

DOLLAR GENERAL CORP  
Form 10-Q  
December 05, 2011

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

**QUARTERLY REPORT**

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

**For the quarterly period ended October 28, 2011**

**Commission File Number: 001-11421**

**DOLLAR GENERAL CORPORATION**

(Exact name of Registrant as specified in its charter)

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

**61-0502302**  
(I.R.S. Employer

Identification No.)

**100 MISSION RIDGE**  
**GOODLETTSVILLE, TN 37072**

(Address of principal executive offices, zip code)

Edgar Filing: DOLLAR GENERAL CORP - Form 10-Q

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

The registrant had 342,263,844 shares of common stock outstanding on November 30, 2011.

---

## PART I FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS.

## DOLLAR GENERAL CORPORATION AND SUBSIDIARIES

## CONDENSED CONSOLIDATED BALANCE SHEETS

*(In thousands)*

|   | October 28,<br>2011<br>(Unaudited) | January 28,<br>2011<br>(see Note 1) |
|---|------------------------------------|-------------------------------------|
| <b>ASSETS</b>                               |                                    |                                     |
| Current assets:                             |                                    |                                     |
| Cash and cash equivalents                   | \$ 118,580                         | \$ 497,446                          |
| Merchandise inventories                     | 2,089,722                          | 1,765,433                           |
| Income taxes receivable                     | 48,807                             |                                     |
| Prepaid expenses and other current assets   | 135,746                            | 104,946                             |
| Total current assets                        | 2,392,855                          | 2,367,825                           |
| Net property and equipment                  | 1,716,797                          | 1,524,575                           |
| Goodwill                                    | 4,338,589                          | 4,338,589                           |
| Intangible assets, net                      | 1,240,733                          | 1,256,922                           |
| Other assets, net                           | 46,908                             | 58,311                              |
| Total assets                                | \$ 9,735,882                       | \$ 9,546,222                        |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b> |                                    |                                     |
| Current liabilities:                        |                                    |                                     |
| Current portion of long-term obligations    | \$ 763                             | \$ 1,157                            |
| Accounts payable                            | 1,132,544                          | 953,641                             |
| Accrued expenses and other                  | 414,977                            | 347,741                             |
| Income taxes payable                        | 1,111                              | 25,980                              |
| Deferred income taxes                       | 22,826                             | 36,854                              |
| Total current liabilities                   | 1,572,221                          | 1,365,373                           |
| Long-term obligations                       | 2,721,061                          | 3,287,070                           |
| Deferred income taxes                       | 647,329                            | 598,565                             |
| Other liabilities                           | 233,950                            | 231,582                             |
| Commitments and contingencies               |                                    |                                     |
| Redeemable common stock                     | 7,309                              | 9,153                               |
| Shareholders' equity:                       |                                    |                                     |
| Preferred stock                             |                                    |                                     |
| Common stock                                | 299,514                            | 298,819                             |
| Additional paid-in capital                  | 2,957,267                          | 2,945,024                           |
| Retained earnings                           | 1,305,107                          | 830,932                             |
| Accumulated other comprehensive loss        | (7,876)                            | (20,296)                            |
| Total shareholders' equity                  | 4,554,012                          | 4,054,479                           |
| Total liabilities and shareholders' equity  | \$ 9,735,882                       | \$ 9,546,222                        |

*See notes to condensed consolidated financial statements.*

**DOLLAR GENERAL CORPORATION AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF INCOME**

(Unaudited)

*(In thousands, except per share amounts)*

|  | For the 13 weeks ended |                     | For the 39 weeks ended |                     |
|--|------------------------|---------------------|------------------------|---------------------|
|  | October 28,<br>2011    | October 29,<br>2010 | October 28,<br>2011    | October 29,<br>2010 |
| Net sales                                    | \$ 3,595,224           | \$ 3,223,427        | \$ 10,622,115          | \$ 9,548,896        |
| Cost of goods sold                           | 2,479,422              | 2,212,759           | 7,270,574              | 6,502,493           |
| Gross profit                                 | 1,115,802              | 1,010,668           | 3,351,541              | 3,046,403           |
| Selling, general and administrative expenses | 804,885                | 736,334             | 2,368,977              | 2,180,589           |
| Operating profit                             | 310,917                | 274,334             | 982,564                | 865,814             |
| Interest income                              | (10)                   | (90)                | (55)                   | (128)               |
| Interest expense                             | 38,642                 | 67,235              | 164,886                | 208,583             |
| Other (income) expense                       | 53                     | 8,312               | 60,564                 | 14,983              |
| Income before income taxes                   | 272,232                | 198,877             | 757,169                | 642,376             |
| Income tax expense                           | 101,068                | 70,757              | 282,994                | 237,065             |
| Net income                                   | \$ 171,164             | \$ 128,120          | \$ 474,175             | \$ 405,311          |
| <b>Earnings per share:</b>                   |                        |                     |                        |                     |
| Basic  | \$ 0.50                | \$ 0.38             | \$ 1.39                | \$ 1.19             |
| Diluted                                      | \$ 0.50                | \$ 0.37             | \$ 1.37                | \$ 1.18             |
| <b>Weighted average shares outstanding:</b>  |                        |                     |                        |                     |
| Basic  | 341,955                | 341,062             | 341,670                | 340,961             |
| Diluted                                      | 345,777                | 344,739             | 345,598                | 344,628             |

*See notes to condensed consolidated financial statements.*

**DOLLAR GENERAL CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Unaudited)

*(In thousands)*

|   | For the 39 weeks ended |                     |
|---|------------------------|---------------------|
|   | October 28,<br>2011    | October 29,<br>2010 |
| <i>Cash flows from operating activities:</i>  |                        |                     |
| Net income  | \$ 474,175             | \$ 405,311          |
| Adjustments to reconcile net income to net cash provided by operating activities:                 |                        |                     |
| Depreciation and amortization   | 204,771                | 189,739             |
| Deferred income taxes   | 23,977                 | 31,620              |
| Tax benefit of stock options  | (16,101)               | (6,413)             |
| Loss on debt retirement, net  | 60,303                 | 14,576              |
| Non-cash share-based compensation   | 10,969                 | 11,620              |
| Other non-cash gains and losses   | 31,656                 | 7,920               |
| Change in operating assets and liabilities:   |                        |                     |
| Merchandise inventories   | (350,932)              | (366,903)           |
| Prepaid expenses and other current assets   | (30,899)               | (26,412)            |
| Accounts payable  | 164,336                | 146,933             |
| Accrued expenses and other  | 89,993                 | 1,091               |
| Income taxes  | (57,575)               | (4,178)             |
| Other   | (174)                  | (1,108)             |
| Net cash provided by operating activities   | 604,499                | 403,796             |
| <i>Cash flows from investing activities:</i>  |                        |                     |
| Purchases of property and equipment   | (363,099)              | (259,243)           |
| Proceeds from sale of property and equipment  | 729                    | 868                 |
| Net cash used in investing activities   | (362,370)              | (258,375)           |
| <i>Cash flows from financing activities:</i>  |                        |                     |
| Issuance of common stock  | 177                    | 599                 |
| Repayments of long-term obligations   | (911,708)              | (130,654)           |
| Borrowings under revolving credit agreement   | 1,485,000              |                     |
| Repayments of borrowings under revolving credit agreement   | (1,197,200)            |                     |
| Repurchases of common stock and settlement of equity awards, net of employee taxes paid           | (13,365)               | (5,949)             |
| Tax benefit of stock options  | 16,101                 | 6,413               |
| Net cash used in financing activities   | (620,995)              | (129,591)           |
| Net increase (decrease) in cash and cash equivalents  | (378,866)              | 15,830              |
| Cash and cash equivalents, beginning of period  | 497,446                | 222,076             |
| Cash and cash equivalents, end of period  | \$ 118,580             | \$ 237,906          |
| <i>Supplemental schedule of non-cash investing and financing activities:</i>                      |                        |                     |
| Purchases of property and equipment awaiting processing for payment, included in Accounts payable | \$ 44,225              | \$ 24,046           |

See notes to condensed consolidated financial statements.



**DOLLAR GENERAL CORPORATION AND SUBSIDIARIES**

**Notes to Condensed Consolidated Financial Statements**

**(Unaudited)**

**1. Basis of presentation**

The accompanying unaudited condensed consolidated financial statements of Dollar General Corporation and its subsidiaries (the Company) have been prepared in accordance with accounting principles generally accepted in the United States of America ( U.S. GAAP ) for interim financial information and are presented in accordance with the requirements of Form 10-Q and Rule 10-01 of Regulation S-X. Such financial statements consequently do not include all of the disclosures normally required by U.S. GAAP or those normally made in the Company's Annual Report on Form 10-K, including the condensed consolidated balance sheet as of January 28, 2011, which has been derived from the audited consolidated financial statements at that date. Accordingly, the reader of this Quarterly Report on Form 10-Q should refer to the Company's Annual Report on Form 10-K for the fiscal year ended January 28, 2011 for additional information.

The Company's fiscal year ends on the Friday closest to January 31. Unless the context requires otherwise, references to years contained herein pertain to the Company's fiscal year. The Company's 2011 fiscal year will be a 53-week accounting period that will end on February 3, 2012 and the 2010 fiscal year was a 52-week accounting period that ended on January 28, 2011.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the Company's customary accounting practices. In management's opinion, all adjustments (which are of a normal recurring nature) necessary for a fair presentation of the consolidated financial position as of October 28, 2011 and results of operations for the 13-week and 39-week accounting periods ended October 28, 2011 and October 29, 2010 have been made.

The preparation of financial statements and related disclosures in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

The Company uses the last-in, first-out (LIFO) method of valuing inventory. An actual valuation of inventory under the LIFO method is made at the end of each year based on the inventory levels and costs at that time. Accordingly, interim LIFO calculations are based on management's estimates of expected year-end inventory levels, sales for the year and the expected rate of inflation/deflation for the year. The interim LIFO calculations are subject to adjustment in the final year-end LIFO inventory valuation. The Company recorded a LIFO provision of \$11.1 million and zero in the respective 13-week periods, and \$25.4 million and \$0.7 million in the respective 39-week periods, ended October 28, 2011 and October 29, 2010. In addition, ongoing estimates of inventory shrinkage and initial markups and markdowns are



included in the interim cost of goods sold calculation. Because the Company's business is moderately seasonal, the results for interim periods are not necessarily indicative of the results to be expected for the entire year.

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

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

## 2. Comprehensive income

Comprehensive income consists of the following:

| (in thousands)   | 13 Weeks Ended      |                     | 39 Weeks Ended      |                     |
|--|---------------------|---------------------|---------------------|---------------------|
|  | October 28,<br>2011 | October 29,<br>2010 | October 28,<br>2011 | October 29,<br>2010 |
| Net income   | \$ 171,164          | \$ 128,120          | \$ 474,175          | \$ 405,311          |
| Unrealized net gain on hedged transactions, net of income tax expense of \$1,983, \$1,774, \$7,972, and \$5,240, respectively (see Note 7) | 3,105               | 2,912               | 12,419              | 7,412               |
| Comprehensive income   | \$ 174,269          | \$ 131,032          | \$ 486,594          | \$ 412,723          |

## 3. Earnings per share

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

|                                       | 13 Weeks Ended October 28, 2011 |         |                  | 13 Weeks Ended October 29, 2010 |         |                  |
|---------------------------------------|---------------------------------|---------|------------------|---------------------------------|---------|------------------|
|                                       | Net Income                      | Shares  | Per Share Amount | Net Income                      | Shares  | Per Share Amount |
| Basic earnings per share              | \$ 171,164                      | 341,955 | \$ 0.50          | \$ 128,120                      | 341,062 | \$ 0.38          |
| Effect of dilutive share-based awards |                                 | 3,822   |                  |                                 | 3,677   |                  |
| Diluted earnings per share            | \$ 171,164                      | 345,777 | \$ 0.50          | \$ 128,120                      | 344,739 | \$ 0.37          |

Edgar Filing: DOLLAR GENERAL CORP - Form 10-Q

|                                       | 39 Weeks Ended October 28, 2011 |         |                     | 39 Weeks Ended October 29, 2010 |         |                     |
|---------------------------------------|---------------------------------|---------|---------------------|---------------------------------|---------|---------------------|
|                                       | Net<br>Income                   | Shares  | Per Share<br>Amount | Net<br>Income                   | Shares  | Per Share<br>Amount |
| Basic earnings per share              | \$ 474,175                      | 341,670 | \$ 1.39             | \$ 405,311                      | 340,961 | \$ 1.19             |
| Effect of dilutive share-based awards |                                 | 3,928   |                     |                                 | 3,667   |                     |
| Diluted earnings per share            | \$ 474,175                      | 345,598 | \$ 1.37             | \$ 405,311                      | 344,628 | \$ 1.18             |

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

Options to purchase shares of common stock that were outstanding at the end of the respective periods, but were not included in the computation of diluted earnings per share because the effect of exercising such options would be antidilutive, were 0.3 million in each of the periods ended October 28, 2011 and October 29, 2010, respectively.

