereof within five business days after the effective time of the merger.

**Restricted Stock Units.** Immediately prior to the effective time of the merger, each restricted stock unit in respect of a share of our common stock will vest in full and be converted into the right to receive \$22.00 in cash, less any required withholding taxes, and the holder will be paid as soon as reasonably practicable after the date on which the effective time of the merger occurs, but in any event within five business days thereafter, an aggregate amount of cash as the holder would have been entitled to receive had such restricted stock unit been vested in full and settled immediately prior to the effective time of the merger.

**Deferred Equity Units.** Immediately prior to the effective time of the merger, all amounts held in participant accounts and denominated in our common stock under our CDP/SERP, as amended and restated effective November 1, 2004 (and as amended through the date of the merger agreement) and Deferred Compensation Plan for Non-Employee Directors, will vest in full and be converted into cash equal to \$22.00 multiplied by the number of shares deemed held in such participant accounts, payable or distributable in accordance with the terms of the agreement, plan or arrangement relating to such participant account, less any required withholding taxes.



### Exchange and Payment Procedures

At or immediately subsequent to the effective time of the merger, Parent will deposit, or will cause to be deposited, with a U.S. bank or trust company chosen by Parent and approved in advance by us (our approval not to be unreasonably withheld), sufficient cash to pay the merger consideration to each holder of shares of Dollar General common stock. As soon as reasonably practicable after the effective time of the merger and in any event not later than five business days following the effective time, this bank or trust company, which we refer to as the paying agent, will mail a letter of transmittal and instructions to you and the other shareholders. The letter of transmittal and instructions will tell you how to surrender your common stock certificates or shares you may hold represented by book entry in exchange for the merger consideration.

**You should not return your stock certificates with the enclosed proxy card, and you should not forward your stock certificates to the paying agent without a letter of transmittal.**

You will not be entitled to receive the merger consideration until you surrender your stock certificate or certificates (or book-entry shares) to the paying agent, together with a duly completed and executed letter of transmittal and any other documents as may be required by the letter of transmittal. The merger consideration may be paid to a person other than the person in whose name the corresponding certificate is registered if the certificate is properly endorsed or is otherwise in the proper form for transfer. In addition, the person who surrenders such certificate must either pay any transfer or other applicable taxes or establish to the satisfaction of the surviving corporation that such taxes have been paid or are not applicable.

No interest will be paid or will accrue on the cash payable upon surrender of the certificates (or book-entry shares). The paying agent will be entitled to deduct, withhold, and pay to the appropriate taxing authorities, any applicable taxes from the merger consideration. Any sum that is withheld and paid to a taxing authority by the paying agent will be deemed to have been paid to the person with regard to whom it is withheld.

At the effective time of the merger, our stock transfer books will be closed and there will be no further transfers on our stock transfer books of shares of Dollar General common stock that were outstanding immediately prior to the effective time of the merger other than to settle transfers of such shares that occurred before the effective time of the merger. If, after the effective time of the merger, certificates are presented to the surviving corporation for transfer, they will be cancelled and exchanged for the merger consideration.

Any portion of the merger consideration deposited with the paying agent that remains undistributed to former holders of our common stock for one year after the effective time of the merger will be delivered, upon demand, to the surviving corporation. Former holders of our common stock who have not complied with the above-described exchange and payment procedures will thereafter only look to the surviving corporation for payment of the merger consideration. None of Dollar General, Parent, Merger Sub, the surviving corporation, the paying agent or any other person will be liable to any former holders of Dollar General common stock for any cash delivered to a public official pursuant to any applicable abandoned property, escheat or similar laws.

If you have lost a certificate, or if it has been stolen or destroyed, then before you will be entitled to receive the merger consideration, you will have to make an affidavit, in form and substance reasonably acceptable to Parent, of the loss, theft or destruction, and if required by Parent or the paying agent, post an indemnity agreement or, at the election of Parent or the paying agent, a bond in a customary amount sufficient to protect it or the surviving corporation against any claim that may be made against it with respect to that certificate. These procedures will be described in the letter of transmittal that you will receive, which you should read carefully in its entirety.

All cash paid upon surrender of certificates in accordance with the above terms will be deemed to have been paid in full satisfaction of all rights pertaining to the shares of our common stock formerly represented by such certificates.

### **Representations and Warranties**

The merger agreement contains representations and warranties by each of the parties to the merger agreement made to each other as of a specific date. These representations and warranties (and the assertions embodied therein) have been made for purposes of allocating risk to one of the parties if those statements prove to be inaccurate rather than for the purpose of establishing matters as facts. The representations and warranties have been qualified by certain disclosures that were made to the other party in connection with the negotiation of the merger agreement, which disclosures are not reflected in the merger agreement. In general, standards of materiality may apply under the merger agreement in a way that is different from what may be viewed as material to you or other investors. The representations and warranties were made only as of the date of the merger agreement or such other date or dates as may be specified in the merger agreement and are subject to more recent developments. Accordingly, these representations and warranties may not describe the actual state of affairs as of the date they were made or at any other time. The representations and warranties in the merger agreement and the description of them in this document should be read in conjunction with the other information contained in the reports, statements and filings Dollar General publicly files with the Securities and Exchange Commission.

In the merger agreement, Dollar General made representations and warranties relating to, among other things:

our and our subsidiaries' proper organization, good standing and qualification to do business;

our capitalization, including in particular the number of shares of our common stock, stock options and other equity-based interests;

our subsidiaries and our equity interests in them;

our corporate power and authority to enter into the merger agreement and to consummate the transactions contemplated by the merger agreement;

the adoption and recommendation of our board of directors of the merger, the merger agreement and the other transactions contemplated by the merger agreement;

the enforceability of the merger agreement against us;

the required consents and approvals of governmental entities in connection with the transactions contemplated by the merger agreement;

the absence of conflicts with or defaults under our or our subsidiaries' governing documents, applicable laws or certain agreements as a result of entering into the merger agreement and the consummation of the merger;

our SEC filings since January 1, 2004, including financial statements contained therein;

the absence of undisclosed liabilities;

our and our subsidiaries' permits and compliance with applicable legal requirements;

environmental matters;

matters relating to our and our subsidiaries' employee benefit plans;

absence of related-party transactions;

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the absence of certain changes relating to us or our subsidiaries since November 3, 2006 and the absence of a material adverse effect since February 3, 2006;

investigations, legal proceedings and governmental orders;

accuracy and compliance with applicable securities law of the information supplied by Dollar General for inclusion in this proxy statement and other filings made with the SEC in connection with the merger and the other transactions contemplated by the merger agreement;

tax matters;

employment and labor matters affecting us or our subsidiaries;

intellectual property;

real property;

the required vote of our shareholders in connection with the approval of the merger agreement and the approval of the merger and the other transactions contemplated by the merger agreement;

material contracts and performance of obligations thereunder;

the absence of undisclosed brokers' fees;

the receipt by the board of directors of a fairness opinion from Lazard Frères & Co. LLC; and

state takeover statutes and our rights agreement.

