

DOLLAR GENERAL CORP
Form 10-K
March 22, 2012

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended February 3, 2012

Commission file number: 001-11421

DOLLAR GENERAL CORPORATION

(Exact name of registrant as specified in its charter)

TENNESSEE

(State or other jurisdiction of
incorporation or organization)

61-0502302

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

100 MISSION RIDGE

GOODLETTSVILLE, TN 37072

(Address of principal executive offices, zip code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of the exchange on which registered
Common Stock, par value \$0.875 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ☐ No ☒

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

Edgar Filing: DOLLAR GENERAL CORP - Form 10-K

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 ☐

(Do not check if a
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 aggregate fair market value of the registrant's common stock outstanding and held by non-affiliates as of July 29, 2011 was \$3.12 billion calculated using the closing market price of our common stock as reported on the NYSE on such date (\$31.46). For this purpose, directors, executive officers and greater than 10% record shareholders are considered the affiliates of the registrant.

The registrant had 338,091,175 shares of common stock outstanding as of March 16, 2012.

DOCUMENTS INCORPORATED BY REFERENCE

Certain of the information required in Part III of this Form 10-K is incorporated by reference to the Registrant's definitive proxy statement to be filed for the Annual Meeting of Shareholders to be held on June 1, 2012.

INTRODUCTION

General

This report contains references to years 2012, 2011, 2010, 2009, 2008, and 2007, which represent fiscal years ending or ended February 1, 2013, February 3, 2012, January 28, 2011, January 29, 2010, January 30, 2009, and February 1, 2008, respectively. Our fiscal year ends on the Friday closest to January 31, and each of the years listed will be or were 52-week years, with the exception of 2011 which consisted of 53 weeks. All of the discussion and analysis in this report should be read with, and is qualified in its entirety by, the Consolidated Financial Statements and related notes.

Solely for convenience, our trademarks and tradenames may appear in this report without the ® or TM symbol which is not intended to indicate that we will not assert, to the fullest extent under applicable law, our rights or the right to these trademarks and tradenames.

Cautionary Disclosure Regarding Forward-Looking Statements

We include "forward-looking statements" within the meaning of the federal securities laws throughout this report, particularly under the headings "Business," "Management's Discussion and Analysis of Financial Condition and Results of Operations," and "Note 9 Commitments and Contingencies," among others. You can identify these statements because they are not limited to historical fact or they use words such as "may," "will," "should," "could," "believe," "anticipate," "project," "plan," "expect," "estimate," "forecast," "goal," "potential," "opportunity," "intend," "will likely result," or "will continue" and similar expressions that concern our strategy, plans, intentions or beliefs about future occurrences or results. For example, all statements relating to our estimated and projected expenditures, cash flows, results of operations, financial condition and liquidity; our plans, objectives and expectations for future operations, growth or initiatives; or the expected outcome or effect of pending or threatened litigation or audits are forward-looking statements.

All 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 are disclosed under "Risk Factors" in Part I, Item 1A and elsewhere in this document (including, without limitation, in conjunction with the forward-looking statements themselves and under the heading "Critical Accounting Policies and Estimates"). 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 such statements in the context of these risks and uncertainties. These factors may not contain all of the 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 in the way we expect. Forward-looking statements 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.

PART I

ITEM 1. BUSINESS

General

We are the largest discount retailer in the United States by number of stores, with 9,961 stores located in 39 states as of March 2, 2012, primarily in the southern, southwestern, midwestern and eastern United States. We offer a broad selection of merchandise, including consumables, seasonal, home products and apparel. Our merchandise includes high quality national brands from leading manufacturers, as well as comparable quality private brand selections with prices at substantial discounts to national brands. We offer our merchandise at everyday low prices (typically \$10 or less) through our convenient small-box (approximately 7,200 square feet) locations.

Our History

J.L. Turner founded our Company in 1939 as J.L. Turner and Son, Wholesale. We were incorporated as a Kentucky corporation under the name J.L. Turner & Son, Inc. in 1955, when we opened our first Dollar General store. We changed our name to Dollar General Corporation in 1968 and reincorporated in 1998 as a Tennessee corporation. Our common stock was publicly traded from 1968 until July 2007, when we merged with an entity controlled by investment funds affiliated with Kohlberg Kravis Roberts & Co. L.P., or KKR. In November 2009 our common stock again became publicly traded. Buck Holdings, L.P., a Delaware limited partnership controlled by KKR, continues to beneficially own a significant percentage of our outstanding common stock.

Our Business Model

Our long history of profitable growth is founded on a commitment to a relatively simple business model: providing a broad base of customers with their basic everyday and household needs, supplemented with a variety of general merchandise items, at everyday low prices in conveniently located, small-box stores. We continually evaluate the needs and demands of our customers and modify our merchandise selections and pricing accordingly, while remaining focused on increasing profitability for our shareholders.

Fiscal year 2011 represented our 22nd consecutive year of same-store sales growth. This growth, regardless of economic conditions, suggests that we have a less cyclical model than most retailers and, we believe, is a result of our compelling value and convenience proposition.

Our attractive store economics, including a relatively low initial investment and simple, low cost operating model, have allowed us to grow our store base to current levels, and provide us significant opportunities to continue our profitable store growth strategy.

Compelling Value and Convenience Proposition. Our ability to deliver highly competitive prices on national brand and quality private brand products in convenient locations and our easy in and out shopping format create a compelling shopping experience that distinguishes us from other discount, convenience and drugstore retailers. Our slogan, "Save time. Save money. Every day!" summarizes our appeal to customers. We believe our ability to effectively deliver both value and convenience allows us to succeed in small markets with limited shopping alternatives, as well as to profitably coexist alongside larger retailers in more competitive markets. Our compelling value and convenience proposition is evidenced by the following attributes of our business model:

Convenient Locations. Our stores are conveniently located in a variety of rural, suburban and urban communities, currently with approximately 70% serving communities with populations of less than 20,000. In more densely populated areas, our small-box stores typically serve the closely surrounding neighborhoods. The majority of our customers live within three to five miles, or a

Edgar Filing: DOLLAR GENERAL CORP - Form 10-K

10-minute drive, of our stores. Our close proximity to customers drives customer loyalty and trip frequency and makes us an attractive alternative to large discount and other large-box retail and grocery stores which are often located farther away. Our low cost economic model enables us to serve many areas with fewer than 1,500 households.