#### 4. Income taxes

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

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

The Internal Revenue Service ( IRS ) is examining the Company's federal income tax returns for fiscal years 2006, 2007, and 2008. The 2005 and earlier years are not open for examination. The 2009 and 2010 fiscal years, while not currently under examination, are subject to examination at the discretion of the IRS. The Company has various state income tax examinations that are currently in progress. Generally, the Company's tax years ended in 2007 and later remain open for examination by the various state taxing authorities.

As of October 28, 2011, the total reserves for uncertain tax benefits, interest expense related to income taxes and potential income tax penalties were \$42.4 million, \$1.0 million and \$0.6 million, respectively, for a total of \$44.0 million. Of this amount, \$0.2 million and \$41.4 million are reflected in current liabilities as Accrued expenses and other and in noncurrent Other liabilities, respectively, in the condensed consolidated balance sheet with the remaining \$2.4 million reducing deferred tax assets related to net operating loss carry forwards.

The Company believes it is reasonably possible that the reserve for uncertain tax positions may be reduced by approximately \$30.4 million in the coming twelve months



principally as a result of the settlement of currently ongoing income tax examinations. The reasonably possible change of \$30.4 million is included in current liabilities in Accrued expenses and other in the amount of \$0.2 million and in noncurrent Other liabilities in the amount of \$30.2 million in the condensed consolidated balance sheet as of October 28, 2011. Also, as of October 28, 2011, approximately \$42.4 million of the reserve for uncertain tax positions would impact the Company's effective income tax rate if the Company were to recognize the tax benefit for these positions.

The effective income tax rates for the respective 13-week and 39-week periods ended October 28, 2011 were 37.1% and 37.4%, compared to rates of 35.6% and 36.9% for the respective 13-week and 39-week periods ended October 29, 2010, a net increase of 1.5% for the 13-week period and 0.5% for the 39-week period. The increase in the income tax expense rates was due principally to a reduction in income tax reserves in the 2010 periods that did not reoccur in the 2011 periods.

## **5. Current and long-term obligations**

On July 15, 2011, the Company redeemed all \$839.3 million outstanding aggregate principal amount of its 10.625% Senior Notes due 2015 (the Senior Notes) at a redemption price of 105.313% of the principal amount, plus accrued and unpaid interest. The redemption was effected in accordance with the indenture governing the Senior Notes pursuant to a notice dated May 31, 2011. The pretax loss on this transaction of \$58.1 million is reflected in Other (income) expense in the Company's condensed consolidated statement of income for the 39-week period ended October 28, 2011. The Company funded the redemption price for the Senior Notes with cash on hand and borrowings under its senior secured asset-based revolving credit facility (the ABL Facility), which had a balance of \$287.8 million at October 28, 2011.

On April 29, 2011, the Company repurchased in the open market \$25.0 million aggregate principal amount of Senior Notes at a price of 107.0% plus accrued and unpaid interest, funded with cash on hand. The pretax loss on this transaction of \$2.2 million is reflected in Other (income) expense in the Company's condensed consolidated statement of income for the 39-week period ended October 28, 2011.

On September 29, 2010, the Company repurchased in the open market \$65.0 million aggregate principal amount of Senior Notes at a price of 110.75% of the principal amount, plus accrued and unpaid interest, funded with cash on hand. The pretax loss on this transaction of \$8.2 million is reflected in Other (income) expense in the Company's condensed consolidated statement of income for the 13-week and 39-week periods ended October 29, 2010.

On May 6, 2010, the Company repurchased in the open market \$50.0 million aggregate principal amount of Senior Notes at a price of 111.0% plus accrued and unpaid interest, funded with cash on hand. The pretax loss on this transaction of \$6.5 million is reflected in Other (income) expense in the Company's condensed consolidated statement of income for the 39-week period ended October 29, 2010.

**6. Assets and liabilities measured at fair value**

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

The Company has determined that the majority of the inputs used to value its derivative financial instruments using the income approach fall within Level 2 of the fair value hierarchy. However, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by itself and its counterparties. As of October 28, 2011, the Company has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and has determined that the credit valuation adjustments are not significant to the overall valuation of its derivatives. As a result, the Company has classified its derivative valuations, as discussed in detail in Note 7, in Level 2 of the fair value hierarchy. The Company's long-term obligations classified in Level 2 of the fair value hierarchy are valued at cost. The Company does not have any fair value measurements using significant unobservable inputs (Level 3) as of October 28, 2011.

| (In thousands)                       | Quoted Prices in<br>Active Markets<br>for Identical<br>Assets and<br>Liabilities<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) | Balance at<br>October 28,<br>2011 |
|--------------------------------------|---|---|--|-----------------------------------|
| <b>Assets:</b>                       |   |   |  |                                   |
| Trading securities (a)               | \$ 6,741  | \$  | \$   | \$ 6,741                          |
| <b>Liabilities:</b>                  |   |   |  |                                   |
| Long-term obligations (b)            | 2,760,831   | 19,827  |  | 2,780,658                         |
| Derivative financial instruments (c) |   | 15,115  |  | 15,115                            |
| Deferred compensation (d)            | 18,141  |   |  | 18,141                            |

(a) Reflected at fair value in the condensed consolidated balance sheet as Prepaid expenses and other current assets of \$1,756 and Other assets, net of \$4,985.

(b) Reflected at book value in the condensed consolidated balance sheet as Current portion of long-term obligations of \$763 and Long-term obligations of \$2,721,061.

(c) Reflected in the condensed consolidated balance sheet as Accrued expenses and other current liabilities of \$7,842 and non-current Other liabilities of \$7,273.

(d) Reflected at fair value in the condensed consolidated balance sheet as Accrued expenses and other current liabilities of \$1,761 and non-current Other liabilities of \$16,380.

**7. Derivatives and hedging activities**

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

**Risk management objective of using derivatives**

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

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

**Cash flow hedges of interest rate risk**

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

The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in Accumulated other comprehensive income (loss) (also referred to as OCI) and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. During the 13-week and 39-week periods ended October 28, 2011 and October 29, 2010, such derivatives were used to hedge the variable cash flows associated with existing variable-rate debt. The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings.

As of October 28, 2011, the Company had three interest rate swaps with a combined notional value of \$686.7 million that were designated as cash flow hedges of interest rate risk. Amounts reported in Accumulated other comprehensive loss related to derivatives will be reclassified to interest expense as interest payments are made on the Company's variable-rate debt. The Company terminated an interest rate swap in October 2008 due to the bankruptcy declaration of the counterparty bank.

The Company continues to report the net gain or loss related to the discontinued cash flow hedge in OCI, and such net gain or loss is expected to be reclassified into earnings during the original contractual terms of the swap agreement as the hedged interest payments are expected to occur as forecasted. During the next 52-week period, the Company estimates that an additional \$11.5 million will be reclassified as an increase to interest expense for all of its interest rate swaps.

#### Non-designated hedges of commodity risk

Derivatives not designated as hedges are not speculative and are used to manage the Company's exposure to commodity price risk but do not meet strict hedge accounting requirements. Changes in the fair value of derivatives not designated in hedging relationships are recorded directly in earnings. As of October 28, 2011, and October 29, 2010, the Company had no such non-designated hedges.

The tables below present the fair value of the Company's derivative financial instruments as well as their classification on the condensed consolidated balance sheets as of October 28, 2011 and January 28, 2011 (in thousands):

| (in thousands)  | October 28,<br>2011 | January 28,<br>2011 |
|---|---------------------|---------------------|
| <b>Derivatives Designated as Hedging Instruments</b>                                |                     |                     |
| Interest rate swaps classified in current liabilities as Accrued expenses and other | \$ 7,842            | \$                  |
| Interest rate swaps classified in noncurrent liabilities as Other liabilities       | \$ 7,273            | \$ 34,923           |

The tables below present the pre-tax effect of the Company's derivative financial instruments on the condensed consolidated statement of income (including OCI, see Note 2) for the 13-week and 39-week periods ended October 28, 2011 and October 29, 2010 (in thousands):

Edgar Filing: DOLLAR GENERAL CORP - Form 10-Q

| (in thousands)  | 13 Weeks Ended   |                  | 39 Weeks Ended   |                  |
|---|------------------|------------------|------------------|------------------|
|   | Oct. 28,<br>2011 | Oct. 29,<br>2010 | Oct. 28,<br>2011 | Oct. 29,<br>2010 |
| Derivatives in Cash Flow Hedging Relationships  |                  |                  |                  |                  |
| Loss related to effective portion of derivative recognized in OCI                                     | \$ 482           | \$ 5,104         | \$ 3,319         | \$ 20,540        |
| Loss related to effective portion of derivative reclassified from Accumulated OCI to Interest expense | \$ 5,570         | \$ 9,790         | \$ 23,710        | \$ 33,192        |
| Loss related to ineffective portion of derivative recognized in Other (income) expense                | \$ 52            | \$ 123           | \$ 261           | \$ 408           |

**Credit-risk-related contingent features**

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

As of October 28, 2011, the fair value of interest rate swaps in a net liability position, which includes accrued interest but excludes any adjustment for nonperformance risk related to these agreements, was \$19.4 million. If the Company had breached any of these provisions at October 28, 2011, it could have been required to post full collateral or settle its obligations under the agreements at an estimated termination value of \$19.4 million. As of October 28, 2011, the Company had not breached any of these provisions or posted any collateral related to these agreements.

**8. Commitments and contingencies**

**Legal proceedings**

On August 7, 2006, a lawsuit entitled *Cynthia Richter, et al. v. Dolgenercorp, Inc., et al.* was filed in the United States District Court for the Northern District of Alabama (Case No. 7:06-cv-01537-LSC) ( *Richter* ) in which the plaintiff alleges that she and other current and former Dollar General store managers were improperly classified as exempt executive employees under the Fair Labor Standards Act ( *FLSA* ) and seeks to recover overtime pay, liquidated damages, and attorneys' fees and costs. On August 15, 2006, the *Richter* plaintiff filed a motion in which she asked the court to certify a nationwide class of current and former store managers. The Company opposed the plaintiff's motion. On March 23, 2007, the court conditionally certified a nationwide class. On December 2, 2009, notice was mailed to over 28,000 current or former Dollar General store managers, and approximately 3,860 individuals opted into the lawsuit. On September 16, 2011, the court entered an amended scheduling order that governs, among other things, deadlines for fact discovery (December 30, 2011) and any potentially dispositive motions (January 16, 2012) and trial (June 18, 2012). Currently, no filing deadline exists for the Company's anticipated decertification motion.

The Company believes that its store managers are and have been properly classified as exempt employees under the *FLSA* and that the *Richter* action is not appropriate for collective action treatment. The Company has obtained summary judgment in some, although not all, of its





pending individual or single-plaintiff store manager exemption cases in which it has filed such a motion.

The Company is vigorously defending the *Richter* matter. However, at this time, it is not possible to predict whether *Richter* ultimately will be permitted to proceed collectively, and no assurances can be given that the Company will be successful in its defense of the action on the merits or otherwise. Similarly, at this time the Company cannot estimate either the size of any potential class or the value of the claims asserted in *Richter*. For these reasons, the Company is unable to estimate any potential loss or range of loss in the matter; however, if the Company is not successful in its defense efforts, the resolution of *Richter* could have a material adverse effect on the Company's financial statements as a whole.

On May 18, 2006, the Company was served with a lawsuit entitled *Tammy Brickey, Becky Norman, Rose Rochow, Sandra Cogswell and Melinda Sappington v. Dolgencorp, Inc. and Dollar General Corporation* (Western District of New York, Case No. 6:06-cv-06084-DGL, originally filed on February 9, 2006 and amended on May 12, 2006 ( *Brickey* )). The *Brickey* plaintiffs sought to proceed collectively under the FLSA and as a class under New York, Ohio, Maryland and North Carolina wage and hour statutes on behalf of, among others, assistant store managers who claim to be owed wages (including overtime wages) under those statutes. On February 22, 2011, the court denied the plaintiffs class certification motion in its entirety and ordered that the matter proceed only as to the named plaintiffs. On March 22, 2011, the plaintiffs moved the court for reconsideration of its Order denying their class certification motion. On March 30, 2011, the plaintiffs' reconsideration motion was denied, and the plaintiffs did not appeal that ruling. The case will proceed now only as to the named plaintiffs, and the Company does not expect the outcome to be material to its financial statements as a whole.

On March 7, 2006, a complaint was filed in the United States District Court for the Northern District of Alabama (*Janet Calvert v. Dolgencorp, Inc.*, Case No. 2:06-cv-00465-VEH ( *Calvert* )), in which the plaintiff, a former store manager, alleged that she was paid less than male store managers because of her sex, in violation of the Equal Pay Act and Title VII of the Civil Rights Act of 1964, as amended ( *Title VII* ) (now captioned, *Wanda Womack, et al. v. Dolgencorp, Inc.*, Case No. 2:06-cv-00465-VEH). The complaint subsequently was amended to include additional plaintiffs, who also allege to have been paid less than males because of their sex, and to add allegations that the Company's compensation practices disparately impact females. Under the amended complaint, plaintiffs seek to proceed collectively under the Equal Pay Act and as a class under Title VII, and request back wages, injunctive and declaratory relief, liquidated damages, punitive damages and attorneys fees and costs.