Many of Dollar General's representations and warranties are qualified by a "Company Material Adverse Effect" standard (that is, they will not be deemed to be untrue or incorrect unless their failure to be true or correct, individually or in the aggregate, has or is reasonably expected to have a Company Material Adverse Effect). "Company Material Adverse Effect" means any fact, circumstance, event, change, effect or occurrence that, individually or in the aggregate with all other facts, circumstances, events, changes, effects or occurrences, (1) subject to the excepted events below, has, or would be reasonably expected to have, a material adverse effect on or with respect to business, results of operation or financial condition of Dollar General and its subsidiaries taken as a whole, or (2) that prevents or materially delays or materially impairs Dollar General's ability to consummate the merger.

A "Company Material Adverse Effect" for purposes of clause (1) above will not have occurred, however, as a result of any fact, circumstance, event, change, effect or occurrence:

generally affecting the retail industry, or the economy or the financial or securities markets, in the United States, or any outbreak or escalation of hostilities, declared or undeclared acts of war or terrorism (other than any of the foregoing that causes any damage or destruction to or renders physically unusable or inaccessible any facility or property of Dollar General or any of its subsidiaries);

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reflecting or resulting from changes in law or U.S. generally accepted accounting principles (referred to as GAAP); or

resulting from actions by Dollar General that Parent has expressly requested, or to which Parent has expressly consented or resulting from the announcement of the merger or the proposal thereof or the merger agreement and the transactions contemplated thereby,

except to the extent that, in the case of the first two bullets above, the impact of such fact, circumstance, event, change, effect or occurrence is disproportionately adverse to Dollar General and its subsidiaries, taken as a whole.

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The merger agreement also contains various representations and warranties made by Parent and Merger Sub that are subject, in some cases, to specified exceptions and qualifications. The representations and warranties relate to, among other things:

their organization, valid existence and good standing;

their corporate or other power and authority to enter into the merger agreement and to consummate the transactions contemplated by the merger agreement;

the enforceability of the merger agreement as against Parent and Merger Sub;

the required consents and approvals of governmental entities in connection with the transactions contemplated by the merger agreement;

the absence of any violation of or conflict with their governing documents, applicable law or certain agreements as a result of entering into the merger agreement and consummating the merger;

accuracy of the information supplied by Parent or Merger Sub for inclusion in this proxy statement and other filings made with the SEC in connection with the merger and the other transactions contemplated by the merger agreement;

validity of debt and equity financing commitments;

the ownership and lack of prior operations of Merger Sub;

the absence of undisclosed brokers' fees;

the absence of contracts between Parent, Merger Sub and the guarantor on the one hand and our officers and directors on the other hand relating to the transactions contemplated by the merger agreement;

investigations, legal proceedings and governmental orders;

the guarantor's delivery of the guarantee;

the solvency of the surviving corporation; and

their access to information about us.

Some of Parent's and Merger Sub's representations and warranties are qualified by a "Parent Material Adverse Effect" standard. For the purposes of the merger agreement, "Parent Material Adverse Effect" means any fact, circumstance, event, change, effect or occurrence that, individually or in the aggregate, prevents or materially delays or materially impairs the ability of Parent and Merger Sub to consummate the merger on a timely basis, or would be reasonably expected to do so.

The representations and warranties of each of the parties to the merger agreement will expire upon the effective time of the merger.

### **Conduct of Our Business Pending the Merger**

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Under the merger agreement, we have agreed that, subject to certain exceptions and unless Parent gives its prior written consent, between March 11, 2007 and the effective time of the merger, we and our subsidiaries will:

conduct business in all materials respects in the ordinary course consistent with past practice; and

use commercially reasonable efforts to maintain and preserve intact our and our subsidiaries' business organization and business relationships, preserve our and our subsidiaries' assets, rights

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and properties in good repair and condition and to retain the services of our and our subsidiaries' key officers and key employees, in each case, in all material respects.

We have also agreed that, between March 11, 2007 and the effective time of the merger, subject to certain exceptions or unless Parent gives its prior written consent, Dollar General will not, and will cause each of its subsidiaries not to:

adjust, split, combine, reclassify, redeem, repurchase or otherwise acquire any capital stock or other equity interests or rights or otherwise amend the terms of its capital stock or other equity interests or rights;

make, declare or pay any dividend or make any other distribution on any shares of capital stock or other equity interests (other than dividends by our subsidiaries to us or one of our direct or indirect wholly owned subsidiaries consistent with past practice, and regular quarterly dividends not exceeding \$0.05 per share, consistent with past practice as to timing, except that no quarterly dividend will be declared with respect to the quarter in which the effective time of the merger occurs unless the effective time of the merger is after the record date for such quarter), or directly or indirectly redeem, purchase or otherwise acquire or encumber, any shares of capital stock or other equity interests or any securities or obligations convertible into or exchangeable for any shares of capital stock or other equity interests (except in connection with cashless exercises or similar transactions pursuant to the exercise of stock options or settlement of other awards or obligations outstanding as of March 11, 2007 or permitted by the merger agreement to be granted after that date);

grant any person any right to acquire any shares of its capital stock or other equity interests;