Time-Saving Shopping Experience. We also provide customers with a highly convenient shopping experience. Our stores' smaller size allows us to locate parking near the front entrance. Our product offering includes most necessities, such as basic packaged and refrigerated food and dairy products, cleaning supplies, paper products, and health and beauty care items, as well as greeting cards, party supplies, apparel, housewares, hardware and automotive supplies, among others. Our typical store opens at 8:00 a.m. and closes at 9:00 p.m. or 10:00 p.m., seven days per week. Our convenient hours and broad merchandise offering allow our customers to fulfill their routine shopping requirements and minimize their need to shop elsewhere.

Everyday Low Prices on Quality Merchandise. Our research indicates that we offer a price advantage over most food and drug retailers and that our prices are highly competitive with even the largest discount retailers. Our ability to offer everyday low prices on quality merchandise is supported by our low-cost operating structure and our strategy to maintain a limited number of stock keeping units ("SKUs") per category, which we believe helps us maintain strong purchasing power. Most items are priced below \$10, with approximately 25% at \$1 or less. We offer quality nationally advertised brands at these everyday low prices in addition to offering our own comparable quality private brands at value prices.

Attractive Store Economics. The traditional Dollar General store size, design and location requires minimal initial capital investment and low maintenance expenditures. Our typical locations involve a modest, no-frills building, which helps keep our rental and other fixed overhead costs relatively low. Our leased stores generally deliver positive cash flow in their first year of operations, typically resulting in pay back of capital in less than two years. Our stringent market analysis, real estate site selection and new store approval processes as well as our new store marketing programs help us optimize financial returns and minimize the risks of opening unprofitable stores.

Our lean store staffing model and centralized management of utilities, maintenance and supplies procurement contribute to our relatively low operating costs and efficient store operations. Recent additions and upgrades to technology in our stores, including high-speed data transmission, inventory control, workforce management and task management systems are enabling us to manage our store operations even more effectively.

Substantial Growth Opportunities. We believe we have the long-term potential in the U.S. to more than double our existing store base while maintaining strong returns on capital. We have identified significant opportunities to add new stores in both existing and new markets. In addition, we have opportunities within our existing store base to relocate or remodel to better serve our customers. See "Our Growth Strategy" for additional details.

Our Growth Strategy

We believe we have the right strategy and execution capabilities to capitalize on the considerable growth opportunities afforded by our business model. We believe we continue to have significant opportunities to drive profitable growth through increasing same-store sales, expanding our operating profit rate and growing our store base.

Increasing Same-Store Sales. We believe the combination of our necessity-driven product mix and our attractive value proposition, including a well-balanced merchandising approach, provides a strong basis for increased sales. Our average sales per square foot increased to \$213 in 2011 (including a \$4 contribution from the 53rd week) from \$201 in 2010 and \$195 in 2009. We believe we will continue to

Edgar Filing: DOLLAR GENERAL CORP - Form 10-K

have additional opportunities to increase our store productivity through improved in-stock positions, price optimization, continued improvements in space utilization, and additional operating and merchandising initiatives, including further expansion of our frozen and refrigerated food offerings.

We remodeled or relocated 575 stores in 2011, and we plan to relocate or remodel 550 stores in 2012. Remodels and relocations typically drive incremental same-store sales growth. A relocation typically results in an improved, more visible and accessible location, and usually includes increased square footage. We believe we will continue to have opportunities for additional remodels and relocations beyond 2012.

Expanding Operating Profit Rate. Another key component of our growth strategy is improving our operating profit rate through enhanced gross profit and expense reduction initiatives. Even though we faced challenges in 2011 resulting from ongoing pressures with regard to discretionary spending and significant increases in product costs, we were able to increase our operating profit by 17%, equal to 30 basis points as a percent of sales, primarily due to our ongoing efforts to reduce selling, general and administrative expenses as a percent of sales.

We remain committed to an everyday low price ("EDLP") strategy that our customers can depend on. To strengthen our adherence to this strategy and still protect gross profit, we utilize various pricing and merchandising options, including price optimization strategies, changes to our product selection, such as alternate national brands and the expansion of our private brands, and modifications to our packaging and product size. In 2011, the cost of many basic commodities, including cotton, sugar, coffee, groundnuts and resin, as well as transportation fuel, increased, and many of these increases were passed along to us by our vendors. These cost increases posed a challenge to our continued priority of improving our gross profit rate in 2011.

Our private brand program complements our model of offering customers nationally branded consumables merchandise at everyday low prices. When compared to similar national brands, private or proprietary brand items generally have higher gross profit rates. The addition of private brands also allows us to better control quality and improve our packaging and shelf presentation over less recognizable "packer" labels. Over the past few years we have expanded our private brand initiative to our non-consumable offerings, dramatically improving the visual impact of many of our non-consumables, including housewares, domestics, lawn and garden tools and summer toys.

In addition, in 2010 and 2011, we increased our offering of items at the \$1.00 price point, focusing first on food followed by health and beauty. Because we believe this program adds incremental sales and gross profit, we plan to further this program in 2012, continuing to combine some of our \$1.00 EDLP items with special purchases.

Improving our inventory shrinkage has been and continues to be an important component of expanding our gross profit rate. To achieve this objective we have concentrated our shrink reduction efforts on stores with the highest shrink rates. In addition, we have been successful in employing exception reporting tools and enhanced shrink optimization processes.

We also continue to believe we have the potential to directly source a larger portion of our products internationally at significant savings to current costs. In 2011, we imported approximately \$780 million of goods, or 8% of total purchases, at cost.

We continually look for ways to improve our cost structure and enhance efficiencies throughout the organization. For example, in 2011, we fully implemented a store workforce management program, and made further progress on reducing costs through our energy management and centralized procurement systems.