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

On April 19, 2010, the plaintiffs moved for class certification relating to their Title VII claims. The Company filed its response to the certification motion in June 2010. Briefing has closed, and the motion remains pending. The Company's motion to decertify the Equal Pay Act class was denied as premature. If the case proceeds, the Company expects to file a similar motion in due course.

The parties agreed to mediate this action, and the court stayed the action pending the results of the mediation. The mediation occurred in March and April, 2011, and the Company has reached an agreement in principle to settle the matter on behalf of the entire putative class. The proposed settlement, which still must be approved by the court, provides for both monetary and equitable relief. Under the proposed terms, the Company will pay \$15.5 million into a fund for the class members that will be apportioned and paid out to individual members (less any additional attorneys' fees or litigation costs approved by the court), upon submission of a valid claim. It will pay an additional \$3.25 million for plaintiffs' legal fees and costs. Of the total \$18.75 million anticipated payment, the Company expects to receive reimbursement from its Employment Practices Liability Insurance (EPLI) carrier of approximately \$15.9 million, which represents the balance remaining of the \$20 million EPLI policy covering the claims. In addition, the Company has agreed to make certain adjustments to its pay setting policies and procedures for new store managers. If the settlement is approved, the Company expects to implement the new pay policies and practices no later than April 2012. Documents related to the parties' request for preliminary approval of the proposed settlement were filed on October 28, 2011. A hearing on the proposed settlement was conducted on November 29, 2011 and will be continued on a date to be determined by the court. Because it deemed settlement probable and estimable, the Company accrued for the net settlement as well as for certain additional anticipated fees related thereto during the 13-week period ended April 29, 2011, and concurrently recorded a receivable of approximately \$15.9 million from its EPLI carrier.

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

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

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

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

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

On May 20, 2011, a lawsuit entitled *Winn-Dixie Stores, Inc., et al. v. Dolgenercorp, LLC* was filed in the United States District Court for the Southern District of Florida (Case No. 9:11-cv-80601-DMM) ( *Winn-Dixie* ) in which the plaintiffs allege that the sale of food and other items in approximately 70 of the Company's stores, each of which allegedly is or was at some time co-located in a shopping center with one of plaintiffs stores, violates restrictive covenants that plaintiffs contend are binding on the occupants of the shopping centers. Plaintiffs seek damages and an injunction limiting the sale of food and other items in those stores. Although plaintiffs have not made a demand for any specific amount of damages at this point in the proceeding, documents prepared and produced by plaintiffs during discovery suggest that plaintiffs may seek as much as \$55 million. The Company intends to vigorously defend the *Winn-Dixie* matter and views that sum as wholly without basis and unsupported by the law and the facts currently available. The various leases involved in the matter are unique in their terms and/or the factual circumstances surrounding them, and, in some cases, the stores named by plaintiffs are not now and have never been co-located with plaintiffs stores. However, at this time, no assurances can be given that the Company will be successful in its defense of the action on the merits or otherwise. Similarly, at this time, because of certain outstanding threshold issues that have yet to be addressed by the court, the Company is unable to estimate potential

losses; however, if the Company is not successful in defending the *Winn-Dixie* matter, the outcome could have a material adverse effect on the Company's financial statements as a whole.

In October 2008, the Company terminated an interest rate swap as a result of the counterparty's declaration of bankruptcy. This declaration of bankruptcy constituted a default under the contract governing the swap, giving the Company the right to terminate. The Company subsequently settled the swap in November 2008 for approximately \$7.6 million, including interest accrued to the date of termination. On May 14, 2010, the Company received a demand from the counterparty for an additional payment of approximately \$19 million plus interest, claiming that the valuation used to calculate the \$7.6 million was commercially unreasonable, and seeking to invoke the alternative dispute resolution procedures established by the bankruptcy court. The Company participated in the alternative dispute resolution procedures as it believed a reasonable settlement would be in the best interest of the Company to avoid the substantial risk and costs of litigation. In April of 2011, the Company reached a settlement with the counterparty under which the Company paid an additional \$9.85 million in exchange for a full release. The Company accrued the settlement amount along with additional expected fees and costs related thereto in the 13-week period ended April 29, 2011. The settlement was finalized and the payment was made in May 2011.

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

## 9. Segment reporting

The Company manages its business on the basis of one reportable segment. As of October 28, 2011, all of the Company's operations were located within the United States, with the exception of a Hong Kong subsidiary and a liaison office in India, the collective assets and revenues of which are not material. Net sales grouped by classes of similar products are presented below.

| (In thousands)               | 13 Weeks Ended      |                     | 39 Weeks Ended      |                     |
|------------------------------|---------------------|---------------------|---------------------|---------------------|
|                              | October 28,<br>2011 | October 29,<br>2010 | October 28,<br>2011 | October 29,<br>2010 |
| Classes of similar products: |                     |                     |                     |                     |
| Consumables                  | \$ 2,705,765        | \$ 2,378,667        | \$ 7,845,905        | \$ 6,907,541        |
| Seasonal                     | 433,931             | 401,544             | 1,393,557           | 1,302,780           |
| Home products                | 236,951             | 223,026             | 706,962             | 670,352             |
| Apparel                      | 218,577             | 220,190             | 675,691             | 668,223             |
| Net sales                    | \$ 3,595,224        | \$ 3,223,427        | \$ 10,622,115       | \$ 9,548,896        |

## 10. Related party transactions

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

Affiliates of KKR and Goldman, Sachs & Co. (among other entities) may be lenders under the Company's senior secured term loan facility ( Term Loan Facility ) with a principal balance as of October 28, 2011 of approximately \$1.96 billion. The Company paid approximately \$46.4 million and \$45.5 million of interest on the Term Loan Facility during the 39-week periods ended October 28, 2011 and October 29, 2010, respectively.

Goldman, Sachs & Co. is a counterparty to an amortizing interest rate swap with a \$143.3 million notional amount as of October 28, 2011, entered into in connection with the Term Loan Facility. The Company paid Goldman, Sachs & Co. approximately \$10.6 million and \$12.9 million in the 39-week periods ended October 28, 2011 and October 29, 2010, respectively, pursuant to this swap.

Affiliates of KKR and Goldman, Sachs & Co. served as underwriters in connection with the secondary offerings of the Company's common stock held by certain existing shareholders that were completed in September 2011 and April 2010. The Company did not sell shares of common stock, receive proceeds from such shareholders' sales of shares of common stock or pay any underwriting fees in connection with these secondary offerings. Certain members of the Company's management exercised registration rights in connection with such offerings.

## 11. Subsequent events

Edgar Filing: DOLLAR GENERAL CORP - Form 10-Q

On November 30, 2011, the Company's Board of Directors authorized a \$500 million common stock repurchase program. Under the program, shares of the Company's common stock

may be repurchased from time to time in open market transactions or in privately negotiated purchases, which could include repurchases from the Company's controlling shareholder, Buck Holdings, L.P. (which is controlled by affiliates of KKR and Goldman Sachs & Co), or other related parties if appropriate. The timing and actual number of shares purchased will depend on a variety of factors, such as price, market conditions and other factors. Repurchases under the program may be funded from available cash or borrowings under the ABL Facility. The repurchase authorization has no expiration date. No shares have been repurchased as of the date of this report.

In connection with the repurchase program, on December 4, 2011, the Company entered into an agreement with Buck Holdings, L.P. to repurchase from it approximately \$185 million in common stock concurrent with, and conditional upon, the completion of a contemplated December 2011 underwritten secondary offering of shares by certain selling shareholders at a price per share equal to the price to the public in the secondary offering less underwriting discounts and commissions. The Company expects to fund the purchase price for the share repurchase with borrowings under the ABL Facility.

**12. Guarantor subsidiaries**

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



Edgar Filing: DOLLAR GENERAL CORP - Form 10-Q

October 28, 2011

|   | DOLLAR<br>GENERAL<br>CORPORATION | GUARANTOR<br>SUBSIDIARIES | OTHER<br>SUBSIDIARIES | ELIMINATIONS           | CONSOLIDATED<br>TOTAL |
|---|----------------------------------|---------------------------|-----------------------|------------------------|-----------------------|
| <b>BALANCE SHEET:</b>                                 |                                  |                           |                       |                        |                       |
| <b>ASSETS</b>   |                                  |                           |                       |                        |                       |
| Current assets:                                       |                                  |                           |                       |                        |                       |
| Cash and cash equivalents                             | \$ 767                           | \$ 94,025                 | \$ 23,788             | \$                     | \$ 118,580            |
| Merchandise inventories                               |                                  | 2,089,722                 |                       |                        | 2,089,722             |
| Income taxes receivable                               | 65,785                           | 3,398                     |                       | (20,376)               | 48,807                |
| Deferred income taxes                                 | 8,828                            |                           | 6,900                 | (15,728)               |                       |
| Prepaid expenses and other<br>current assets          | 758,754                          | 4,520,553                 | 9,111                 | (5,152,672)            | 135,746               |
| <b>Total current assets</b>                           | <b>834,134</b>                   | <b>6,707,698</b>          | <b>39,799</b>         | <b>(5,188,776)</b>     | <b>2,392,855</b>      |
| Net property and equipment                            | 110,458                          | 1,606,084                 | 255                   |                        | 1,716,797             |
| Goodwill  | 4,338,589                        |                           |                       |                        | 4,338,589             |
| Intangible assets, net                                | 1,199,200                        | 41,533                    |                       |                        | 1,240,733             |
| Deferred income taxes                                 |                                  |                           | 49,738                | (49,738)               |                       |
| Other assets, net                                     | 6,173,056                        | 13,998                    | 322,233               | (6,462,379)            | 46,908                |
| <b>Total assets</b>                                   | <b>\$ 12,655,437</b>             | <b>\$ 8,369,313</b>       | <b>\$ 412,025</b>     | <b>\$ (11,700,893)</b> | <b>\$ 9,735,882</b>   |
| <b>LIABILITIES AND<br/>SHAREHOLDERS<br/>EQUITY</b>    |                                  |                           |                       |                        |                       |
| Current liabilities:                                  |                                  |                           |                       |                        |                       |
| Current portion of long-term<br>obligations           |                                  |                           |                       |                        |                       |
|   | \$                               | \$ 763                    | \$                    | \$                     | \$ 763                |
| Accounts payable                                      | 4,528,433                        | 1,693,176                 | 50,944                | (5,140,009)            | 1,132,544             |
| Accrued expenses and other                            | 92,826                           | 272,915                   | 61,899                | (12,663)               | 414,977               |
| Income taxes payable                                  |                                  |                           | 21,487                | (20,376)               | 1,111                 |
| Deferred income taxes                                 |                                  | 38,554                    |                       | (15,728)               | 22,826                |
| <b>Total current liabilities</b>                      | <b>4,621,259</b>                 | <b>2,005,408</b>          | <b>134,330</b>        | <b>(5,188,776)</b>     | <b>1,572,221</b>      |
| Long-term obligations                                 | 2,982,075                        | 3,251,852                 |                       | (3,512,866)            | 2,721,061             |
| Deferred income taxes                                 | 430,111                          | 266,956                   |                       | (49,738)               | 647,329               |
| Other liabilities                                     | 60,671                           | 30,896                    | 142,383               |                        | 233,950               |
| <b>Redeemable common stock</b>                        | <b>7,309</b>                     |                           |                       |                        | <b>7,309</b>          |
| Shareholders' equity:                                 |                                  |                           |                       |                        |                       |
| Preferred stock                                       |                                  |                           |                       |                        |                       |
| Common stock  | 299,514                          | 23,855                    | 100                   | (23,955)               | 299,514               |
| Additional paid-in capital                            | 2,957,267                        | 431,253                   | 19,900                | (451,153)              | 2,957,267             |
| Retained earnings                                     | 1,305,107                        | 2,359,093                 | 115,312               | (2,474,405)            | 1,305,107             |
| Accumulated other<br>comprehensive loss               | (7,876)                          |                           |                       |                        | (7,876)               |
| <b>Total shareholders' equity</b>                     | <b>4,554,012</b>                 | <b>2,814,201</b>          | <b>135,312</b>        | <b>(2,949,513)</b>     | <b>4,554,012</b>      |
| <b>Total liabilities and<br/>shareholders' equity</b> | <b>\$ 12,655,437</b>             | <b>\$ 8,369,313</b>       | <b>\$ 412,025</b>     | <b>\$ (11,700,893)</b> | <b>\$ 9,735,882</b>   |