issue or sell any additional shares of capital stock or other equity interests, any securities convertible into, or any rights, warrants or options to acquire, any such shares of capital stock or other equity interests, except pursuant to the exercise of stock options or settlement of other awards outstanding as of March 11, 2007 (or permitted by the merger agreement to be granted after that date) or as required under any Company benefit plan;

purchase, sell, lease, license, transfer, mortgage, abandon, encumber or otherwise subject to a lien or otherwise dispose of, in whole or in part, any properties, rights or assets having a value in excess of \$10,000,000 individually or \$25,000,000 in the aggregate (other than (x) sales of inventory, or (y) commodity, purchase, sale or hedging agreements, which can be terminated on 90 days or less notice without penalty, in each case in the ordinary course of business consistent with past practice);

make any capital expenditures (or authorization or commitment with respect thereto) in a manner reasonably expected to cause expenditures (x) for the Company's fiscal year ended January 31, 2008 to exceed \$200 million, taking into account reasonably anticipated expenditures for the balance of the year as well as expenditures already committed to or made or (y) for any month to exceed \$35 million;

except (i) ordinary course loans pursuant to the Company 401(k) Savings & Retirement Plan and advances for business expenses pursuant to Company benefit plans and (ii) for borrowings under the Company's existing credit and securitization facilities in the ordinary course of business and consistent with past practice, incur, create, assume or otherwise become liable for, or repay or prepay any indebtedness for borrowed money (including the issuance of any debt security), any capital lease obligations, any guarantee of any such indebtedness or debt securities of any other person, or any "keep well" or other agreement to maintain any financial statement condition of another person, or to amend, modify or refinance any of the foregoing, in each case in an amount in excess of \$10,000,000 in any transaction or series of related transactions, or in excess of \$25,000,000 in the aggregate;



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make any investment in excess of \$10,000,000 individually or \$25,000,000 in the aggregate, whether by purchase of stock or securities, contributions to capital, loans to, property transfers, or entering into binding agreements with respect to any such investment or acquisition;

make any acquisition of another person or business in excess of \$10,000,000 individually or \$25,000,000 in the aggregate, whether by merger, purchase of stock or securities, contributions to capital, loans to, property transfers, or entering into binding agreements with respect to any such investment or acquisition (including any conditional or installment sale contract or other retention contract relating to purchased property);

except in the ordinary course of business consistent with past practice and on terms not materially adverse to Dollar General and its subsidiaries, taken as a whole, enter into, renew, extend, materially amend, fail to renew, cancel or terminate any material contract other than permitted loan agreements;

except to the extent required by law or by contracts in existence as of March 11, 2007 or by the Company benefit plans:

increase the compensation or benefits of any of its employees, independent contractors or directors, other than immaterial increases in base salary in the ordinary course of business consistent with past practice;

amend or adopt any compensation or benefit plan including any pension, retirement, profit-sharing, bonus or other employee benefit or welfare benefit plan (other than any such adoption or amendment that does not materially increase the cost to Dollar General or any of its subsidiaries of maintaining the applicable compensation or benefit plan) with or for the benefit of independent contractors or directors; or

accelerate the vesting of, or the lapsing of restrictions with respect to, any stock options or other stock-based compensation;

(A) compromise, settle or agree to settle any suit, action, claim, proceeding or investigation (including any suit, action, claim, proceeding or investigation relating to the merger agreement or the transactions contemplated by the merger agreement), or consent to the same, other than compromises, settlements or agreements in the ordinary course of business consistent with past practice that involve only the payment of monetary damages (x) not in excess of \$5,000,000 individually or \$10,000,000 in the aggregate or (y) with respect to settlements of any workers' compensation claims, consistent with the reserves reflected in Dollar General's balance sheet at November 3, 2006, in any case without the imposition of material equitable relief on, or the admission of wrongdoing by, Dollar General or any of its subsidiaries or (B) waive any claims or rights of substantial value;

amend or waive any material provision of its organizational documents or of the Dollar General Rights Agreement or, in the case of Dollar General, enter into any agreement with any of its shareholders in their capacity as such;

enter into any "non-compete" or similar agreement that would materially restrict the businesses of the surviving corporation or its subsidiaries or affiliates;

enter into any new line of business outside its existing business;

enter into any new lease or amend the terms of any existing lease of real property which would require payments over the remaining term of such lease in excess of \$10 million (excluding any renewal terms);

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adopt or enter into a plan of complete or partial liquidation, dissolution, merger, consolidation, restructuring, recapitalization or other reorganization (other than among wholly owned subsidiaries);

implement or adopt any material change in its financial accounting principles, practices or methods, other than as required by GAAP, applicable law or regulatory guidelines;

other than in the ordinary course of business consistent with past practice:

change any method of tax accounting;

enter into any closing agreement with respect to material taxes;

settle or compromise any material liability for taxes;

make, revoke or change any material tax election;

agree to any adjustment of any material tax attribute

file or surrender any claim for a material refund of taxes;

execute or consent to any waivers extending the statutory period of limitations with respect to the collection or assessment of material taxes; or

file any material amended tax return or obtain any material tax ruling; or

agree or commit to do any of the foregoing.

Except as required by applicable law or contemplated by the merger agreement, the parties have agreed not to take any action between March 11, 2007 and the effective time of the merger which is intended to or which would reasonably be expected to materially adversely affect or materially delay the ability of such party to the merger agreement to (a) obtain any governmental or regulatory approvals required for the transactions contemplated by the merger agreement, (b) perform its covenants and agreements under the merger agreement or (c) consummate the transactions contemplated by the merger agreement, or that would otherwise materially delay or prohibit consummation of the merger and the other transactions contemplated by the merger agreement.

### **Shareholders' Meeting**

The merger agreement requires us, as promptly as reasonably practicable, to call, give notice of and hold a meeting of our shareholders for the purpose of obtaining the vote of our shareholders necessary to satisfy the vote condition described in " Conditions to the Merger" beginning on page 55. Subject to our board of directors withdrawing or modifying its recommendation that our shareholders vote in favor of approval of the merger agreement and the transactions contemplated by the merger agreement as described in " No Solicitation of Transactions" beginning on page 50, we are required to use reasonable best efforts to solicit shareholder proxies in favor of the approval of the merger agreement. Unless the merger agreement has been terminated prior to the meeting of shareholders, we are required to submit the merger agreement to a vote of shareholders even if our board has approved, endorsed or recommended another takeover proposal or withdraws, modifies or amends its recommendation, as described in " No Solicitation of Transactions" beginning on page 50, that our shareholders vote in favor of approval of the merger agreement.