Edgar Filing: DOLLAR GENERAL CORP - Form 10-K

Growing Our Store Base. Based on a detailed, market-by-market analysis, we believe we have the potential to at least double our current number of stores through expansion in both existing and new markets. In 2011, we made our initial entrance into Connecticut, New Hampshire and Nevada (our first new states since 2006) and in 2012 we plan to open approximately 50 stores in California. We have confidence in our real estate disciplines and in our ability to identify, open and operate successful new stores. As a result, we believe that at least our present level of new store growth is sustainable for the foreseeable future.

Our Merchandise

We offer a focused assortment of everyday necessities, which drive frequent customer visits, and key items in a broad range of general merchandise categories. Our product assortment provides the opportunity for our customers to address most of their basic shopping needs with one trip. We sell high quality national brands from leading manufacturers such as Procter & Gamble, Kimberly Clark, Unilever, Kellogg's, General Mills, Nabisco, Coca-Cola and PepsiCo, which are typically found at higher retail prices elsewhere. Additionally, our private brand consumables offer consumers even greater value with options to purchase value items and national brand equivalent products at substantial discounts to the national brand.

Our stores generally offer approximately 10,000 total SKUs per store; however, the number of SKUs in a given store can vary based upon the store's size, geographic location, merchandising initiatives, seasonality, and other factors. Most of our products are priced at \$10 or less, with approximately 25% at \$1 or less. We separate our merchandise into four categories: 1) consumables; 2) seasonal; 3) home products; and 4) apparel.

Consumables is our largest category and includes paper and cleaning products (such as paper towels, bath tissue, paper dinnerware, trash and storage bags, laundry and other home cleaning supplies); food, including packaged food and perishables (such as cereals, canned soups and vegetables, sugar, flour, milk, eggs and bread); beverages and snacks (including candy, cookies, crackers, salty snacks and carbonated beverages); health and beauty (including over-the-counter medicines and personal care products, such as soap, body wash, shampoo, dental hygiene and foot care products); and pet (including pet supplies and pet food).

Seasonal products include decorations, toys, batteries, small electronics, greeting cards, stationery, prepaid cell phones and accessories, gardening supplies, hardware, automotive and home office supplies.

Home products includes kitchen supplies, cookware, small appliances, light bulbs, storage containers, frames, candles, craft supplies and kitchen, bed and bath soft goods.

Apparel includes casual everyday apparel for infants, toddlers, girls, boys, women and men, as well as socks, underwear, disposable diapers, shoes and accessories.

The percentage of net sales of each of our four categories of merchandise for the fiscal years indicated below was as follows:

	2011	2010	2009
Consumables	73.2%	71.6%	70.8%
Seasonal	13.8%	14.5%	14.5%
Home products	6.8%	7.0%	7.4%
Apparel	6.2%	6.9%	7.3%

Our home products and seasonal categories typically account for the highest gross profit margins, and the consumables category typically accounts for the lowest gross profit margin.

The Dollar General Store

The average Dollar General store has approximately 7,200 square feet of selling space and is typically operated by a store manager, an assistant store manager and three or more sales clerks. Approximately 60% of our stores are in freestanding buildings and 40% are in strip shopping centers. Most of our customers live within three to five miles, or a 10 minute drive, of our stores. Our traditional store strategy features low initial capital expenditures, limited maintenance capital, low occupancy and operating costs, and a focused merchandise offering within a broad range of categories, allowing us to deliver low retail prices while generating strong cash flows and investment returns. In 2011, the average cost of equipment and fixtures in our traditional leased stores was approximately \$180,000. Initial inventory, net of payables, increases the investment in a new store by approximately \$75,000.

We generally have had good success in locating suitable store sites in the past. Given the size of the communities that we target, we believe that there is ample opportunity for new store growth in existing and new markets. In addition, the current real estate market has continued to provide opportunities for us to access higher quality sites at lower rates than in recent years. Also, we believe we have significant opportunities available for our relocation and remodel programs. We spend approximately \$80,000 for equipment and fixtures to remodel a traditional store and approximately \$160,000 to relocate a traditional store. We remodeled or relocated 575 stores in 2011, 504 in 2010 and 450 in 2009.

At the end of 2011, our total store count included 69 Dollar General Market stores, which, in addition to the merchandise offering of a traditional Dollar General store, feature an expanded food section, including fresh meat and produce and significantly more frozen and refrigerated foods. These stores, which average approximately 16,000 square feet of selling space, are an alternative to the typical grocery store or supermarket, and generally contribute more to sales and operating income than our traditional stores. In 2011, we opened 12 new Dollar General Markets, including seven as part of our initial entrance into Nevada. We plan to open approximately 40 new Dollar General Markets in 2012, including a significant percentage of our initial stores in California. Our focus is on locating the Dollar General Market stores in areas that are generally underserved by large grocery chains. We continue to test and adjust the Dollar General Market concept and how we build and open the stores, as the capital investment for these stores is significantly higher than our traditional stores. In addition to the Market stores, we are also testing a larger format traditional store with approximately 10,000 square feet of selling space, including an expanded section of coolers and freezers. Like the Dollar General Market stores, these larger format stores currently require significantly higher capital investment than our traditional stores and we are working to reduce that difference.

Our recent store growth is summarized in the following table:

Year	Stores at Beginning of Year	Stores Opened	Stores Closed	Net Store Increase	Stores at End of Year
2009	8,362	500	34	466	8,828
2010	8,828	600	56	544	9,372
2011	9,372	625	60	565	9,937

Our Customers

Our customers seek value and convenience. Depending on their financial situation and geographic proximity, customers' reliance on Dollar General varies from using Dollar General for fill-in shopping, to making periodic trips to stock up on household items, to making weekly or more frequent trips to meet most essential needs. We believe that our value and convenience proposition attracts customers from a wide range of income brackets and life stages. In the last year, we have continued to see

Edgar Filing: DOLLAR GENERAL CORP - Form 10-K

increases in the annual number of shopping trips that our customers make to our stores as well as the amount spent during each trip.

To attract new and retain existing customers, we continue to focus on product quality and selection, in-stock levels and pricing, targeted advertising, improved store standards, convenient site locations, and a pleasant overall customer experience.