Edgar Filing: DOLLAR GENERAL CORP - Form 10-Q

January 28, 2011

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

Edgar Filing: DOLLAR GENERAL CORP - Form 10-Q

For the 13-weeks ended October 28, 2011

|   | DOLLAR<br>GENERAL<br>CORPORATION | GUARANTOR<br>SUBSIDIARIES | OTHER<br>SUBSIDIARIES | ELIMINATIONS | CONSOLIDATED<br>TOTAL |
|---|----------------------------------|---------------------------|-----------------------|--------------|-----------------------|
| <b>STATEMENTS OF INCOME:</b>                  |                                  |                           |                       |              |                       |
| Net sales                                     | \$ 80,476                        | \$ 3,595,224              | \$ 21,340             | \$ (101,816) | \$ 3,595,224          |
| Cost of goods sold                            |                                  | 2,479,422                 |                       |              | 2,479,422             |
| Gross profit                                  | 80,476                           | 1,115,802                 | 21,340                | (101,816)    | 1,115,802             |
| Selling, general and administrative expenses  | 73,160                           | 814,281                   | 19,260                | (101,816)    | 804,885               |
| Operating profit                              | 7,316                            | 301,521                   | 2,080                 |              | 310,917               |
| Interest income                               | (11,269)                         | (7,491)                   | (5,146)               | 23,896       | (10)                  |
| Interest expense                              | 54,059                           | 8,465                     | 14                    | (23,896)     | 38,642                |
| Other (income) expense                        | 53                               |                           |                       |              | 53                    |
| Income (loss) before income taxes             | (35,527)                         | 300,547                   | 7,212                 |              | 272,232               |
| Income tax expense (benefit)                  | (12,715)                         | 111,788                   | 1,995                 |              | 101,068               |
| Equity in subsidiaries earnings, net of taxes | 193,976                          |                           |                       | (193,976)    |                       |
| Net income                                    | \$ 171,164                       | \$ 188,759                | \$ 5,217              | \$ (193,976) | \$ 171,164            |

For the 13 weeks ended October 29, 2010

|   | DOLLAR<br>GENERAL<br>CORPORATION | GUARANTOR<br>SUBSIDIARIES | OTHER<br>SUBSIDIARIES | ELIMINATIONS | CONSOLIDATED<br>TOTAL |
|---|----------------------------------|---------------------------|-----------------------|--------------|-----------------------|
| <b>STATEMENTS OF INCOME:</b>                  |                                  |                           |                       |              |                       |
| Net sales                                     | \$ 75,020                        | \$ 3,223,427              | \$ 21,888             | \$ (96,908)  | \$ 3,223,427          |
| Cost of goods sold                            |                                  | 2,212,759                 |                       |              | 2,212,759             |
| Gross profit                                  | 75,020                           | 1,010,668                 | 21,888                | (96,908)     | 1,010,668             |
| Selling, general and administrative expenses  | 68,201                           | 748,432                   | 16,609                | (96,908)     | 736,334               |
| Operating profit                              | 6,819                            | 262,236                   | 5,279                 |              | 274,334               |
| Interest income                               | (12,244)                         | (3,843)                   | (4,898)               | 20,895       | (90)                  |
| Interest expense                              | 70,103                           | 18,021                    | 6                     | (20,895)     | 67,235                |
| Other (income) expense                        | 8,312                            |                           |                       |              | 8,312                 |
| Income (loss) before income taxes             | (59,352)                         | 248,058                   | 10,171                |              | 198,877               |
| Income tax expense (benefit)                  | (26,871)                         | 94,555                    | 3,073                 |              | 70,757                |
| Equity in subsidiaries earnings, net of taxes | 160,601                          |                           |                       | (160,601)    |                       |
| Net income                                    | \$ 128,120                       | \$ 153,503                | \$ 7,098              | \$ (160,601) | \$ 128,120            |

Edgar Filing: DOLLAR GENERAL CORP - Form 10-Q

For the 39-weeks ended October 28, 2011

|   | DOLLAR<br>GENERAL<br>CORPORATION | GUARANTOR<br>SUBSIDIARIES | OTHER<br>SUBSIDIARIES | ELIMINATIONS | CONSOLIDATED<br>TOTAL |
|---|----------------------------------|---------------------------|-----------------------|--------------|-----------------------|
| <b>STATEMENTS OF INCOME:</b>                  |                                  |                           |                       |              |                       |
| Net sales                                     | \$ 242,397                       | \$ 10,622,115             | \$ 62,735             | \$ (305,132) | \$ 10,622,115         |
| Cost of goods sold                            |                                  | 7,270,574                 |                       |              | 7,270,574             |
| Gross profit                                  | 242,397                          | 3,351,541                 | 62,735                | (305,132)    | 3,351,541             |
| Selling, general and administrative expenses  | 220,361                          | 2,394,639                 | 59,109                | (305,132)    | 2,368,977             |
| Operating profit                              | 22,036                           | 956,902                   | 3,626                 |              | 982,564               |
| Interest income                               | (35,379)                         | (17,587)                  | (15,640)              | 68,551       | (55)                  |
| Interest expense                              | 198,097                          | 35,312                    | 28                    | (68,551)     | 164,886               |
| Other (income) expense                        | 60,564                           |                           |                       |              | 60,564                |
| Income (loss) before income taxes             | (201,246)                        | 939,177                   | 19,238                |              | 757,169               |
| Income tax expense (benefit)                  | (73,825)                         | 351,175                   | 5,644                 |              | 282,994               |
| Equity in subsidiaries earnings, net of taxes | 601,596                          |                           |                       | (601,596)    |                       |
| Net income                                    | \$ 474,175                       | \$ 588,002                | \$ 13,594             | \$ (601,596) | \$ 474,175            |

For the 39-weeks ended October 29, 2010

|   | DOLLAR<br>GENERAL<br>CORPORATION | GUARANTOR<br>SUBSIDIARIES | OTHER<br>SUBSIDIARIES | ELIMINATIONS | CONSOLIDATED<br>TOTAL |
|---|----------------------------------|---------------------------|-----------------------|--------------|-----------------------|
| <b>STATEMENTS OF INCOME:</b>                  |                                  |                           |                       |              |                       |
| Net sales                                     | \$ 235,606                       | \$ 9,548,896              | \$ 63,479             | \$ (299,085) | \$ 9,548,896          |
| Cost of goods sold                            |                                  | 6,502,493                 |                       |              | 6,502,493             |
| Gross profit                                  | 235,606                          | 3,046,403                 | 63,479                | (299,085)    | 3,046,403             |
| Selling, general and administrative expenses  | 214,273                          | 2,214,507                 | 50,894                | (299,085)    | 2,180,589             |
| Operating profit                              | 21,333                           | 831,896                   | 12,585                |              | 865,814               |
| Interest income                               | (33,651)                         | (4,094)                   | (14,805)              | 52,422       | (128)                 |
| Interest expense                              | 227,412                          | 33,576                    | 17                    | (52,422)     | 208,583               |
| Other (income) expense                        | 14,983                           |                           |                       |              | 14,983                |
| Income (loss) before income taxes             | (187,411)                        | 802,414                   | 27,373                |              | 642,376               |
| Income tax expense (benefit)                  | (73,780)                         | 302,237                   | 8,608                 |              | 237,065               |
| Equity in subsidiaries earnings, net of taxes | 518,942                          |                           |                       | (518,942)    |                       |
| Net income                                    | \$ 405,311                       | \$ 500,177                | \$ 18,765             | \$ (518,942) | \$ 405,311            |

Edgar Filing: DOLLAR GENERAL CORP - Form 10-Q

For the 39 weeks ended October 28, 2011

|   | DOLLAR<br>GENERAL<br>CORPORATION | GUARANTOR<br>SUBSIDIARIES | OTHER<br>SUBSIDIARIES | ELIMINATIONS | CONSOLIDATED<br>TOTAL |
|---|----------------------------------|---------------------------|-----------------------|--------------|-----------------------|
| <b>STATEMENTS OF CASH FLOWS:</b>  |                                  |                           |                       |              |                       |
| <i>Cash flows from operating activities:</i>  |                                  |                           |                       |              |                       |
| Net income  | \$ 474,175                       | \$ 588,002                | \$ 13,594             | \$ (601,596) | \$ 474,175            |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: |                                  |                           |                       |              |                       |
| Depreciation and amortization   | 24,008                           | 180,666                   | 97                    |              | 204,771               |
| Deferred income taxes   | 1,527                            | 24,573                    | (2,123)               |              | 23,977                |
| Tax benefit of stock options  | (16,101)                         |                           |                       |              | (16,101)              |
| Loss on debt retirement, net  | 60,303                           |                           |                       |              | 60,303                |
| Non-cash share-based compensation   | 10,969                           |                           |                       |              | 10,969                |
| Other non-cash gains and losses   | 562                              | 31,094                    |                       |              | 31,656                |
| Equity in subsidiaries earnings, net  | (601,596)                        |                           |                       | 601,596      |                       |
| Change in operating assets and liabilities:   |                                  |                           |                       |              |                       |
| Merchandise inventories   |                                  | (350,932)                 |                       |              | (350,932)             |
| Prepaid expenses and other current assets   | (17,129)                         | (13,125)                  | (645)                 |              | (30,899)              |
| Accounts payable  | 21,248                           | 143,080                   | 8                     |              | 164,336               |
| Accrued expenses and other  | 32,950                           | 50,916                    | 6,127                 |              | 89,993                |
| Income taxes  | (48,077)                         | (16,644)                  | 7,146                 |              | (57,575)              |
| Other   | (2)                              | (100)                     | (72)                  |              | (174)                 |
| Net cash provided by (used in) operating activities   | (57,163)                         | 637,530                   | 24,132                |              | 604,499               |
| <i>Cash flows from investing activities:</i>  |                                  |                           |                       |              |                       |
| Purchases of property and equipment   | (20,956)                         | (342,078)                 | (65)                  |              | (363,099)             |
| Proceeds from sale of property and equipment  | 16                               | 713                       |                       |              | 729                   |
| Net cash provided by (used in) investing activities   | (20,940)                         | (341,365)                 | (65)                  |              | (362,370)             |
| <i>Cash flows from financing activities:</i>  |                                  |                           |                       |              |                       |
| Issuance of common stock  | 177                              |                           |                       |              | 177                   |
| Repayments of long-term obligations   | (910,677)                        | (1,031)                   |                       |              | (911,708)             |
| Borrowings under revolving credit agreement   | 1,485,000                        |                           |                       |              | 1,485,000             |
| Repayments of borrowings under revolving credit agreement                                   | (1,197,200)                      |                           |                       |              | (1,197,200)           |
| Repurchases of common stock and settlement of equity awards, net of employee taxes paid     | (13,365)                         |                           |                       |              | (13,365)              |
| Tax benefit of stock options  | 16,101                           |                           |                       |              | 16,101                |
|   | 587,289                          | (565,513)                 | (21,776)              |              |                       |

Edgar Filing: DOLLAR GENERAL CORP - Form 10-Q

|  |           |           |           |            |  |  |  |
|--|-----------|-----------|-----------|------------|--|--|--|
| Changes in intercompany note balances, net           |           |           |           |            |  |  |  |
| Net cash provided by (used in) financing activities  | (32,675)  | (566,544) | (21,776)  | (620,995)  |  |  |  |
| Net increase (decrease) in cash and cash equivalents | (110,778) | (270,379) | 2,291     | (378,866)  |  |  |  |
| Cash and cash equivalents, beginning of period       | 111,545   | 364,404   | 21,497    | 497,446    |  |  |  |
| Cash and cash equivalents, end of period             | \$ 767    | \$ 94,025 | \$ 23,788 | \$ 118,580 |  |  |  |