**No Solicitation of Transactions**

We have agreed that between March 11, 2007 and the effective time of the merger, we and our subsidiaries (and our and our subsidiaries' officers, directors, employees, agents and representatives) will not directly or indirectly:

initiate, solicit, knowingly encourage (including by providing information) or knowingly facilitate any inquiries, proposals or offers with respect to any Alternative Proposal (as defined below) or any inquiry, proposal or offer that is reasonably likely to lead to an Alternative Proposal;

engage, continue or participate in any negotiations concerning, or provide or cause to be provided any information or data relating to us or any of our subsidiaries in connection with, or have any discussions (other than to state that such persons are not permitted to have discussions) with any person relating to, or that is reasonably likely to lead to, an actual or proposed Alternative Proposal, or otherwise knowingly encourage or knowingly facilitate any effort or attempt to make or implement an Alternative Proposal, including exempting any person (other than Parent and Merger Sub and their affiliates) from our rights agreement;

approve, endorse or recommend, or propose publicly to approve, endorse or recommend, any Alternative Proposal;

approve, endorse or recommend, or propose to approve, endorse or recommend, or execute or enter into, any letter of intent, agreement in principle, merger agreement, acquisition agreement, option agreement or other similar agreement relating to any Alternative Proposal; or

resolve to propose or agree to do any of the foregoing.

In addition, we have agreed to, and to cause our subsidiaries and representatives to, cease any existing solicitations, discussions or negotiations existing on March 11, 2007 with any person who has made or indicated an intention to make an Alternative Proposal, and to request the prompt return or destruction of all confidential information previously furnished in connection therewith.

An "Alternative Proposal" is defined in the merger agreement to mean any inquiry, proposal or offer relating to, in a single transaction or series of transactions:

a merger, reorganization, consolidation, share exchange, business combination, recapitalization, liquidation, dissolution or similar transaction involving a direct or indirect acquisition of Dollar General (or any subsidiaries of Dollar General whose business constitutes 20% or more of the net revenues, net income or assets (based on fair market value) of Dollar General and its subsidiaries, taken as a whole); or

the acquisition (including by way of tender or self-tender or exchange offer) in any manner, directly or indirectly, of over 20% of (x) our common stock or (y) any class of equity securities or consolidated total assets (based on fair market value) of Dollar General and its subsidiaries.

We have agreed that, if we receive:

any inquiries, proposals or offers regarding any Alternative Proposal;

any request for information (other than requests not reasonably expected to be related or lead to an Alternative Proposal); or

any inquiry or request for discussions or negotiations regarding or that would reasonably be expected to result in an Alternative Proposal,

we will notify Parent promptly (and in any event within 24 hours) of the identity of the person making the Alternative Proposal or indication or inquiry or offer or request and the material terms and conditions of any such Alternative Proposal or indication or inquiry or offer. We have agreed to keep

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Parent reasonably informed on a reasonably current basis of the status of any such discussions or negotiations regarding any such Alternative Proposal or indication or inquiry or offer or any material developments relating thereto.

We have also agreed that neither we nor any of our subsidiaries will terminate, waive, amend, release or modify any provision of any existing standstill or confidentiality or similar agreement to which we or one of our affiliates or representatives is a party and that we and our subsidiaries will enforce the provisions of any such agreement, except to the extent, after consultation with outside counsel, our board determines that failure to take such action could be inconsistent with its fiduciary obligations to our shareholders.

We may, however, prior to obtaining the requisite vote of our shareholders at the special meeting:

engage in discussions or negotiations with, or furnish or disclose non-public information to, a person who has made a bona fide written Alternative Proposal received after March 11, 2007 and not solicited by us in violation of our above-described obligations, so long as:

we enter into a confidentiality agreement with that person containing terms substantially similar to, and no less favorable to us than, those set forth in the confidentiality agreement between us and KKR;

our board has determined in good faith, after consultation with its outside counsel and financial advisors, that the Alternative Proposal constitutes or is reasonably expected to lead to a "Superior Proposal" (as defined below), and that failure to take such action would be inconsistent with our board's fiduciary obligations to our shareholders; and

if we are furnishing material non-public information to such a person, we simultaneously disclose that information to Parent (if we have not already done so) prior to or concurrently with providing such information to such other person; and

withdraw or modify or qualify our board recommendation in a manner adverse to Parent or Merger Sub, if our board of directors determines in good faith, after consultation with outside counsel and its financial advisor, that

a bona fide written Alternative Proposal received by us constitutes a Superior Proposal (after taking into account any adjustments to the terms of the merger made by Parent during a three business day negotiation period we must provide Parent) and the failure to take such action would be inconsistent with its fiduciary obligations to our shareholders; or

in the absence of an Alternative Proposal, the failure to take such action would be inconsistent with its fiduciary obligations to our shareholders.

A "Superior Proposal" is defined as any bona fide written Alternative Proposal on terms which our board of directors determines in good faith, after consultation with its outside legal counsel and financial advisors, to be more favorable from a financial point of view to the holders of our common stock than the merger, taking into account all the terms and conditions of the proposal (including any regulatory aspects), and the merger agreement (including any changes to the terms of the merger agreement proposed by Parent in good faith to us in response to such proposal or otherwise) and which our board of directors believes is reasonably capable of being completed in accordance with its terms, taking into account all financial, regulatory, legal and other aspects of the proposal; *provided* that for purposes of the definition of "Superior Proposal," the references to "20%" in the definition of Alternative Proposal are deemed to be references to "50%."

These provisions will not prevent our board of directors from making certain disclosures contemplated by the securities laws, except that in specified circumstances our board of directors will be deemed to have withdrawn its recommendation unless it expressly reaffirms its recommendation in

favor of approval of the merger agreement at least two business days prior to the special meeting of shareholders.