Our Suppliers

We purchase merchandise from a wide variety of suppliers and maintain direct buying relationships with many producers of national brand merchandise, such as Procter & Gamble, Kimberly Clark, Unilever, Kellogg's, General Mills, Nabisco, Coca-Cola and PepsiCo. Despite our broad offering, we maintain only a limited number of SKUs per category, giving us a pricing advantage in dealing with our suppliers. Approximately 8% and 7% of our purchases in 2011 were from our largest and second largest suppliers, respectively. Our private brands come from a diversified supplier base. We directly imported approximately 8% of our purchases at cost (12% of our purchases based on their retail value) in 2011. Our vendor arrangements generally provide for payment for such merchandise in U.S. dollars.

We have consistently managed to obtain sufficient quantities of core merchandise and believe that, if one or more of our current sources of supply became unavailable, we would generally be able to obtain alternative sources without experiencing a substantial disruption of our business. However, such alternative sources could increase our merchandise costs or reduce the quality of our merchandise, and an inability to obtain alternative sources could adversely affect our sales.

Distribution, Transportation and Inventory Management

Our stores are currently supported by ten distribution centers located strategically throughout our geographic footprint, including a new distribution center in Bessemer, Alabama which began shipping to stores on March 11, 2012. We lease additional temporary warehouse space as necessary to support our distribution needs. In addition, we have leased a distribution facility in Lebec, California which we expect to be operational in April 2012. Over the past few years we have made significant investments in facilities, technological improvements and upgrades, and we continue to improve work processes, all of which increase our efficiency and ability to support our merchandising and operations initiatives as well as our new store growth. We continually analyze and rebalance the network to ensure that it remains efficient and provides the service our stores require. See " Properties" for additional information pertaining to our distribution centers.

Most of our merchandise flows through our distributions centers and is delivered to our stores by third-party trucking firms, utilizing our trailers. Our agreements with these trucking firms are based on estimated costs of diesel fuel, with the difference in estimated and current market fuel costs passed through to us. The costs of diesel fuel are significantly influenced by international, political and economic circumstances, and were considerably higher throughout 2011 than in 2010. If such increased prices remain in effect, or if further price increases were to arise for any reason, including fuel supply shortages or unusual price volatility, the resulting higher fuel prices could materially increase our transportation costs.

We believe that there remains opportunity to improve our inventory turns. Initiatives in process include operational efforts to optimize presentation levels, improve in-stock levels and decrease excess quantities shipped to our stores. We continue to focus on SKU optimization in an attempt to ensure that we can meet customers' demands for our most popular products as well as ensure appropriate product assortment. We are also in the process of implementing an improved supply chain solution to assist in ordering, monitoring and tracking inventory from purchase order to receipt to maintain efficient levels of inventory. We turned our inventory approximately 5.3 times over the most recent four quarters.

Seasonality

Our business is seasonal to a certain extent. Generally, our highest sales volume occurs in the fourth quarter, which includes the Christmas selling season, and the lowest occurs in the first quarter. In addition, our quarterly results can be affected by the timing of certain holidays, the timing of new store openings and store closings, the amount of sales contributed by new and existing stores, as well as financial transactions such as debt repurchases, common stock offerings and stock repurchases. We purchase substantial amounts of inventory in the third quarter and incur higher shipping costs and higher payroll costs in anticipation of the increased sales activity during the fourth quarter. In addition, we carry merchandise during our fourth quarter that we do not carry during the rest of the year, such as gift sets, holiday decorations, certain baking items, and a broader assortment of toys and candy.

The following table reflects the seasonality of net sales, gross profit, and net income by quarter for each of the quarters of our three most recent fiscal years. The fourth quarter of the year ended February 3, 2012 was comprised of 14 weeks, and each of the other quarters reflected below were comprised of 13 weeks.

(in millions)	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Year Ended February 3, 2012				
Net sales	\$ 3,451.7	\$ 3,575.2	\$ 3,595.2	\$ 4,185.1
Gross profit	1,087.4	1,148.3	1,115.8	1,346.4
Net income(a)	157.0	146.0	171.2	292.5
Year Ended January 28, 2011				
Net sales	\$ 3,111.3	\$ 3,214.2	\$ 3,223.4	\$ 3,486.1
Gross profit	999.8	1,036.0	1,010.7	1,130.2
Net income	136.0	141.2	128.1	222.5
Year Ended January 29, 2010				
Net sales	\$ 2,779.9	\$ 2,901.9	\$ 2,928.8	\$ 3,185.8
Gross profit	855.4	906.0	903.1	1,025.4
Net income(b)	83.0	93.6	75.6	87.2

- (a) Includes expenses, net of income taxes, of \$35.4 million related to the redemption of long-term obligations in second quarter of 2011.
- (b) Includes expenses, net of income taxes, of \$82.9 million related to our initial public offering during the fourth quarter of 2009.

Our Competition

We operate in the basic discount consumer goods market, which is highly competitive with respect to price, store location, merchandise quality, assortment and presentation, in-stock consistency, and customer service. We compete with discount stores and with many other retailers, including mass merchandise, grocery, drug, convenience, variety and other specialty stores. These other retail companies operate stores in many of the areas where we operate, and many of them engage in extensive advertising and marketing efforts. Our direct competitors include Family Dollar, Dollar Tree, Fred's, 99 Cents Only and various local, independent operators, as well as Walmart, Target, Walgreens, CVS, and Rite Aid, among others. Certain of our competitors have greater financial, distribution, marketing and other resources than we do.

We differentiate ourselves from other forms of retailing by offering consistently low prices in a convenient, small-store format. We believe that our prices are competitive due in part to our low cost operating structure and the relatively limited assortment of products offered. Historically, we have

Edgar Filing: DOLLAR GENERAL CORP - Form 10-K

minimized labor by offering fewer price points and a reliance on simple merchandise presentation. Purchasing large volumes of merchandise within our focused assortment in each merchandise category allows us to keep our average costs low, contributing to our ability to offer competitive everyday low prices to our customers. See " Our Business Model" above for further discussion of our competitive situation.

Our Employees

As of March 2, 2012, we employed approximately 90,000 full-time and part-time employees, including divisional and regional managers, district managers, store managers, other store personnel and distribution center and administrative personnel. We have increasingly focused on recruiting, training, motivating and retaining employees, and we believe that the quality, performance and morale of our employees have increased as a result. We currently are not a party to any collective bargaining agreements.