Edgar Filing: DOLLAR GENERAL CORP - Form 10-Q

For the 39 weeks ended October 29, 2010

|   | DOLLAR<br>GENERAL<br>CORPORATION | GUARANTOR<br>SUBSIDIARIES | OTHER<br>SUBSIDIARIES | ELIMINATIONS | CONSOLIDATED<br>TOTAL |
|---|----------------------------------|---------------------------|-----------------------|--------------|-----------------------|
| <b>STATEMENTS OF CASH FLOWS:</b>  |                                  |                           |                       |              |                       |
| <i>Cash flows from operating activities:</i>  |                                  |                           |                       |              |                       |
| Net income  | \$ 405,311                       | \$ 500,177                | \$ 18,765             | \$ (518,942) | \$ 405,311            |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: |                                  |                           |                       |              |                       |
| Depreciation and amortization   | 24,906                           | 164,795                   | 38                    |              | 189,739               |
| Deferred income taxes   | 26,633                           | 16,161                    | (11,174)              |              | 31,620                |
| Tax benefit of stock options  | (6,413)                          |                           |                       |              | (6,413)               |
| Loss on debt retirement, net  | 14,576                           |                           |                       |              | 14,576                |
| Non-cash share-based compensation   | 11,620                           |                           |                       |              | 11,620                |
| Other non-cash gains and losses   | 953                              | 6,967                     |                       |              | 7,920                 |
| Equity in subsidiaries earnings, net  | (518,942)                        |                           |                       | 518,942      |                       |
| Change in operating assets and liabilities:   |                                  |                           |                       |              |                       |
| Merchandise inventories   |                                  | (366,903)                 |                       |              | (366,903)             |
| Prepaid expenses and other current assets   | 4,601                            | (30,332)                  | (681)                 |              | (26,412)              |
| Accounts payable  | 2,301                            | 144,634                   | (2)                   |              | 146,933               |
| Accrued expenses and other  | (969)                            | 2,200                     | (140)                 |              | 1,091                 |
| Income taxes  | (39,194)                         | 12,865                    | 22,151                |              | (4,178)               |
| Other   | 7                                | (1,113)                   | (2)                   |              | (1,108)               |
| Net cash provided by (used in) operating activities   | (74,610)                         | 449,451                   | 28,955                |              | 403,796               |
| <i>Cash flows from investing activities:</i>  |                                  |                           |                       |              |                       |
| Purchases of property and equipment   | (16,115)                         | (242,963)                 | (165)                 |              | (259,243)             |
| Proceeds from sale of property and equipment  |                                  | 868                       |                       |              | 868                   |
| Net cash provided by (used in) investing activities   | (16,115)                         | (242,095)                 | (165)                 |              | (258,375)             |
| <i>Cash flows from financing activities:</i>  |                                  |                           |                       |              |                       |
| Issuance of common stock  | 599                              |                           |                       |              | 599                   |
| Repayments of long-term obligations   | (129,217)                        | (1,437)                   |                       |              | (130,654)             |
| Repurchases of common stock and settlement of equity awards, net of employee taxes paid     | (5,949)                          |                           |                       |              | (5,949)               |
| Tax benefit of stock options  | 6,413                            |                           |                       |              | 6,413                 |
| Changes in intercompany note balances, net  | 166,591                          | (138,982)                 | (27,609)              |              |                       |
| Net cash provided by (used in) financing activities   | 38,437                           | (140,419)                 | (27,609)              |              | (129,591)             |
| Net increase (decrease) in cash and cash equivalents  | (52,288)                         | 66,937                    | 1,181                 |              | 15,830                |

Edgar Filing: DOLLAR GENERAL CORP - Form 10-Q

|   |           |            |           |            |
|---|-----------|------------|-----------|------------|
| Cash and cash equivalents,<br>beginning of period | 97,620    | 103,001    | 21,455    | 222,076    |
| Cash and cash equivalents,<br>end of period       | \$ 45,332 | \$ 169,938 | \$ 22,636 | \$ 237,906 |



**Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Shareholders of

Dollar General Corporation:

We have reviewed the condensed consolidated balance sheet of Dollar General Corporation and subsidiaries (the Company) as of October 28, 2011, and the related condensed consolidated statements of income for the thirteen and thirty-nine week periods ended October 28, 2011 and October 29, 2010, and the condensed consolidated statements of cash flows for the thirty-nine week periods ended October 28, 2011 and October 29, 2010. These financial statements are the responsibility of the Company's management.

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

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

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Dollar General Corporation as of January 28, 2011 and the related consolidated statements of income, shareholders equity, and cash flows for the fiscal year then ended (not presented herein) and in our report dated March 22, 2011, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of January 28, 2011, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ Ernst & Young LLP

December 5, 2011  
Nashville, Tennessee

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

**General**

This discussion and analysis is based on, should be read with, and is qualified in its entirety by, the accompanying unaudited condensed consolidated financial statements and related notes, as well as our consolidated financial statements and the related Management's Discussion and Analysis of Financial Condition and Results of Operations as contained in our Annual Report on Form 10-K for the fiscal year ended January 28, 2011. It also should be read in conjunction with the disclosure under Cautionary Disclosure Regarding Forward-Looking Statements in this report.

**Executive Overview**

We are the largest discount retailer in the United States by number of stores, with 9,813 stores in 38 states as of October 28, 2011, primarily in the southern, southwestern, midwestern and eastern United States. Our small-box neighborhood stores are conveniently located to help our customers Save time. Save money. Every day. In the 2011 third quarter, we opened our first stores in Connecticut, Nevada, and New Hampshire, and in early 2012, we plan to open our first stores in California. Square footage expansion, including new store growth and store relocations, is an integral part of our long-term strategy. We expect total square footage growth of approximately seven percent in each of fiscal 2011 and fiscal 2012. To support this growth, we are currently expanding our merchandise distribution network by adding two new distribution centers, including one we are constructing in Alabama and a second that we plan to lease in California, both of which we expect to begin shipping in the first half of 2012.

Our first priority is driving productive sales growth in our existing stores as well as through the addition of new stores. Most of our success in driving sales growth in 2011 has been from expansion of our consumables offerings. Consumers are spending less on discretionary non-consumable items as they continue to face high rates of unemployment, fluctuating food, gasoline and energy costs, rising medical costs, weakness in the housing and credit markets, and uncertainties regarding the outlook for the future. We are intensely focused on helping our value-conscious customers make the most of their spending dollars. We provide a broad selection of merchandise at everyday low prices, including consumable products such as food, paper and cleaning products; health and beauty products and pet supplies; and non-consumable products such as seasonal merchandise, home decor and domestics, and apparel.

Our second priority is to increase our gross profit rate. In 2011, the macroeconomic environment, including inflation in the cost of many basic commodities, has posed significant challenges to that effort. As discussed above, we have experienced a shift in our mix of sales to more consumables, which generally have a lower gross profit rate, and we have seen product and fuel costs rise. We have been successful in mitigating some of these pressures through selective price increases, improved distribution efficiencies and a keen focus on shrink reduction. However, we expect the pressures on gross profit to continue for the near future. Going forward, we believe we have the potential to directly source a larger portion of our products at savings to current costs, and we expect to make further progress with regard to increasing our sales of

private brands, which generally have lower price points and higher gross profit rates than national brands.

Our third priority is leveraging process improvements and information technology to reduce costs. In 2011, we have made significant progress in holding expense increases to a rate lower than our sales growth. We are committed as an organization to extract costs that do not affect the customer experience. For example, we recently completed the implementation of a workforce management system in all of our stores to assist in ensuring that all necessary tasks are performed in a cost effective manner.

Our fourth priority is to strengthen and expand Dollar General's culture of serving others, including our shareholders, our customers, employees, and the communities where we operate.

Focus on our priorities has resulted in continued improvements in our operating and financial performance. Following are comparisons of our key financial metrics for the third quarter of 2011 over the comparable 2010 period. Basis points amounts referred to below are equal to 0.01% as a percentage of sales.

- Total sales increased 11.5% to \$3.60 billion. Sales in same-stores increased 6.3% driven by increases in customer traffic and average transaction amount. Average sales per square foot for all stores over the 52-week period ended October 28, 2011 were approximately \$207, up from \$200 for the comparable prior 52-week period.
- Gross profit, as a percentage of sales, decreased by 31 basis points to 31.0% compared to 31.4% in the 2010 period. We recorded an increase to our LIFO reserve of \$11 million in the 2011 third quarter versus zero in the 2010 third quarter. In addition, our mix of sales continued to trend toward more consumables, which generally have a lower gross profit rate than non-consumables, and transportation costs were impacted by the higher cost of fuel in 2011. These factors were partially offset by several favorable factors, including a decrease in inventory shrinkage, selective price increases and improved distribution efficiencies.
- Inventory turnover was 5.1 times for the rolling four-quarters through the end of the third quarter in both the 2011 and 2010 periods.
- Selling, general and administrative expenses, or SG&A, as a percentage of sales, was 22.4% compared to 22.8% in the 2010 third quarter. Significant factors contributing to the improvement are significant store labor savings, as a percentage of sales, resulting from new workforce management initiatives, a decrease in incentive compensation, and the impact of increased sales, as well as the net impact of our continued focus on cost reduction initiatives that do not unfavorably impact our customers.
- Operating profit, as a percentage of sales, was 8.6% compared to 8.5% in the 2010 third quarter, an improvement of 14 basis points.
- Interest expense decreased by \$29 million to \$39 million in the 2011 third quarter primarily due to lower average outstanding borrowings resulting from the repurchase



of our senior notes. Total long-term obligations as of October 28, 2011 were \$2.72 billion, a net reduction of \$566 million from the prior year.

- Net income was \$171 million, or \$0.50 per diluted share, compared to net income in the 2010 third quarter of \$128 million, or \$0.37 per diluted share, which included a \$5 million loss, net of income taxes, on the repurchase of long-term obligations.
- 482 new stores were opened and 544 of our existing stores were remodeled or relocated in the 39-week period ended October 28, 2011.

We strategically managed our business in the 2011 third quarter and improved our profitability as we continued to face the challenges of extended economic uncertainties and increased commodity and fuel costs. Our customer traffic and average transaction continued to increase in the quarter, indicating that our customers are relying on us more than ever for their consumables needs. Our small format and conveniently located stores provide an attractive shopping alternative to customers seeking to save time and money.

Due to ongoing economic uncertainty faced by consumers and the impact of such uncertainty on the discretionary spending of our customers, we believe that the increase in sales of consumables will continue to outpace the growth in sale of higher margin non-consumables.

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

## Results of Operations

*Accounting Periods.* We follow the concept of a 52-53 week fiscal year that ends on the Friday nearest to January 31. The following text contains references to years 2011 and 2010, which represent the 53-week fiscal year which will end on February 3, 2012 and the 52-week fiscal year which ended January 28, 2011, respectively. References to quarterly accounting periods for 2011 and 2010 contained herein refer to 13-week accounting periods, except for the fourth quarter of 2011, which will be a 14-week accounting period.

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

Edgar Filing: DOLLAR GENERAL CORP - Form 10-Q

The following table contains results of operations data for the most recent 13-week and 39-week periods of each of 2011 and 2010, and the dollar and percentage variances among those periods:

| (amounts in millions, except per share amounts) | 13 Weeks Ended |               | 2011 vs. 2010 |          | 39 Weeks Ended |               | 2011 vs. 2010 |          |
|---|----------------|---------------|---------------|----------|----------------|---------------|---------------|----------|
|   | Oct. 28, 2011  | Oct. 29, 2010 | Amount change | % change | Oct. 28, 2011  | Oct. 29, 2010 | Amount change | % change |
| Net sales by category:                          |                |               |               |          |                |               |               |          |
| Consumables                                     | \$ 2,705.8     | \$ 2,378.7    | \$ 327.1      | 13.8%    | \$ 7,845.9     | \$ 6,907.5    | \$ 938.4      | 13.6%    |
| % of net sales                                  | 75.26%         | 73.79%        |               |          | 73.86%         | 72.34%        |               |          |
| Seasonal  | 433.9          | 401.5         | 32.4          | 8.1      | 1,393.6        | 1,302.8       | 90.8          | 7.0      |
| % of net sales                                  | 12.07%         | 12.46%        |               |          | 13.12%         | 13.64%        |               |          |
| Home products                                   | 237.0          | 223.0         | 13.9          | 6.2      | 707.0          | 670.4         | 36.6          | 5.5      |
| % of net sales                                  | 6.59%          | 6.92%         |               |          | 6.66%          | 7.02%         |               |          |
| Apparel   | 218.6          | 220.2         | (1.6)         | (0.7)    | 675.7          | 668.2         | 7.5           | 1.1      |
| % of net sales                                  | 6.08%          | 6.83%         |               |          | 6.36%          | 7.00%         |               |          |
| Net sales                                       | \$ 3,595.2     | \$ 3,223.4    | \$ 371.8      | 11.5%    | \$ 10,622.1    | \$ 9,548.9    | \$ 1,073.2    | 11.2%    |
| Cost of goods sold                              | 2,479.4        | 2,212.8       | 266.7         | 12.1     | 7,270.6        | 6,502.5       | 768.1         | 11.8     |
| % of net sales                                  | 68.96%         | 68.65%        |               |          | 68.45%         | 68.10%        |               |          |
| Gross profit                                    | 1,115.8        | 1,010.7       | 105.1         | 10.4     | 3,351.5        | 3,046.4       | 305.1         | 10.0     |
| % of net sales                                  | 31.04%         | 31.35%        |               |          | 31.55%         | 31.90%        |               |          |
| Selling, general and administrative expenses    | 804.9          | 736.3         | 68.6          | 9.3      | 2,369.0        | 2,180.6       | 188.4         | 8.6      |
| % of net sales                                  | 22.39%         | 22.84%        |               |          | 22.30%         | 22.84%        |               |          |
| Operating profit                                | 310.9          | 274.3         | 36.6          | 13.3     | 982.6          | 865.8         | 116.8         | 13.5     |
| % of net sales                                  | 8.65%          | 8.51%         |               |          | 9.25%          | 9.07%         |               |          |
| Interest income                                 | (0.0)          | (0.1)         | 0.1           | (88.9)   | (0.1)          | (0.1)         | 0.1           | (57.0)   |
| % of net sales                                  | (0.00)%        | (0.00)%       |               |          | (0.00)%        | (0.00)%       |               |          |
| Interest expense                                | 38.6           | 67.2          | (28.6)        | (42.5)   | 164.9          | 208.6         | (43.7)        | (20.9)   |
| % of net sales                                  | 1.07%          | 2.09%         |               |          | 1.55%          | 2.18%         |               |          |
| Other (income) expense                          | 0.1            | 8.3           | (8.3)         | (99.4)   | 60.6           | 15.0          | 45.6          | 304.2    |
| % of net sales                                  | 0.00%          | 0.26%         |               |          | 0.57%          | 0.16%         |               |          |
| Income before income taxes                      | 272.2          | 198.9         | 73.4          | 36.9     | 757.2          | 642.4         | 114.8         | 17.9     |
| % of net sales                                  | 7.57%          | 6.17%         |               |          | 7.13%          | 6.73%         |               |          |
| Income taxes                                    | 101.1          | 70.8          | 30.3          | 42.8     | 283.0          | 237.1         | 45.9          | 19.4     |
| % of net sales                                  | 2.81%          | 2.20%         |               |          | 2.66%          | 2.48%         |               |          |
| Net income                                      | \$ 171.2       | \$ 128.1      | \$ 43.0       | 33.6%    | \$ 474.2       | \$ 405.3      | \$ 68.9       | 17.0%    |
| % of net sales                                  | 4.76%          | 3.97%         |               |          | 4.46%          | 4.24%         |               |          |
| Diluted earnings per share                      | \$ 0.50        | \$ 0.37       | \$ 0.13       | 35.1%    | \$ 1.37        | \$ 1.18       | \$ 0.19       | 16.1%    |