#### **Employee Benefits**

The parties have agreed that, for a period of two years after the completion of the merger, the surviving corporation will:

provide our current employees with annual base salary and base wages, cash incentive compensation opportunities and benefits, in each case, that are no less favorable than those that we provide (excluding equity-based compensation) as of immediately prior to the effective time of the merger; and

provide terminated employees (other than those covered by an individual agreement providing severance benefits outside of our severance policies) with severance benefits at the level and pursuant to the terms of the Dollar General severance plan, as amended substantially in the form set forth in the merger agreement.

From and after the effective time of the merger, Parent will cause the surviving corporation and its subsidiaries to honor all obligations under Dollar General's benefit plans and compensation and severance arrangements and agreements in accordance with their terms as in effect immediately before the effective time of the merger and recognize past service for purposes of participation and benefit accrual generally.

#### **Agreement to Take Further Action and to Use Reasonable Best Efforts**

Each of the parties to the merger agreement has agreed to use its reasonable best efforts to do anything necessary, proper or advisable to ensure that the conditions to the merger are satisfied and that the merger is consummated as promptly as practicable. In particular, the parties have agreed to use such efforts to make necessary filings and obtain necessary governmental consents and approvals, including those required under the HSR Act. To the extent necessary to obtain such antitrust approvals, the parties have agreed to sell, divest or dispose of any assets or businesses to the extent necessary to avoid an injunction or other order which would prevent or materially delay the closing (except that we will only agree to dispose of any of our assets or our businesses if such disposition is conditional on the closing). We have also agreed to use our reasonable best efforts to obtain necessary consents or waivers from third parties (although no party is required to pay any consideration or incur any liability in connection with obtaining such consents or waivers), to defend any lawsuit challenging the merger or the merger agreement (subject to first having used reasonable best efforts to negotiate a reasonable resolution of any objections underlying the lawsuit), and to execute and deliver any additional documents necessary to complete the merger.

The parties have agreed to keep each other reasonably apprised of the status of matters relating to the completion of the merger and the other transactions contemplated by the merger agreement, including promptly furnishing the other with copies of notices or other written communications received from any third party and/or governmental entity. The parties have also agreed to give each other a reasonable opportunity to review in advance, and will consider in good faith the views of the other party in connection with, any proposed written communication to a governmental entity. To the extent practicable under the circumstances, the parties will not participate in any substantive meeting or discussion with a governmental entity in connection with the proposed transactions without consulting with the other party in advance and, to the extent permitted, giving the other party the opportunity to attend and participate. If any administrative or judicial proceeding is instituted (or threatened to be instituted) challenging the merger or any other transaction contemplated by the merger agreement, the parties will cooperate in all reasonable respects with each other and use their reasonable best efforts to

contest and resist the proceeding and any order, whether temporary, preliminary or permanent, prohibiting the merger or any related transaction.

#### **Financing Commitments; Company Cooperation**

Parent has agreed to use its reasonable best efforts to arrange the financing in connection with the merger on terms described in the equity and debt financing commitment letters delivered in connection with the signing of the merger agreement or other terms that would not adversely impact the ability of Parent or Merger Sub to timely consummate the merger and the other transactions contemplated by the merger agreement, including using its reasonable best efforts to:

negotiate definitive documents on the terms contained in the financing commitment letters (or other terms that would not adversely impact the ability of Parent or Merger Sub to timely consummate the merger and the other transactions contemplated by the merger agreement);

satisfy the conditions applicable to Parent in the definitive financing documents and consummate the financing at or before closing;

comply with its obligations under the financing commitment letters; and

enforce its rights under the financing commitment letters.

Parent has agreed to give us prompt notice upon learning of any material breach or any termination by any party of the financing commitment letters. Parent has also agreed to keep us informed on a reasonably current basis and in reasonable detail of the status of its efforts to arrange the financing (including providing us with copies of documents related to the financing).

Parent will be permitted to amend, modify or replace the debt commitment letters delivered in connection with the signing of the merger agreement with new financing commitments, so long as the change to the new commitment:

does not reduce the aggregate amount of the debt financing below the amount required to consummate the merger and the related transactions;

does not adversely amend or expand the conditions to the drawdown of the debt financing in any respect that would make the conditions less likely to be satisfied by October 31, 2007 or that would expand the possible circumstances under which the conditions would not be satisfied by October 31, 2007;

is not reasonably expected to delay the closing; or

is not otherwise adverse to our interests in any other material respect.

In the event that all conditions to the financing commitments (other than, in connection with the debt financing, the availability or funding of any of the equity financing) have been satisfied, Parent has agreed to, from and after the final day of the Marketing Period and subject to the satisfaction of the mutual closing conditions and the conditions to the obligation of Parent and Merger Sub to effect the merger, as described in " Conditions to the Merger" beginning on page 55, use its reasonable best efforts to cause the lenders and other persons providing such financing to fund the financing required to consummate the merger on the closing date.

In the event that Parent becomes aware of any event that makes procurement of any portion of the financing unlikely to occur as contemplated in the financing commitment letters or generally less likely as on the date of the merger agreement, Parent has agreed to notify us and to use its reasonable best efforts to obtain, as promptly as practicable but in no event later than one day prior to the closing date, replacement financing from alternative sources on terms no less favorable to Parent or Merger





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Sub and no more adverse to the ability of Parent to consummate the merger and related transactions (in each case, as determined in the reasonable judgment of Parent).

In the event that on the final day of the Marketing Period:

all or any portion of the debt financing to be accomplished through the placement of high yield securities has not been consummated;

all closing conditions described in " Conditions to the Merger" beginning on page 55 have been satisfied or waived (other than those conditions that by their nature will not be satisfied until the closing) and

the bridge financing is available substantially on the terms and conditions described in the debt commitment letters,

then Merger Sub shall borrow under and use the proceeds of the bridge financing to replace such affected portion of the high yield financing no later than the last day of the Marketing Period.