Our Trademarks

We own marks that are registered with the United States Patent and Trademark Office and are protected under applicable intellectual property laws, including without limitation the trademarks Dollar General®, Dollar General Market®, Clover Valley®, DG®, DG Guarantee®, Smart & Simple®, trueliving®, Sweet Smiles®, Open Trails®, and the Dollar General price point designs, along with variations and formatives of these trademarks as well as certain other trademarks. Effective as of February 1, 2012 we exercised an option to purchase the Bobbie Brooks® trademark. We expect to file assignment documents in applicable trademark offices in the coming weeks. We attempt to obtain registration of our trademarks whenever practicable and to pursue vigorously any infringement of those marks. Our trademark registrations have various expiration dates; however, assuming that the trademark registrations are properly renewed, they have a perpetual duration.

We also hold licenses to use various trademarks owned by third parties, including a license to the Fisher Price brand for certain items of children's clothing through December 31, 2013, and an exclusive license to the Rexall brand through March 5, 2020.

Available Information

Our Web site address is www.dollargeneral.com. We file with or furnish to the Securities and Exchange Commission (the "SEC") annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports, proxy statements and annual reports to shareholders, and, from time to time, registration statements and other documents. These documents are available free of charge to investors on or through the Investor Information portion of our Web site as soon as reasonably practicable after we electronically file them with or furnish them to the SEC. In addition, the public may read and copy any of the materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an internet site that contains reports, proxy and information statements and other information regarding issuers, such as Dollar General, that file electronically with the SEC. The address of that Web site is <http://www.sec.gov>.

ITEM 1A. RISK FACTORS

You should carefully consider the risks described below and the other information contained in this report and other filings that we make from time to time with the SEC, including our consolidated financial statements and accompanying notes. Any of the following risks could materially and adversely affect our business, financial condition, results of operations or liquidity. In addition, the risks described below are not the only risks we face. Our business, financial condition, results of operations or liquidity could also be adversely affected by additional factors that apply to all companies generally, as well as other risks that are not currently known to us or that we currently view to be immaterial. While we attempt to mitigate known risks to the extent we believe to be practicable and reasonable, we can provide no assurance, and we make no representation, that our mitigation efforts will be successful.

Current economic conditions and other economic factors may adversely affect our financial performance and other aspects of our business.

We believe that many of our customers are on fixed or low incomes and generally have limited discretionary spending dollars. A further slowdown in the economy, or a delayed recovery, or other economic conditions affecting disposable consumer income, such as increased unemployment or underemployment levels, inflation, increases in fuel or other energy costs and interest rates, lack of available credit, consumer debt levels, higher tax rates and other changes in tax laws, and further erosion in consumer confidence, may adversely affect our business by reducing our customers' spending or by causing them to shift their spending to products other than those sold by us or to products sold by us that are less profitable than other product choices, all of which could result in lower net sales, decreases in inventory turnover, greater markdowns on inventory, and a reduction in profitability due to lower margins. Many of those factors, as well as commodity rates, transportation costs (including the costs of diesel fuel), costs of labor, insurance and healthcare, foreign exchange rate fluctuations, lease costs, measures that create barriers to or increase the costs associated with international trade, changes in other laws and regulations and other economic factors, also affect our cost of goods sold and our selling, general and administrative expenses, which may adversely affect our sales or profitability. We have limited or no ability to control many of these factors. Product costs began to escalate in our 2010 fourth quarter as a result of increases in the costs of certain commodities (including cotton, sugar, coffee, groundnuts, resin), and increasing diesel fuel costs. We will be diligent in our efforts to keep product costs as low as possible in the face of these increases while still working to optimize gross profit and meet the needs of our customers.

In addition, many of the factors discussed above, along with current global economic conditions and uncertainties, the potential for additional failures or realignments of financial institutions, and the related impact on available credit may affect us and our suppliers and other business partners, landlords and service providers in an adverse manner including, but not limited to, reducing access to liquid funds or credit, increasing the cost of credit, limiting our ability to manage interest rate risk, increasing the risk of bankruptcy of our suppliers, landlords or counterparties to, or other financial institutions involved in, our credit facilities and our derivative and other contracts, increasing the cost of goods to us, and other adverse consequences which we are unable to fully anticipate or control.

Our plans depend significantly on initiatives designed to increase sales and improve the efficiencies, costs and effectiveness of our operations, and failure to achieve or sustain these plans could affect our performance adversely.

We have initiatives (such as those relating to marketing, merchandising, promotions, sourcing, shrink, private brand, store operations and real estate) in various stages of testing, evaluation, and implementation, upon which we expect to rely to continue to improve our results of operations and financial condition and to achieve our financial plans. These initiatives are inherently risky and uncertain, even when tested successfully, in their application to our business in general. It is possible

Edgar Filing: DOLLAR GENERAL CORP - Form 10-K

that successful testing can result partially from resources and attention that cannot be duplicated in broader implementation, particularly in light of the diverse geographic locations of our stores and the fact that our field management is so decentralized. General implementation also may be negatively affected by other risk factors described herein. Successful systemwide implementation relies on consistency of training, stability of workforce, ease of execution, and the absence of offsetting factors that can influence results adversely. Failure to achieve successful implementation of our initiatives or the cost of these initiatives exceeding management's estimates could adversely affect our results of operations and financial condition.

In addition, the success of our merchandising initiatives, particularly those with respect to non-consumable merchandise, depends in part upon our ability to predict consistently and successfully the products our customers will demand and to identify and timely respond to evolving trends in demographics and consumer preferences, expectations and needs. If we are unable to select products that are attractive to customers, to obtain such products at costs that allow us to sell them at a profit, or to effectively market such products, our sales, market share and profitability could be adversely affected. If our merchandising efforts in the non-consumables area are unsuccessful, we could be further adversely affected by our inability to offset the lower margins associated with our consumables business.

We face intense competition that could limit our growth opportunities and adversely impact our financial performance.