**13 WEEKS ENDED OCTOBER 28, 2011 AND OCTOBER 29, 2010**

*Net Sales.* The net sales increase in the 2011 third quarter reflects a same-store sales increase of 6.3% compared to the 2010 quarter. Same-stores include stores that have been open at least 13 months and remain open at the end of the reporting period. For the 2011 quarter, there were 9,104 same-stores which accounted for sales of \$3.38 billion. The remainder of the sales increase was attributable to new stores, partially offset by sales from closed stores. Consumables sales increased at a higher rate than non-consumables, with the most significant growth related to changes in and further expansion of our candy and snacks, packaged food, and perishables



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

*Gross Profit.* Our gross profit rate as a percentage of sales was 31.0% in the 2011 third quarter compared to 31.4% in the 2010 third quarter, a decline of 31 basis points. We recorded an increase in our LIFO provision of \$11.1 million in the 2011 third quarter compared to zero in the 2010 third quarter as the result of increased purchase costs. In addition, consumables, which generally have lower markups than non-consumables, have continued to increase as a percentage of sales, and our transportation costs were impacted by higher rates for fuel. These factors were partially offset by decreased inventory shrinkage, selective price increases and lower distribution center costs, as a percentage of sales.

*SG&A Expense.* SG&A expense was 22.4% as a percentage of sales in the 2011 period compared to 22.8% in the 2010 period, a decrease of 45 basis points. Retail salaries increased at a rate lower than our increase in sales, partially due to the completed rollout of our workforce management system. A decrease in incentive compensation also contributed to the overall decrease in SG&A as a percentage of sales. Utilities increased at a rate lower than the increase in sales, primarily due to lower electricity and waste management costs reflecting our recycling efforts, partially offset by increased data transmission costs related to store computers. SG&A, as a percentage of sales, was also favorably impacted by other cost reduction and productivity initiatives as well as the 11.5% increase in sales. These improvements were partially offset by depreciation and amortization expense and increased use of debit cards. Depreciation and amortization expense increased at a higher rate than the increase in sales primarily due to investments in store data communications technology, increased investment in store fixtures and equipment resulting from recent merchandising initiatives, and store properties purchased.

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

*Other (Income) Expense.* Other (income) expense in the 2010 period includes a pretax loss of \$8.2 million resulting from the repurchase of \$65.0 million principal amount of our 10.625% senior notes.

*Income Taxes.* The effective income tax rate increased to 37.1% for the 2011 period compared to 35.6% for the 2010 period. The increase in the income tax expense rate was due principally to a reduction in income tax reserves in the 2010 period that did not reoccur in the 2011 period.

### **39 WEEKS ENDED OCTOBER 28, 2011 AND OCTOBER 29, 2010**

*Net Sales.* The net sales increase in the 2011 period reflects a same-store sales increase of 5.9% compared to the 2010 period. Same-stores include stores that have been open at least 13 months and remain open at the end of the reporting period. For 2011, there were 9,104 same-



stores which accounted for sales of \$9.97 billion. The remainder of the sales increase was attributable to new stores, partially offset by sales from closed stores. Consumables sales increased at a higher rate than non-consumables, with the most significant growth related to our candy and snacks, packaged food, and perishables offerings. Sales growth in our home, basic apparel and seasonal categories has been impacted by weakness and uncertainties in the macroeconomic environment.

*Gross Profit.* The gross profit rate as a percentage of sales was 31.6% in the 2011 period compared to 31.9% in the 2010 period, a decline of 35 basis points. Consumables, which generally have lower markups than non-consumables, represented a greater percentage of sales in the 2011 period than in the 2010 period. Our purchase costs increased primarily due to increased commodity costs, we incurred higher markdowns to sell through certain home and apparel products, and our transportation costs were impacted by higher fuel rates. Our LIFO provision increased to \$25.4 million in the 2011 period compared to \$0.7 million in the 2010 period. These factors were partially offset by selective price increases as well as lower inventory shrinkage and distribution center costs, as a percentage of sales.

*SG&A Expense.* SG&A expense was 22.3% as a percentage of sales in the 2011 period compared to 22.8% in the 2010 period, a decrease of 54 basis points. Retail salaries increased at a rate lower than our increase in sales, partially due to the completed rollout of our workforce management system. A decrease in incentive compensation also contributed to the overall decrease in SG&A as a percentage of sales. SG&A, as a percentage of sales, was also favorably impacted by other cost reduction and productivity initiatives as well as the 11.2% increase in sales. These improvements were partially offset by depreciation and amortization expense, which increased at a higher rate than the increase in sales, primarily due to investments in store data communications technology, increased investment in store fixtures and equipment resulting from recent merchandising initiatives, and store properties purchased. SG&A in the 2011 period includes expenses totaling \$13.1 million for payments and accruals related to the settlement and expected settlement of two legal matters while SG&A in the 2010 period includes expenses totaling \$15.0 million primarily relating to share-based compensation incurred in connection with a secondary offering of our common stock.

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

*Other (Income) Expense.* Other (income) expense includes pretax losses totaling \$60.3 million in the 2011 period and \$14.7 million in the 2010 period resulting from the repurchase of our 10.625% senior notes.

*Income Taxes.* The effective income tax rate increased to 37.4% for the 2011 period compared to 36.9% for 2010 period. The increase in the income tax expense rate was due principally to a reduction in income tax reserves in the 2010 period that did not reoccur in the 2011 period.

## Liquidity and Capital Resources

### *Credit Facilities*

We have two senior secured credit facilities (the *Credit Facilities*) which provide financing of up to \$2.995 billion as of October 28, 2011. The *Credit Facilities* consist of a \$1.964 billion senior secured term loan facility (*Term Loan Facility*) and a senior secured asset-based revolving credit facility (*ABL Facility*). Total commitments under the *ABL Facility* are equal to \$1.031 billion (of which up to \$350.0 million is available for letters of credit), subject to borrowing base availability. The *ABL Facility* includes borrowing capacity available for letters of credit and for short-term borrowings referred to as swingline loans.

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

Borrowings under the *Credit Facilities* bear interest at a rate equal to an applicable margin plus, at our option, either (a) LIBOR or (b) a base rate (which is usually equal to the prime rate). The applicable margin for borrowings is (i) under the *Term Loan Facility*, 2.75% for LIBOR borrowings and 1.75% for base-rate borrowings (ii) as of October 28, 2011, under the *ABL Facility* (except in the last out tranche described above), 1.25% for LIBOR borrowings and 0.25% for base-rate borrowings; and for any last out borrowings, 2.25% for LIBOR borrowings and 1.25% for base-rate borrowings. The applicable margins for borrowings under the *ABL Facility* (except in the case of last out borrowings) are subject to adjustment each quarter based on average daily excess availability under the *ABL Facility*. We are also required to pay a commitment fee to the lenders under the *ABL Facility* for any unutilized commitments at a rate of 0.375% per annum. We also must pay customary letter of credit fees.

Under the *Term Loan Facility* we are required to prepay outstanding term loans, subject to certain exceptions, with up to 50% of our annual excess cash flow (as defined in the credit agreement) which will be reduced to 25% and 0% if we achieve and maintain a total net leverage ratio of 6.0 to 1.0 and 5.0 to 1.0, respectively; the net cash proceeds of certain non-ordinary course asset sales or other dispositions of property; and the net cash proceeds of any incurrence of debt other than proceeds from debt permitted under the senior secured credit agreement. Through October 28, 2011, no prepayments have been required under the prepayment provisions listed above. The *Term Loan Facility* can be prepaid in whole or in part at any time.

We voluntarily prepaid \$325 million of the *Term Loan Facility* in January 2010 and, as a result, no further principal payments will be required prior to its maturity on July 6, 2014, assuming no mandatory prepayment provisions are triggered before such date. There is no amortization under the *ABL Facility*. The entire principal amount (if any) outstanding under the *ABL Facility* is due and payable in full at maturity on July 6, 2013.

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

## Edgar Filing: DOLLAR GENERAL CORP - Form 10-Q

such extensions of credit exceed the then current borrowing base. Through October 28, 2011, no prepayments have been required under any prepayment provisions.

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

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

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

- a second-priority security interest in all existing and after-acquired inventory, accounts receivable, and other assets arising from such inventory and accounts receivable, of our company and each U.S. Guarantor (the Revolving Facility Collateral), subject to certain exceptions;
- a first-priority security interest in, and mortgages on, substantially all of our and each U.S. Guarantor's tangible and intangible assets (other than the Revolving Facility Collateral); and
- a first-priority pledge of 100% of the capital stock held by us, or any of our domestic subsidiaries that are directly owned by us or one of the U.S. Guarantors and 65% of the voting capital stock of each of our existing and future foreign subsidiaries that are directly owned by us or one of the U.S. Guarantors.

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

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

At October 28, 2011, we had borrowings of \$287.8 million, \$16.8 million of commercial letters of credit, and \$21.7 million of standby letters of credit outstanding under our ABL Facility. We anticipate potential borrowings under the ABL Facility in fiscal 2011 up to a maximum of \$400 million outstanding at any one time.



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

On April 29, 2011, we repurchased in the open market \$25.0 million outstanding aggregate principal amount of our 10.625% senior notes due 2015 (the Senior Notes ) at a redemption price of 107.0% of the principal amount, plus accrued and unpaid interest, resulting in a pretax loss of \$2.2 million. On July 15, 2011, we redeemed the remaining \$839.3 million outstanding aggregate principal amount of the Senior Notes (which had been scheduled to mature on July 15, 2015) at a redemption price of 105.313% of the principal amount, plus accrued and unpaid interest, resulting in a pretax loss of \$58.1 million. The redemption was effected in accordance with the indenture dated as of July 6, 2007 governing the Senior Notes pursuant to a notice dated May 31, 2011. The pretax losses on these transactions are reflected in Other (income) expense in our condensed consolidated statement of income in the 39-week period ended October 28, 2011. We funded the redemption price for the Senior Notes with cash on hand and borrowings under the ABL Facility. The redemption is a significant factor in the reduction of our cash balances at the end of the third quarter compared to the prior year end.

As of October 28, 2011, we had \$450.7 million aggregate principal amount of 11.875%/12.625% senior subordinated toggle notes due 2017 (the Senior Subordinated Notes ) outstanding, which mature on July 15, 2017, pursuant to an indenture dated as of July 6, 2007 (the senior subordinated indenture ).

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

We may redeem some or all of the Senior Subordinated Notes at any time at redemption prices described or set forth in the senior subordinated indenture. We also may seek, from time to time, to retire some or all of the Senior Subordinated Notes through cash purchases in the open market, in privately negotiated transactions or otherwise. Such repurchases, if any, will depend on prevailing market conditions, our liquidity requirements, contractual restrictions and other factors. The amounts involved may be material.

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

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

The senior subordinated indenture also provides for events of default which, if any of them occurs, would permit or require the principal of and accrued interest on the Senior Subordinated Notes to become or to be declared due and payable.