We have agreed to provide, and to cause our subsidiaries to provide, and to use reasonable best efforts to cause our representatives to provide, all cooperation reasonably requested by Parent in obtaining financing, including:

providing financial and other information as Parent reasonably requests in order to consummate the debt financing, including our financial statements and other financial data;

participating in meetings, drafting sessions and due diligence sessions;

assisting in the preparation of materials required in connection with the financing, provided that we and our subsidiaries are not required to issue any private placement memoranda or prospectuses in relation to high yield debt securities, and any such private placement memorandum or prospectuses will contain disclosure and financial statements reflecting the surviving corporation and/or its subsidiaries as the obligor;

cooperating with the marketing efforts for any of the debt financing, including helping to prepare for and participating in meetings, drafting sessions and due diligence sessions with prospective lenders, investors and rating agencies;

providing monthly financial statements to the extent we customarily prepare such financial statements;

entering into one or more credit or other agreements on terms satisfactory to Parent in connection with the debt financing immediately prior to the effective time of the merger to the extent direct borrowings or debt incurrences by us or our subsidiaries are contemplated by the debt commitment letters;

taking all corporate actions, subject to the occurrence of the closing, reasonably requested by Parent to permit consummation of the debt financing and the direct borrowing or incurrence of all proceeds of the debt financing, including any high yield financing, by the surviving corporation immediately following the effective time;

taking all actions reasonably necessary to permit potential lenders to evaluate our current assets, cash management and accounting systems, policies and procedures relating thereto for the purpose of establishing collateral agreements and to establish bank accounts and other accounts and blocked account agreements and lock box arrangements; and

executing and delivering necessary pledge, security, or other legal documents.

The merger agreement limits our obligation to incur any fees or liabilities with respect to the debt financing prior to the effective time of the merger. Parent has also agreed to reimburse us for all

reasonable out-of-pocket costs (including reasonable attorneys' fees) incurred in connection with our cooperation, and to indemnify us against losses we incur in connection with the arrangement of the financing and any information used in connection therewith, except with respect to any information provided by us.

#### **Other Covenants and Agreements**

The merger agreement contains additional agreements among Dollar General, Parent and Merger Sub relating to, among other things:

the filing of this proxy statement with the SEC, and cooperation in preparing this proxy statement and in responding to any comments received from the SEC on those documents;

actions necessary to exempt the transactions contemplated by the merger agreement and related agreements from the effect of any takeover statutes;

coordination of press releases and other public statements about the merger and the merger agreement;

indemnification and insurance of directors and officers, including maintaining, or providing a "tail" policy, to Dollar General's directors' and officers' liability insurance with a claims period of six years following the effective time of the merger;

giving Parent and its advisors access to our properties, contracts, books, records, officers, employees and agents;

taking certain actions with regard to Dollar General's outstanding 8<sup>5</sup>/<sub>8</sub>% Notes due June 15, 2010, including commencing a tender offer and related consent solicitation, provided that Dollar General's obligation to consummate the tender offer and consent solicitation will be subject to the closing of the merger;

notices of certain events, and consultation to mitigate any adverse consequences of those events;

actions necessary to exempt dispositions of equity securities by our directors and officers pursuant to the merger under Rule 16b-3 under the Exchange Act;

the payment of real estate transfer taxes; and

actions by Parent to cause Merger Sub to fulfill its obligations.

#### **Conditions to the Merger**

The obligations of the parties to complete the merger are subject to the satisfaction or waiver of the following mutual conditions:

*Shareholder Approval.* The merger agreement must be approved by the vote of holders of at least a majority of the votes entitled to be cast at the close of business on the record date.

*No Law or Orders.* No governmental entity of competent jurisdiction having enacted, issued or entered any order or injunction or legal prohibition which remains in effect that enjoins or otherwise prohibits completion of the merger or the other transactions contemplated by the merger agreement.

*Regulatory Approvals.* The waiting period under the HSR Act (and any extension thereof) must have expired or been terminated.

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Our obligation to complete the merger is subject to the satisfaction or waiver of the following additional conditions:

*Representations and Warranties.* Parent's and Merger Sub's representations and warranties must be true and correct as of March 11, 2007 and as of the closing date of the merger (unless any such representation or warranty is made only as of a specific date, in which event such representation or warranty must be true and correct only as of such specific date).

*Performance of Covenants.* Parent and Merger Sub must have performed, in all material respects, their covenants and agreements in the merger agreement.

*Officer's Certificate.* Parent must deliver to us at closing a certificate with respect to the satisfaction of the conditions relating to Parent's and Merger Sub's representations, warranties, covenants and agreements.

The obligations of Parent and Merger Sub to complete the merger are subject to the satisfaction or waiver of the following additional conditions:

*Representations and Warranties.* Our representations and warranties (other than our representations and warranties with respect to capitalization and absence of any Company Material Adverse Effect) must be true and correct (disregarding all qualifications or limitations as to "materiality," "Company Material Adverse Effect" and words of similar import set forth therein) as of March 11, 2007 and as of the closing date (except to the extent such representations and warranties expressly relate to an earlier date, in which case as of such earlier date), except where the failure of such representations and warranties to be true and correct would not, individually or in the aggregate, have a Company Material Adverse Effect. Our representations and warranties with respect to (i) capitalization must be true and correct in all material respects as of March 11, 2007 and as of the closing date (except to the extent such representations and warranties expressly relate to an earlier date, in which case as of such earlier date) and (ii) absence of any Company Material Adverse Effect must be true and correct as of March 11, 2007 and as of the closing date.

*Performance of Covenants.* We must have performed, in all material respects, our covenants and agreements in the merger agreement.

*Officer's Certificate.* We must deliver to Parent at closing an officer's certificate with respect to the satisfaction of the conditions relating to our representations, warranties, covenants and agreements.

### Termination

We and Parent may terminate the merger agreement by mutual written consent at any time before the completion of the merger (including after our shareholders have approved the merger agreement). In addition, either Parent or Dollar General may terminate the merger agreement at any time before the completion of the merger:

if the merger has not been completed by October 31, 2007, so long as the party seeking to terminate has not breached in any material respect its obligations under the merger agreement in any manner that has proximately caused the failure to consummate the merger on or before such date;

if any court of competent jurisdiction has issued or entered a final non-appealable order enjoining or prohibiting the completion of the merger, so long as the party seeking to terminate has used reasonable best efforts as may be required by the merger agreement to prevent, oppose and remove such injunction or restraint; or

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if the merger agreement has been submitted to our shareholders for approval and the required vote has not been obtained.