The retail business is highly competitive. We operate in the basic discount consumer goods market, which is competitive with respect to price, store location, merchandise quality, assortment and presentation, in-stock consistency, and customer service. This competitive environment subjects us to the risk of adverse impact to our financial performance because of the lower prices, and thus the lower margins, required to maintain our competitive position. Also, companies like ours operating in the basic discount consumer goods market (due to customer demographics and other factors) may have limited ability to increase prices in response to increased costs without losing competitive position. This limitation may adversely affect our margins and financial performance. We compete for customers, employees, store sites, products and services and in other important aspects of our business with many other local, regional and national retailers. We compete with retailers operating discount, mass merchandise, outlet, warehouse club, grocery, drug, convenience, variety and other specialty stores. Certain of our competitors have greater financial, distribution, marketing and other resources than we do and may be able to secure better arrangements with suppliers than we can. These other competitors compete in a variety of other ways, including aggressive promotional activities, merchandise selection and availability, services offered to customers, location, store hours, in-store amenities and price. If we fail to respond effectively to competitive pressures and changes in the retail markets, it could adversely affect our financial performance.

Competition for customers has intensified in recent years as larger competitors have moved into, or increased their presence in, our geographic markets. In addition, some of our large box competitors are or may be developing small box formats which may produce more competition. We remain vulnerable to the marketing power and high level of consumer recognition of these larger competitors and to the risk that these competitors or others could venture into our industry in a significant way. Generally, we expect an increase in competition.

Our private brands may not achieve or maintain broad market acceptance and increase the risks we face.

We have substantially increased the number of our private brand items, and the program is a sizable part of our future growth plans. We believe that our success in gaining and maintaining broad market acceptance of our private brands depends on many factors, including pricing, our costs, quality and customer perception. We may not achieve or maintain our expected sales for our private brands.

Edgar Filing: DOLLAR GENERAL CORP - Form 10-K

As a result, our business, financial condition and results of operations could be materially and adversely affected.

A significant disruption to our distribution network or to the timely receipt of inventory could adversely impact sales or increase our transportation costs, which would decrease our profits.

We rely on our distribution and transportation network to provide goods to our stores in a timely and cost-effective manner through deliveries to our distribution centers from vendors and then from the distribution centers or direct ship vendors to our stores by various means of transportation, including shipments by sea and truck. Any disruption, unanticipated expense or operational failure related to this process could affect store operations negatively. For example, unexpected delivery delays or increases in transportation costs (including through increased fuel costs or a decrease in transportation capacity for overseas shipments) could significantly decrease our ability to make sales and earn profits. In addition, labor shortages or work stoppages in the transportation industry or long-term disruptions to the national and international transportation infrastructure that lead to delays or interruptions of deliveries could negatively affect our business.

We maintain a network of distribution facilities and have plans to build new facilities to support our growth objectives. Delays in opening distribution centers could adversely affect our future operations by slowing store growth, which may in turn reduce revenue growth. In addition, distribution-related construction or expansion projects entail risks which could cause delays and cost overruns, such as: shortages of materials; shortages of skilled labor or work stoppages; unforeseen construction, scheduling, engineering, environmental or geological problems; weather interference; fires or other casualty losses; and unanticipated cost increases. The completion date and ultimate cost of future projects could differ significantly from initial expectations due to construction-related or other reasons. We cannot guarantee that any project will be completed on time or within established budgets.

Rising fuel costs could materially adversely affect our business.

Fuel prices have risen considerably and are significantly influenced by international, political and economic circumstances. These increases pose a challenge to our continued priority of improving our gross profit rate. If such increased prices remain in effect, or if further price increases were to arise for any reason, including fuel supply shortages or unusual price volatility, the resulting higher fuel prices could materially increase our transportation costs, adversely affecting our gross profit and results of operations. In addition, competitive pressures in our industry may have the effect of inhibiting our ability to reflect these increased costs in the prices of our products. We will be diligent in our efforts to keep product costs as low as possible in the face of these increases while still working to optimize gross profit and meet the needs of our customers.

Risks associated with or faced by the domestic and foreign suppliers from whom our products are sourced could adversely affect our financial performance.

The products we sell are sourced from a wide variety of domestic and international suppliers. In fact, our largest supplier accounted for 8% of our purchases in 2011, and our next largest supplier accounted for approximately 7% of such purchases. We have not experienced any difficulty in obtaining sufficient quantities of core merchandise and believe that, if one or more of our current sources of supply became unavailable, we would generally be able to obtain alternative sources without experiencing a substantial disruption of our business. However, such alternative sources could increase our merchandise costs and reduce the quality of our merchandise, and an inability to obtain alternative sources could adversely affect our sales.

We directly imported approximately 8% of our purchases (measured at cost) in 2011, but many of our domestic vendors directly import their products or components of their products. Changes to the

prices and flow of these goods for any reason, such as political and economic instability in the countries in which foreign suppliers are located, the financial instability of suppliers, suppliers' failure to meet our standards, issues with labor practices of our suppliers or labor problems they may experience (such as strikes), the availability and cost of raw materials to suppliers, merchandise quality or safety issues, currency exchange rates, transport availability and cost, inflation, and other factors relating to the suppliers and the countries in which they are located or from which they import, are beyond our control and could adversely affect our operations and profitability. Because a substantial amount of our imported merchandise comes from China, a change in the Chinese currency or other policies could negatively impact our merchandise costs. In addition, the United States' foreign trade policies, tariffs and other impositions on imported goods, trade sanctions imposed on certain countries, the limitation on the importation of certain types of goods or of goods containing certain materials from other countries and other factors relating to foreign trade are beyond our control. Disruptions due to labor stoppages, strikes or slowdowns, or other disruptions involving our vendors or the transportation and handling industries also may negatively affect our ability to receive merchandise and thus may negatively affect sales. These and other factors affecting our suppliers and our access to products could adversely affect our financial performance. As we increase our imports of merchandise from foreign vendors, the risks associated with foreign imports will increase.

Product liability and food safety claims could adversely affect our business, reputation and financial performance.