*Adjusted EBITDA*

Under the agreements governing the Credit Facilities and the senior subordinated indenture, certain limitations and restrictions could arise if we are not able to satisfy and remain in compliance with specified financial ratios. Management believes the most significant of such ratios is the senior secured incurrence test under the Credit Facilities. This test measures the ratio of the senior secured debt to Adjusted EBITDA. This ratio would need to be no greater than 4.25 to 1 to avoid such limitations and restrictions. As of October 28, 2011, this ratio was 1.3 to 1. Senior secured debt is defined as our total debt secured by liens or similar encumbrances less cash and cash equivalents. EBITDA is defined as income (loss) from continuing operations before cumulative effect of change in accounting principles plus interest and other financing costs, net, provision for income taxes, and depreciation and amortization. Adjusted EBITDA is defined as EBITDA, further adjusted to give effect to adjustments required in calculating this covenant ratio under our Credit Facilities. EBITDA and Adjusted EBITDA are not presentations made in accordance with U.S. GAAP, are not measures of financial performance or condition, liquidity or profitability, and should not be considered as an alternative to (1) net income, operating income or any other performance measures determined in accordance with U.S. GAAP or (2) operating cash flows determined in accordance with U.S. GAAP. Additionally, EBITDA and Adjusted EBITDA are not intended to be measures of free cash flow for management's discretionary use, as they do not consider certain cash requirements such as interest payments, tax payments and debt service requirements and replacements of fixed assets.

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

Edgar Filing: DOLLAR GENERAL CORP - Form 10-Q

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

| (in millions)                                       | 13-weeks ended   |                  | 39-weeks ended   |                  | 52-weeks ended   |                  |
|---|------------------|------------------|------------------|------------------|------------------|------------------|
|   | Oct. 28,<br>2011 | Oct. 29,<br>2010 | Oct. 28,<br>2011 | Oct. 29,<br>2010 | Oct. 28,<br>2011 | Jan. 28,<br>2011 |
| Net income  | \$ 171.2         | \$ 128.1         | \$ 474.2         | \$ 405.3         | \$ 696.8         | \$ 627.9         |
| Add (subtract):                                     |                  |                  |                  |                  |                  |                  |
| Interest income                                     | (0.0)            | (0.1)            | (0.0)            | (0.1)            | (0.1)            | (0.2)            |
| Interest expense                                    | 38.6             | 67.2             | 164.9            | 208.5            | 230.5            | 274.1            |
| Depreciation and amortization                       | 66.3             | 60.4             | 196.0            | 180.3            | 258.0            | 242.3            |
| Income taxes  | 101.1            | 70.8             | 283.0            | 237.1            | 403.0            | 357.1            |
| EBITDA  | 377.2            | 326.4            | 1,118.1          | 1,031.1          | 1,588.2          | 1,501.2          |
| Adjustments:  |                  |                  |                  |                  |                  |                  |
| Loss on debt retirement, net                        |                  | 8.2              | 60.3             | 14.6             | 60.3             | 14.6             |
| Loss on hedging instruments                         | 0.1              | 0.1              | 0.3              | 0.3              | 0.4              | 0.4              |
| Advisory and consulting fees to affiliates          |                  |                  |                  | 0.1              |                  | 0.1              |
| Non-cash expense for share-based awards             | 4.2              | 3.3              | 11.0             | 12.8             | 14.2             | 16.0             |
| Litigation settlement and related costs, net        |                  |                  | 13.1             |                  | 13.1             |                  |
| Indirect costs related to merger and stock offering | 0.4              | 0.2              | 0.4              | 1.0              | 0.7              | 1.3              |
| Other non-cash charges (including LIFO)             | 13.1             | 1.4              | 30.7             | 6.6              | 35.6             | 11.5             |
| Total Adjustments                                   | 17.8             | 13.2             | 115.8            | 35.4             | 124.3            | 43.9             |
| Adjusted EBITDA                                     | \$ 395.0         | \$ 339.6         | \$ 1,233.9       | \$ 1,066.5       | \$ 1,712.5       | \$ 1,545.1       |

*Current Financial Condition / Recent Developments*

At October 28, 2011, we had total outstanding debt (including the current portion of long-term obligations) of approximately \$2.72 billion. We had \$704.8 million available for borrowing under our ABL Facility at that date. Our liquidity needs are significant, primarily due to our debt service and other obligations. However, we believe our cash flow from operations and existing cash balances, combined with availability under the Credit Facilities, will provide sufficient liquidity to fund our current obligations, projected working capital requirements and capital spending for a period that includes the next 12 months as well as the next several years.

Our inventory balance represented approximately 50% of our total assets exclusive of goodwill and other intangible assets as of October 28, 2011. Our proficiency in managing our inventory balances can have a significant impact on our cash flows from operations during a given fiscal year. Inventory purchases are often somewhat seasonal in nature, such as the purchase of warm-weather or Christmas-related merchandise. Efficient management of our inventory continues to be an area of focus for us.

As described in Note 8 to the condensed consolidated financial statements, we are involved in a number of legal actions and claims, some of which could potentially result in material cash payments. Adverse developments in those actions could materially and adversely affect our liquidity. We also have certain income tax-related contingencies as more fully





described below under *Critical Accounting Policies and Estimates* and in Note 4 to the condensed consolidated financial statements. Future negative developments could have a material adverse effect on our liquidity.

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

*Cash flows from operating activities.* Cash flows from operating activities were \$604.5 million in the 2011 period, an increase of \$200.7 million over the 2010 period. Cash flows from operating activities in the 2011 period compared to the 2010 period were positively impacted by our strong operating performance due to greater sales and increased net income, as described in more detail above under *Results of Operations*. Significant components of the increase in cash flows from operating activities in the 2011 period as compared to the 2010 period were related to working capital in general and Accrued expenses and other in particular. Items affecting Accrued expenses and other include increased accruals for income tax reserves, increased accruals for legal settlements and taxes exclusive of taxes on income, and lower incentive compensation payments in the 2011 period compared to the 2010 period, partially offset by reduced interest accruals due primarily to the redemption of the Senior Notes. In addition, inventory purchases are a significant component of cash flows from operating activities, and our inventory balances may fluctuate from period to period based on new store openings, the timing of purchases, and other factors. During the 2011 period, merchandise inventories increased by 18% compared to a 24% overall increase during the 2010 period. Inventory levels in our four inventory categories in the 2011 period compared to the respective 2010 period were as follows: the consumables category increased 21% compared to a 23% increase; the seasonal category increased by 13% compared to a 31% increase; the home products category increased by 22% compared to a 23% increase; and apparel increased by 12% compared to a 17% increase. Underlying these increases are the effects of commodity cost increases (net of LIFO charges) and the addition of new items to our merchandise offerings.

*Cash flows from investing activities.* Significant components of property and equipment purchases in the 2011 period included the following approximate amounts: \$79 million for new leased stores; \$73 million for distribution centers, including our new center under construction in Alabama; \$68 million for improvements and upgrades to existing stores; \$59 million for stores purchased or built by us; \$59 million for remodels and relocations of existing stores; and \$20 million for systems-related capital projects. The timing of new, remodeled and relocated store openings along with other factors may affect the relationship between such openings and the related property and equipment purchases in any given period. During the 2011 period, we opened 482 new stores and remodeled or relocated 544 stores.

Significant components of property and equipment purchases in the 2010 period included the following approximate amounts: \$95 million for new leased stores and store purchases; \$85 million for improvements and upgrades to existing stores; \$44 million for remodels and

## Edgar Filing: DOLLAR GENERAL CORP - Form 10-Q

relocations of existing stores; \$18 million for distribution and transportation related purchases; and \$17 million for systems-related capital projects. During the 2010 period, we opened 491 new stores and remodeled or relocated 458 stores.

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

*Cash flows from financing activities.* On July 15, 2011, we redeemed \$839.3 million aggregate principal amount of Senior Notes at a redemption price of 105.313% of the principal amount thereof, resulting in a cash outflow of \$883.9 million. On April 29, 2011, we repurchased in the open market \$25.0 million aggregate principal amount of Senior Notes at a price of 107.0% of the principal amount thereof, resulting in a cash outflow of \$26.8 million. A portion of the July 2011 redemption of Senior Notes was financed by borrowings under the ABL Facility. Net borrowings under the ABL Facility were \$287.8 million at October 28, 2011.

On September 29, 2010, we repurchased in the open market \$65.0 million aggregate principal amount of Senior Notes at a price of 110.75%, resulting in a cash outflow of \$72.0 million. On May 6, 2010, we repurchased in the open market \$50.0 million aggregate principal amount of Senior Notes at a price of 111.0%, resulting in a cash outflow of \$55.5 million. We had no borrowings or repayments under the ABL Facility in the 2010 period.

### *Common Stock Repurchase Program*

On November 30, 2011, our Board of Directors authorized a \$500 million common stock repurchase program. Under the program, shares of our common stock may be repurchased from time to time in open market transactions or in privately negotiated purchases, which could include repurchases from our controlling shareholder, Buck Holdings, L.P. (which is controlled by affiliates of KKR and Goldman Sachs & Co), or other related parties if appropriate. The timing and actual number of shares purchased will depend on a variety of factors, such as price, market conditions and other factors. Repurchases under the program may be funded from available cash or borrowings under the ABL Facility. The repurchase authorization has no expiration date. No shares have been repurchased as of the date of this report.

In connection with the repurchase program, on December 4, 2011, we entered into an agreement with Buck Holdings, L.P. to repurchase from it approximately \$185 million in common stock concurrent with, and conditional upon, the completion of a contemplated December 2011 underwritten secondary offering of shares by certain selling shareholders at a price per share equal to the price to the public in the secondary offering less underwriting discounts and commissions. The amount of this repurchase approximates our current capacity for repurchases of common stock under the ABL Facility. We expect to fund the purchase price for this share repurchase with borrowings under the ABL Facility.

### **Critical Accounting Policies and Estimates**

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect reported amounts and related disclosures. In addition to the estimates presented below, there are other items within our



## Edgar Filing: DOLLAR GENERAL CORP - Form 10-Q

financial statements that require estimation, but are not deemed critical as defined below. We believe these estimates are reasonable and appropriate. However, if actual experience differs from the assumptions and other considerations used, the resulting changes could have a material effect on the financial statements taken as a whole.

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

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

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

- applying the RIM to a group of products that is not fairly uniform in terms of its cost and selling price relationship and turnover;
- applying the RIM to transactions over a period of time that include different rates of gross profit, such as those relating to seasonal merchandise;
- inaccurate estimates of inventory shrinkage between the date of the last physical inventory at a store and the financial statement date; and
- inaccurate estimates of LCM and/or LIFO reserves.

Factors that reduce potential distortion include the use of historical experience in estimating the shrink provision (see discussion below) and an annual LIFO analysis whereby all SKUs are considered in the index formulation. An actual valuation of inventory under the LIFO method is made at the end of each year based on the inventory levels and costs at that time. Accordingly, interim LIFO calculations are based on management's estimates of expected year-end inventory levels, sales for the year and the expected rate of inflation/deflation for the year and are thus subject to adjustment in the final year-end LIFO inventory valuation. We also perform interim inventory analysis for determining obsolete inventory. Our policy is to write



down inventory to an LCM value based on various management assumptions including estimated markdowns and sales required to liquidate such inventory in future periods. Inventory is reviewed on a quarterly basis and adjusted to reflect write-downs as appropriate.

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

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

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

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

Under accounting standards for goodwill and other intangible assets, we are required to test such assets with indefinite lives for impairment annually, or more frequently if impairment indicators occur. The goodwill impairment test is a two-step process that requires management to make judgments in determining what assumptions to use in the calculation. The first step of the process consists of estimating the fair value of our reporting unit based on valuation techniques (including a discounted cash flow model using revenue and profit forecasts) and comparing that

estimated fair value with the recorded carrying value, which includes goodwill. If the estimated fair value is less than the carrying value, a second step is performed to compute the amount of the impairment by determining an implied fair value of goodwill. The determination of the implied fair value of goodwill would require us to allocate the estimated fair value of our reporting unit to its assets and liabilities. Any unallocated fair value represents the implied fair value of goodwill, which would be compared to its corresponding carrying value.

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

We completed testing on our goodwill and indefinite lived trade name intangible assets during the third quarter of 2011. No indicators of impairment were evident and no adjustment to these assets was required. We are not currently projecting a decline in cash flows that could be expected to have an adverse effect such as a violation of debt covenants or future impairment charges.

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

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

*Insurance Liabilities.* We retain a significant portion of the risk for our workers' compensation, employee health, property loss, automobile and general liability. These represent significant costs primarily due to the large employee base and number of stores. Provisions are made to these liabilities on an undiscounted basis based on actual claim data and estimates of

incurred but not reported claims developed using actuarial methodologies based on historical claim trends, which have been and are anticipated to continue to be materially accurate. If future claim trends deviate from recent historical patterns, we may be required to record additional expenses or expense reductions, which could be material to our future financial results.