In addition, we may terminate the merger agreement at any time before the completion of the merger if:

Parent or Merger Sub has breached or failed to perform any of its representations, warranties, covenants or other agreements in the merger agreement and such breach or failure would result in the failure of a closing condition and cannot be cured by October 31, 2007, so long as we have given Parent 30 days' written notice and are not in material breach of our representations, warranties, covenants or other agreements in the merger agreement;

in order to enter into a transaction that is a Superior Proposal, if, prior to the receipt of our shareholder approval and at such time we are not in material breach of any of our obligations in the merger agreement regarding non-solicitation described above in " No Solicitation of Transactions" beginning on page 50:

our board of directors has received a Superior Proposal;

we have notified Parent in writing of our intention to terminate the merger agreement in order to enter into a transaction that is a Superior Proposal, and included with such notice the identity of the person making such proposal, the most current written agreement relating to the transaction that constitutes such Superior Proposal and all related transaction agreements;

at least three business days following Parent's receipt of the notice, and taking into account any revised proposal made by Parent since receipt of the notice, our board of directors has determined in good faith and after consultation with its outside counsel and financial advisors that such Superior Proposal continues to be more favorable to our shareholders from a financial point of view than the revised proposal made by Parent, if any (it being understood and agreed that during such three business day period we will, and will cause our representatives to, negotiate in good faith with Parent and its representatives, to the extent Parent wishes to negotiate), provided that any amendment to the terms of such Superior Proposal requires a new notice and a new three business day period; and

prior to or concurrently with such termination, we pay the termination fee described below in " Fees and Expenses" beginning on page 58; or

if the merger has not been completed on the second business day after the final day of the Marketing Period and all of the mutual closing conditions and all of the conditions to the obligations of Parent and Merger Sub have been satisfied and at the time of such termination such conditions continue to be satisfied.

Parent may terminate the merger agreement at any time before the completion of the merger if:

we have breached or failed to perform any of our representations, warranties, covenants or other agreements in the merger agreement and such breach or failure would result in the failure of a closing condition and cannot be cured by October 31, 2007, so long as Parent has given us 30 days' written notice and is not in material breach of its representations, warranties, covenants or other agreements in the merger agreement;

our board of directors:

withdraws, modifies or qualifies in a manner adverse to Parent or Merger Sub its recommendation that our shareholders approve the merger agreement and the transactions contemplated by the merger agreement;

fails to include in the proxy statement its recommendation to our shareholders that they approve the merger agreement and the transactions contemplated by the merger agreement;

approves, endorses or recommends, or publicly proposes to approve, endorse or recommend, any Alternative Proposal; or

fails to recommend against acceptance of a tender or exchange offer for any outstanding shares of our capital stock that constitutes an Alternative Proposal (other than by Parent or any of its affiliates), including, for these purposes, by taking no position with respect to the acceptance of such tender offer or exchange offer by its shareholders, which will constitute a failure to recommend against acceptance of such tender offer or exchange offer, within ten business days after commencement; or

we have notified Parent in writing of our intention to terminate the merger agreement in order to enter into a transaction that is a Superior Proposal.

### **Fees and Expenses**

In general, all expenses incurred by a party to the merger agreement will be paid by that party (except for certain expenses incurred by Dollar General in connection with the debt financing, as described above in " Financing Commitments; Company Cooperation" beginning on page 53). However, if the merger agreement is terminated in certain circumstances described below, we may be required to pay as directed by Parent, or Parent may be required to pay to us, a termination fee of \$225 million. In addition, if Dollar General or Parent fails to pay any termination fee when due, it will be obligated to pay the costs and expenses (including legal fees) incurred in connection with any action to collect payment of the fee.

#### ***Fees and Expenses Payable by Dollar General***

We will have to pay, as directed by Parent, a termination fee of \$225 million in cash if:

we terminate the merger agreement to enter into a definitive agreement with respect to a Superior Proposal as described above in " Termination" beginning on page 56 (in which case we will pay Parent concurrently with the termination of the merger agreement); or

Parent terminates the merger agreement for one of the following reasons (in which case we will pay as directed by Parent promptly following the termination of the merger agreement and in any event not later than two business days after delivery to Dollar General of notice of demand for payment):

we have (i) withdrawn, modified or qualified our recommendation in favor of the approval of the merger agreement, (ii) failed to include our recommendation that our shareholders approve the merger agreement and the transactions contemplated by the merger agreement in the proxy statement, (iii) have endorsed or recommended an Alternative Proposal or (iv) failed to recommend against acceptance of a tender or exchange offer, as described above in " Termination" beginning on page 56; or

we have notified Parent in writing of our intention to terminate the merger agreement in order to enter into a transaction that is a Superior Proposal.

We will also have to pay, as directed by Parent, a termination fee of \$225 million in cash promptly following the earlier of the execution of a definitive agreement with respect to, or the consummation

of, any transaction contemplated by an alternative takeover proposal (and in any event not later than two business days after delivery to Dollar General of notice of demand for payment) if:

a takeover proposal, or an intention to make a takeover proposal, for at least 50% of the equity securities, net revenue, net income or consolidated assets of Dollar General and its subsidiaries taken as a whole (or the intention of any person to make one) shall have been made directly to our shareholders or publicly announced or has otherwise become publicly known; and

one of the following occurs:

Dollar General or Parent terminates the merger agreement because the merger has not been completed by October 31, 2007;

Dollar General or Parent terminates the merger agreement because of the failure to obtain the requisite shareholder vote; or

Parent terminates the merger agreement because we have breached or failed to perform any of our representations, warranties, covenants or other agreements in the merger agreement and such breach or failure would result in the failure of a closing condition and cannot be cured by October 31, 2007; and

we enter into, or submit to our shareholders for adoption, a definitive agreement implementing any takeover proposal, or consummate any takeover proposal for at least 50% of the equity securities, net revenue, net income or consolidated assets of Dollar General and its subsidiaries taken as a whole (whether or not such proposal was the same proposal announced at the time of termination) within twelve months after the date of termination (in which case we must pay the termination fee before or at the time we enter into the definitive agreement or consummate the takeover proposal).