Despite our best efforts to ensure the quality and safety of the products we sell, we may be subject to product liability claims from customers or penalties from government agencies relating to products, including food products that are recalled, defective or otherwise alleged to be harmful. Such claims may result from tampering by unauthorized third parties, product contamination or spoilage, including the presence of foreign objects, substances, chemicals, other agents, or residues introduced during the growing, storage, handling and transportation phases. All of our vendors and their products must comply with applicable product and food safety laws. We generally seek contractual indemnification and insurance coverage from our suppliers. However, if we do not have adequate contractual indemnification and/or insurance available, such claims could have a material adverse effect on our business, financial condition and results of operations. Our ability to obtain indemnification from foreign suppliers may be hindered by the manufacturers' lack of understanding of U.S. product liability or other laws, which may make it more likely that we be required to respond to claims or complaints from customers as if we were the manufacturer of the products. Even with adequate insurance and indemnification, such claims could significantly damage our reputation and consumer confidence in our products. Our litigation expenses could increase as well, which also could have a materially negative impact on our results of operations even if a product liability claim is unsuccessful or is not fully pursued.

We are subject to governmental regulations, procedures and requirements. A significant change in, or noncompliance with, these regulations could have a material adverse effect on our financial performance.

Our business is subject to numerous federal, state and local laws and regulations. We routinely incur costs in complying with these regulations. New laws or regulations, particularly those dealing with healthcare reform, product safety, and labor and employment, among others, or changes in existing laws and regulations, particularly those governing the sale of products, may result in significant added expenses or may require extensive system and operating changes that may be difficult to implement and/or could materially increase our cost of doing business. In addition, such changes or new laws may require the write off and disposal of existing product inventory, resulting in significant adverse financial impact to us. Untimely compliance or noncompliance with applicable regulations or untimely or incomplete execution of a required product recall can result in the imposition of penalties, including loss of licenses or significant fines or monetary penalties, in addition to reputational damage.

Litigation may adversely affect our business, financial condition and results of operations.

Our business is subject to the risk of litigation by employees, consumers, suppliers, competitors, shareholders, government agencies and others through private actions, class actions, administrative proceedings, regulatory actions or other litigation. The number of employment-related class actions filed each year has continued to increase, and recent changes and proposed changes in Federal and state laws may cause claims to rise even more. The outcome of litigation, particularly class action lawsuits, regulatory actions and intellectual property claims, is difficult to assess or quantify. Plaintiffs in these types of lawsuits may seek recovery of very large or indeterminate amounts, and the magnitude of the potential loss relating to these lawsuits may remain unknown for substantial periods of time. In addition, certain of these lawsuits, if decided adversely to us or settled by us, may result in liability material to our financial statements as a whole or may negatively affect our operating results if changes to our business operations are required. The cost to defend future litigation may be significant. There also may be adverse publicity associated with litigation that could negatively affect customer perception of our business, regardless of whether the allegations are valid or whether we are ultimately found liable. As a result, litigation may adversely affect our business, financial condition and results of operations. See Note 9 to the consolidated financial statements for further details regarding certain of these pending matters.

If we cannot open new stores profitably and on schedule, our planned future growth will be impeded, which would adversely affect sales.

Our ability to open profitable new stores is a key component of our planned future growth. Our ability to timely open such stores and to expand into additional market areas depends in part on the following factors: the availability of attractive store locations; the absence of occupancy delays; the ability to negotiate acceptable lease and development terms; the ability to hire and train new personnel, especially store managers, in a cost effective manner; the ability to identify customer demand in different geographic areas; general economic conditions; and the availability of sufficient funds for expansion. Many of these factors affect our ability to successfully relocate stores as well, and many of them are beyond our control. In addition, tighter lending practices may make financing more challenging for our real estate developers which could potentially impact the timing of our store openings and build-to-suit program.

Delays or failures in opening new stores, or achieving lower than expected sales in new stores, or drawing a greater than expected proportion of sales in new stores away from existing stores, could materially adversely affect our growth and/or profitability. In addition, we may not anticipate all of the challenges imposed by the expansion of our operations and, as a result, may not meet our targets for opening new stores, remodeling or relocating stores or expanding profitably.

Some of our new stores may be located in areas where we have little or no meaningful experience or brand recognition. Those markets may have different competitive conditions, market conditions, consumer tastes and discretionary spending patterns than our existing markets, which may cause our new stores to be less successful than stores in our existing markets. In addition, our alternative format stores, such as our Dollar General Market concept, have significantly higher capital costs than our traditional Dollar General stores, and, as a result, may increase our financial risk if they do not perform as expected.

Many of our new stores will be located in areas where we have existing units. Although we have experience in these markets, increasing the number of locations in these markets may result in inadvertent over-saturation of markets and temporarily or permanently divert customers and sales from our existing stores, thereby adversely affecting our overall financial performance.

Natural disasters (whether or not caused by climate change), unusual weather conditions, pandemic outbreaks, terrorist acts, and global political events could cause permanent or temporary distribution center or store closures, impair our ability to purchase, receive or replenish inventory, or decrease customer traffic, all of which could result in lost sales and otherwise adversely affect our financial performance.

The occurrence of one or more natural disasters, such as hurricanes, fires, floods, and earthquakes (whether or not caused by climate change), solar flares, unusual weather conditions, pandemic outbreaks, terrorist acts or disruptive global political events, such as civil unrest in countries in which our suppliers are located, or similar disruptions could adversely affect our operations and financial performance. To the extent these events result in the closure of one or more of our distribution centers, a significant number of stores, or our corporate headquarters or impact one or more of our key suppliers, our operations and financial performance could be materially adversely affected through an inability to make deliveries or provide other support functions to our stores and through lost sales. In addition, these events could result in increases in fuel (or other energy) prices or a fuel shortage, delays in opening new stores, the temporary lack of an adequate work force in a market, the temporary or long-term disruption in the supply of products from some domestic and overseas suppliers, the temporary disruption in the transport of goods from overseas, delay in the delivery of goods to our distribution centers or stores, the temporary reduction in the availability of products in our stores and disruption of our utility services or to our information systems. These events also can have indirect consequences such as increases in the costs of insurance if they result in significant loss of property or other insurable damage.

Material damage or interruptions to our information systems as a result of external factors, staffing shortages and unanticipated challenges or difficulties in updating our existing technology or developing or implementing new technology could have a material adverse effect on our business or results of operations.