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

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

*Lease Accounting and Excess Facilities.* Many of our stores are subject to build-to-suit arrangements with landlords, which typically carry a primary lease term of 10-15 years with multiple renewal options. We also have stores subject to shorter-term leases (usually with initial or current terms of 3 to 5 years), and many of these leases have multiple renewal options. As of January 28, 2011, approximately 35% of our stores had provisions for contingent rentals based upon a percentage of defined sales volume. We recognize contingent rental expense when the achievement of specified sales targets is considered probable. We recognize rent expense over the term of the lease. We record minimum rental expense on a straight-line basis over the base, non-cancelable lease term commencing on the date that we take physical possession of the property from the landlord, which normally includes a period prior to store opening to make necessary leasehold improvements and install store fixtures. When a lease contains a predetermined fixed escalation of the minimum rent, we recognize the related rent expense on a straight-line basis and record the difference between the recognized rental expense and the amounts payable under the lease as deferred rent. Tenant allowances, to the extent received, are recorded as deferred incentive rent and amortized as a reduction to rent expense over the term of the lease. We reflect as a liability any difference between the calculated expense and the amounts



actually paid. Improvements of leased properties are amortized over the shorter of the life of the applicable lease term or the estimated useful life of the asset.

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

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

*Fair Value Measurements.* We measure fair value of assets and liabilities in accordance with applicable accounting standards, which require that fair values be determined based on the assumptions that market participants would use in pricing the asset or liability. These standards establish a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy). Therefore, Level 3 inputs are typically based on an entity's own assumptions, as there is little, if any, related market activity, and thus require the use of significant judgment and estimates. Currently, we have no assets or liabilities that are valued based solely on Level 3 inputs.

Our fair value measurements are primarily associated with our derivative financial instruments, intangible assets, property and equipment, and to a lesser degree our investments. The values of our derivative financial instruments are determined using widely accepted

valuation techniques, including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves. The fair values of interest rate swaps are determined using the market standard methodology of netting the discounted future fixed cash payments (or receipts) and the discounted expected variable cash receipts (or payments). The variable cash receipts (or payments) are based on an expectation of future interest rates (forward curves) derived from observable market interest rate curves. In recent years, these methodologies have produced materially accurate valuations.

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

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

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.**

There have been no material changes to the disclosures relating to this item from those set forth in our Annual Report on Form 10-K for the fiscal year ended January 28, 2011.

**ITEM 4. CONTROLS AND PROCEDURES.**

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

(b) *Changes in Internal Control Over Financial Reporting.* There have been no changes in our internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f)) during the quarter ended October 28, 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**PART II OTHER INFORMATION****ITEM 1. LEGAL PROCEEDINGS.**

The information contained in Note 8 to the unaudited condensed consolidated financial statements under the heading Legal proceedings contained in Part I, Item 1 of this Form 10-Q is incorporated herein by this reference.

**ITEM 1A. RISK FACTORS.**

There have been no material changes to the disclosures relating to this item from those set forth in our Annual Report on Form 10-K for the fiscal year ended January 28, 2011.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.**

The following table contains information regarding purchases of our common stock made during the quarter ended October 28, 2011 by or on behalf of Dollar General or any affiliated purchaser, as defined by Rule 10b-18(a)(3) of the Securities Exchange Act of 1934:

| <b>Period</b>     | <b>Total Number of Shares Purchased (a)</b> | <b>Average Price Paid per Share</b> | <b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</b> | <b>Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs</b> |
|-------------------|---|-------------------------------------|---|---|
| 07/30/11-08/31/11 | 609   | \$ 24.92                            |   |   |
| 09/01/11-09/30/11 |   | \$                                  |   |   |
| 10/01/11-10/28/11 |   | \$                                  |   |   |
| Total             | 609   | \$ 24.92                            |   |   |

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

**ITEM 5. OTHER INFORMATION**

See the disclosure under Liquidity and Capital Resources Common Stock Repurchase Program set forth above under Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations, which disclosure is incorporated by reference as if fully set forth herein. The Share Repurchase Agreement entered into between Buck Holdings, L.P., and Dollar General Corporation is attached as Exhibit 10.3 hereto.

On November 30, 2011, the Company entered into a new employment agreement (the Employment Agreement ) with Todd Vasos, Executive Vice President, Division President & Chief Merchandising Officer, effective December 1, 2011. The initial term of the Employment Agreement extends until March 31, 2015 unless earlier terminated in accordance with the provisions of the Employment Agreement. The Employment Agreement replaces the employment agreement that was in place between the Company and Mr. Vasos which was due to expire on December 1, 2011.

Upon the end of the initial term, the Employment Agreement will be automatically extended from month to month, for up to six months, unless the Company gives written notice within the time frame set forth in the Employment Agreement of the intent not to extend the term, or unless the Company replaces the Employment Agreement with a new agreement or, in writing, extends or renews the term for a period that is longer than six months from the expiration of the original term.

The Employment Agreement provides for a minimum annual base salary of \$639,188, and provides that incentive compensation for Mr. Vasos shall be determined and paid under the Company's annual bonus program for officers at Mr. Vasos' applicable grade level, as it may be amended from time to time, based on criteria established by the Board, its Compensation Committee and/or the CEO, as applicable, in accordance with the terms and conditions of the annual bonus program for officers. The Employment Agreement also provides that Mr. Vasos shall be entitled to receive such other executive perquisites, fringe and other benefits as are provided to officers at the same grade level under any of the Company's plans and/or programs in effect from time to time, that Mr. Vasos (and, where applicable, his eligible dependents) shall be eligible to participate in those various Company welfare benefit plans, practices and policies in place during the term of the Employment Agreement (including, without limitation, medical, pharmacy, dental, vision, disability, employee life, accidental death and travel accident insurance plans and other programs, if any) to the extent allowed under and in accordance with the terms of those plans, and that Mr. Vasos shall be eligible to participate (with limited exceptions), pursuant to their terms, in any other benefit plans the Company offers to similarly-situated officers or other employees from time to time during the term of the Employment Agreement.

The Employment Agreement specifies the payments and benefits to be provided if Mr. Vasos' employment is terminated voluntarily or involuntarily under various scenarios described in the Employment Agreement, including death, disability, termination with or without cause, and termination with or without good reason. The Employment Agreement also provides for various customary business protection provisions, including non-competition, non-solicitation, non-interference, non-disparagement, and confidentiality and non-disclosure provisions.

Prior to March 31, 2015, if Mr. Vasos becomes entitled to receive payments and benefits (such payments and benefits, the "Total Payments") that are considered "parachute payments" under Section 280G of the Internal Revenue Code of 1986, as amended (the "Code") and such Total Payments are therefore subject to the excise tax imposed by Section 4999 of the Code (such tax, an "Excise Tax"), the Employment Agreement provides that Mr. Vasos will be entitled to receive a gross-up payment in an amount such that, after paying all taxes (including the excise tax), Mr. Vasos retains an amount of the gross-up payment equal to the excise tax (such final amount, the "Take Home Amount"). However, if (i) the Total Payments can be reduced to an amount which maximizes the present value of the Total Payments, but would not trigger the imposition of the Excise Tax (such amount, the "Reduced Amount") and (ii) the net after-tax benefit to Mr. Vasos of the Take Home Amount is less than \$50,000 greater than the net after-tax benefit of the Reduced Amount, Mr. Vasos will not receive the gross-up payment and will instead receive the Reduced Amount. During any term of the Employment Agreement after March 31, 2015, if any Total Payments that become due to Mr. Vasos constitute "parachute

payments and would be subject to an Excise Tax, Mr. Vasos will not receive a gross-up payment and such Total Payments will instead be reduced such that no Excise Tax would be imposed.

The foregoing description of the terms of the Employment Agreement is not a complete summary of such terms, and reference is made to the complete text of the Employment Agreement which is filed herewith as Exhibit 10.2 and incorporated by reference herein.

**ITEM 6.**

**EXHIBITS.**

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

**CAUTIONARY DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS**

We include forward-looking statements within the meaning of the federal securities laws throughout this report, particularly under Management's Discussion and Analysis of Financial Condition and Results of Operations and Note 8. Commitments and Contingencies. You can identify these statements because they are not limited to historical fact or they use words such as may, will, should, expect, believe, anticipate, project, estimate, objective, intend, or could, and similar expressions that concern our strategy, plans, intentions or beliefs about future occurrences or results. For example, statements relating to estimated and projected expenditures, cash flows, results of operations, financial condition and liquidity; plans and objectives for future operations, growth or initiatives; and the expected outcome or effect of pending or threatened litigation or audits are forward-looking statements.

Forward-looking statements are subject to risks and uncertainties that may change at any time, so our actual results may differ materially from those that we expected. We derive many of these statements from our operating budgets and forecasts, which are based on many detailed assumptions that we believe are reasonable. However, it is very difficult to predict the effect of known factors, and we cannot anticipate all factors that could affect our actual results. Important factors that could cause actual results to differ materially from the expectations expressed in our forward-looking statements include, without limitation:

- failure to successfully execute our growth strategy, including delays in store growth, difficulties executing sales and operating profit margin initiatives and inventory shrinkage reduction;
- the failure of our new store base to achieve sales and operating levels consistent with our expectations;
- risks and challenges in connection with sourcing merchandise from domestic and foreign vendors, as well as trade restrictions;
- our level of success in gaining and maintaining broad market acceptance of our private brands and in achieving our other initiatives;
- unfavorable publicity or consumer perception of our products;
- our debt levels and restrictions in our debt agreements;
- economic conditions, including their effect on the financial and capital markets, our suppliers and business partners, employment levels, consumer demand, disposable income, credit availability and spending patterns, inflation, and the cost of goods;



Edgar Filing: DOLLAR GENERAL CORP - Form 10-Q

- increases in commodity prices (including, without limitation, cotton, wheat, corn, sugar, oil, paper and resin);
- levels of inventory shrinkage;
- seasonality of our business;
- increases in costs of fuel or other energy, transportation or utilities costs and in the costs of labor, employment and health care;

## Edgar Filing: DOLLAR GENERAL CORP - Form 10-Q

- the impact of changes in, or noncompliance with, governmental laws and regulations (including, but not limited to, product safety, healthcare and unionization) and developments in or outcomes of legal proceedings, investigations or audits;
- disruptions, unanticipated expenses or operational failures in our supply chain including, without limitation, a decrease in transportation capacity for overseas shipments or work stoppages or other labor disruptions that could impede our receipt of imported merchandise;
- delays or unanticipated expenses in constructing new distribution centers;
- damage or interruption to our information systems;
- changes in the competitive environment in our industry and the markets where we operate;
- natural disasters, unusual weather conditions, pandemic outbreaks, boycotts, war and geo-political events;
- the incurrence of material uninsured losses, excessive insurance costs, or accident costs;
- our failure to protect our brand name;
- our loss of key personnel or our inability to hire additional qualified personnel;
- interest rate and currency exchange fluctuations;
- a data security breach;
- our failure to maintain effective internal controls;

## Edgar Filing: DOLLAR GENERAL CORP - Form 10-Q

- changes to income tax expense due to changes in or interpretation of tax laws, or as a result of federal or state income tax examinations;
- changes to or new accounting guidance, such as changes to lease accounting guidance or a requirement to convert to international financial reporting standards;
- factors disclosed under **Risk Factors** in Part I, Item 1A of our Form 10-K for the fiscal year ended January 28, 2011; and
- factors disclosed elsewhere in this document (including, without limitation, in conjunction with the forward-looking statements themselves and under the heading **Critical Accounting Policies and Estimates** ) and other factors.

All forward-looking statements are qualified in their entirety by these and other cautionary statements that we make from time to time in our other SEC filings and public communications. You should evaluate forward-looking statements in the context of these risks and uncertainties. These factors may not contain all of the material factors that are important to you. We cannot assure you that we will realize the results or developments we anticipate or, even if substantially realized, that they will result in the consequences or affect us or our operations in the way we expect. The forward-looking statements included in this report are made only as of the date hereof. We undertake no obligation to publicly update or revise any forward-looking statement as a result of new information, future events or otherwise, except as otherwise required by law.

**SIGNATURES**

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

DOLLAR GENERAL CORPORATION

Date: December 5, 2011

By:

/s/ David M. Tehle

David M. Tehle

Executive Vice President and Chief Financial Officer

**EXHIBIT INDEX**

|         |   |
|---------|---|
| 10.1    | Summary of Non-Employee Director Compensation as amended on August 24, 2011 (incorporated by reference to Exhibit 10.3 to Dollar General Corporation's Quarterly Report on Form 10-Q for the quarter ended July 29, 2011, filed with the SEC on August 30, 2011 (file no. 001-11421)) |
| 10.2    | Employment Agreement effective December 1, 2011 by and between Dollar General Corporation and Todd J. Vasos   |
| 10.3    | Share Repurchase Agreement dated as of December 4, 2011 by and among Buck Holdings, L.P. and Dollar General Corporation   |
| 15      | Letter re unaudited interim financial information   |
| 31      | Certifications of CEO and CFO under Exchange Act Rule 13a-14(a)   |
| 32      | Certifications of CEO and CFO under 18 U.S.C. 1350  |
| 101.INS | XBRL Instance Document  |
| 101.SCH | XBRL Taxonomy Extension Schema Document   |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document   |
| 101.LAB | XBRL Taxonomy Extension Labels Linkbase Document  |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document  |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document  |