***Fees and Expenses Payable by Parent***

Parent has agreed to pay us a termination fee of \$225 million within two business days following termination if the merger agreement is terminated:

by us because Parent or Merger Sub has breached or failed to perform any of its representations, warranties, covenants or other agreements in the merger agreement and such breach or failure would result in the failure of a closing condition and cannot be cured by October 31, 2007; and

there is no state of facts or circumstances that would reasonably be expected to prevent the mutual closing conditions and the conditions to the obligations of Parent and Merger Sub to complete the merger (other than the condition with respect to the delivery of officer's certificates) from being satisfied by October 31, 2007.

Parent will also pay such fee if the merger agreement is terminated by us because the merger has not been completed on the second business day after the final day of the Marketing Period and all of the mutual closing conditions and all of the conditions to the obligations of Parent and Merger Sub to complete the merger have been satisfied and at the time of such termination such conditions continue to be satisfied.

The merger agreement provides that our right to receive payment of the \$225 million termination fee in the circumstances described above, and the guarantee thereof pursuant to the Guarantee (see "Financing of the Merger Guarantee; Remedies" beginning on page 31), is the sole and exclusive remedy available to us, our affiliates and our subsidiaries against Parent, Merger Sub, the guarantor and any of their respective former, current or future general or limited partners, shareholders, managers, members, directors, officers, affiliates or agents for the loss suffered as a result of the failure



of the merger to be completed. We have agreed that we will in no event seek to recover on money damages in excess of \$225 million from any of the foregoing persons, and we may not seek specific performance of the merger.

**Amendment and Waiver**

The merger agreement may be amended by a written agreement signed by us, Parent and Merger Sub at any time prior to the completion of the merger, whether or not our shareholders have approved the merger agreement. However, no amendment that requires further approval of our shareholders will be made without obtaining that approval. At any time prior to the completion of the merger, we, Parent or Merger Sub may waive the other party's compliance with certain provisions of the merger agreement.

**MARKET PRICE OF COMMON STOCK**

Our common stock is listed for trading on the New York Stock Exchange ("NYSE") under the symbol "DG." The following table sets forth, for the fiscal quarters indicated, dividends and the high and low intra-day sales prices per share of Dollar General common stock as reported on the NYSE composite tape.

	Common Stock		
	High	Low	Dividends Declared
<b>FISCAL YEAR ENDED FEBRUARY 3, 2006</b>			
First Quarter	\$ 22.80	\$ 19.83	\$ .040
Second Quarter	\$ 22.50	\$ 19.35	\$ .045
Third Quarter	\$ 20.39	\$ 17.75	\$ .045
Fourth Quarter	\$ 19.84	\$ 16.47	\$ .045
<b>FISCAL YEAR ENDED FEBRUARY 2, 2007</b>			
First Quarter	\$ 18.32	\$ 17.01	\$ .05
Second Quarter	\$ 17.26	\$ 13.02	\$ .05
Third Quarter	\$ 14.80	\$ 12.10	\$ .05
Fourth Quarter	\$ 17.88	\$ 13.54	\$ .05
<b>FISCAL YEAR ENDING FEBRUARY 1, 2008</b>			
First Quarter (through April 5, 2007)	\$ 21.40	\$ 16.21	\$ .05

The closing sale price of our common stock on the NYSE on March 9, 2007, the last trading day prior to the announcement of the merger, was \$16.78. The \$22.00 per share to be paid for each share of our common stock in the merger represents a premium of approximately 31% to the closing price on March 9, 2007 and a premium of approximately 29% to the average closing share price for the 30 trading days prior to the announcement of the merger.

On April 5, 2007, the most recent practicable date before this proxy statement was printed, the closing price for our common stock on the NYSE was \$21.04 per share. You are encouraged to obtain current market quotations for our common stock in connection with voting your shares.

**SUBMISSION OF SHAREHOLDER PROPOSALS**

If the merger is consummated we will not have public shareholders, and there will be no public participation in any future meetings of shareholders. However, if the merger is not completed, we expect to hold a 2007 annual meeting of shareholders. Shareholders may present proposals for action at the 2007 annual meeting, if held, only if they comply with the requirements of the proxy rules established by the Securities and Exchange Commission and our bylaws. For a shareholder proposal to be presented at the 2007 annual meeting, if held, it must have been received by us at our principal executive offices not later than December 30, 2006 or, if the 2007 annual meeting takes place more than 30 days from the anniversary date of the 2006 annual meeting, it must be received a reasonable time before we begin and mail the proxy statement for the 2007 annual meeting, in order to be included in the proxy statement and proxy card for any such 2007 annual meeting. In addition, if we were not notified of a shareholder proposal by the applicable deadline noted above, then the proxies held by our management may provide the discretion to vote against such shareholder proposal, even though the proposal is not discussed in our proxy materials sent in connection with the 2007 annual meeting of shareholders. In order to introduce other new business at the 2007 annual meeting, you must have provided written notice to us no later than the applicable deadline noted above and complied with the advance notice provisions of our bylaws. Shareholder proposals should be mailed to Corporate Secretary, Dollar General Corporation, 100 Mission Ridge, Goodlettsville, TN 37072. As provided in our Bylaws, shareholder proposals submitted outside of the process described in Rule 14a-8

of the Securities Exchange Act of 1934, as amended, will not be considered at any annual meeting of shareholders.

**SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The following table shows the amount of our common stock beneficially owned by those who, as of March 29, 2007, were known by us to beneficially own more than 5% of our common stock. Unless otherwise noted, these persons have sole voting and investment power over the shares listed. Percentage computations are based on 314,043,661 shares of our stock outstanding as of March 29, 2007.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class
FMR Corp. 82 Devonshire Street Boston, MA 02109	31,450,642*	10.01%

\*  
Based solely on the Schedule 13G/A filed by FMR Corp. ("FMR") and Edward C. Johnson 3d, Chairman of FMR ("Johnson"), on February 14, 2007, the shares of common stock beneficially owned by FMR and Johnson consist of the following: (a) 31,195,620 shares beneficially owned by Fidelity Low Priced Stock Fund (the "Fund") for which Fidelity Management & Research Company ("Fi