We depend on a variety of information technology systems for the efficient functioning of our business. Such systems are subject to damage or interruption from power outages, computer and telecommunications failures, computer viruses, security breaches and natural disasters. Damage or interruption to these systems may require a significant investment to fix or replace them, and we may suffer interruptions in our operations in the interim. Any material interruptions may have a material adverse effect on our business or results of operations.

We also rely heavily on our information technology staff. Failure to meet these staffing needs may negatively affect our ability to fulfill our technology initiatives while continuing to provide maintenance on existing systems. We rely on certain vendors to maintain and periodically upgrade many of these systems so that they can continue to support our business. The software programs supporting many of our systems were licensed to us by independent software developers. The inability of these developers or us to continue to maintain and upgrade these information systems and software programs would disrupt or reduce the efficiency of our operations if we were unable to convert to alternate systems in an efficient and timely manner. In addition, costs and potential problems and interruptions associated with the implementation of new or upgraded systems and technology or with maintenance or adequate support of existing systems could also disrupt or reduce the efficiency of our operations.

Failure to attract and retain qualified employees, particularly field, store and distribution center managers, and to control labor costs, as well as other labor issues, could adversely affect our financial performance.

Our future growth and performance depends on our ability to attract, retain and motivate qualified employees, many of whom are in positions with historically high rates of turnover such as field managers and distribution center managers. Our ability to meet our labor needs, while controlling our labor costs, is subject to many external factors, including competition for and availability of qualified personnel in a given market, unemployment levels within those markets, prevailing wage rates,

minimum wage laws, health and other insurance costs, and changes in employment and labor laws (including changes in the process for our employees to join a union) or other workplace regulation (including changes in entitlement programs such as health insurance and paid leave programs). To the extent a significant portion of our employee base unionizes, or attempts to unionize, our labor costs could increase. In addition, we are evaluating the potential future impact of recently enacted comprehensive healthcare reform legislation, which will likely cause our healthcare costs to increase. While the significant costs of the healthcare reform legislation will occur after 2013, if at all, due to provisions of the legislation being phased in over time, changes to our healthcare costs structure could have a significant negative effect on our business. Our ability to pass along labor costs to our customers is constrained by our low price model.

Our profitability may be negatively affected by inventory shrinkage.

We are subject to the risk of inventory loss and theft. We experience significant inventory shrinkage, and we cannot assure you that incidences of inventory loss and theft will decrease in the future or that the measures we are taking will effectively reduce the problem of inventory shrinkage. Although some level of inventory shrinkage is an unavoidable cost of doing business, if we were to experience higher rates of inventory shrinkage or incur increased security costs to combat inventory theft, our financial condition could be affected adversely.

Our cash flows from operations may be negatively affected if we are not successful in managing our inventory balances.

Our inventory balance represented approximately 49% of our total assets exclusive of goodwill and other intangible assets as of February 3, 2012. Efficient inventory management is a key component of our business success and profitability. To be successful, we must maintain sufficient inventory levels to meet our customers' demands without allowing those levels to increase to such an extent that the costs to store and hold the goods unduly impacts our financial results. If our buying decisions do not accurately predict customer trends or purchasing actions, we may have to take unanticipated markdowns to dispose of the excess inventory, which also can adversely impact our financial results. We continue to focus on ways to reduce these risks, but we cannot assure you that we will be successful in our inventory management. If we are not successful in managing our inventory balances, our cash flows from operations may be negatively affected.

Because our business is seasonal to a certain extent, with the highest volume of net sales during the fourth quarter, adverse events during the fourth quarter could materially affect our financial statements as a whole.

We generally recognize our highest volume of net sales during the Christmas selling season, which occurs in the fourth quarter of our fiscal year. In anticipation of this holiday, we purchase substantial amounts of seasonal inventory and hire many temporary employees. An excess of seasonal merchandise inventory could result if our net sales during the Christmas selling season were to fall below either seasonal norms or expectations. If our fourth quarter sales results were substantially below expectations, our financial performance and operating results could be adversely affected by unanticipated markdowns, especially in seasonal merchandise. Lower than anticipated sales in the Christmas selling season would also negatively affect our ability to absorb the increased seasonal labor costs.

Our current insurance program may expose us to unexpected costs and negatively affect our financial performance.

Our insurance coverage reflects deductibles, self-insured retentions, limits of liability and similar provisions that we believe are prudent based on the dispersion of our operations. However, there are types of losses we may incur but against which we cannot be insured or which we believe are not

economically reasonable to insure, such as losses due to acts of war, employee and certain other crime and some natural disasters. If we incur these losses and they are material, our business could suffer. Certain material events may result in sizable losses for the insurance industry and adversely impact the availability of adequate insurance coverage or result in excessive premium increases. To offset negative insurance market trends, we may elect to self-insure, accept higher deductibles or reduce the amount of coverage in response to these market changes. In addition, we self-insure a significant portion of expected losses under our workers' compensation, automobile liability, general liability and group health insurance programs. Unanticipated changes in any applicable actuarial assumptions and management estimates underlying our recorded liabilities for these losses, including expected increases in medical and indemnity costs, could result in materially different expenses than expected under these programs, which could have a material adverse effect on our financial condition and results of operations. In addition, we are evaluating the potential future impact of recently enacted comprehensive healthcare reform legislation, which may cause our healthcare costs to increase. Although we continue to maintain property insurance for catastrophic events at our store support center and distribution centers, we are effectively self-insured for other property losses. If we experience a greater number of these losses than we anticipate, our financial performance could be adversely affected.

If we fail to protect our brand name, competitors may adopt tradenames that dilute the value of our brand name.

We may be unable or unwilling to strictly enforce our trademarks in each jurisdiction in which we do business. Also, we may not always be able to successfully enforce our trademarks against competitors, or against challenges by others. Our failure to successfully protect our trademarks could diminish the value and efficacy of our brand recognition, and could cause customer confusion, which could, in turn, adversely affect our sales and profitability.

Our success depends on our executive officers and other key personnel. If we lose key personnel or are unable to hire additional qualified personnel, our business may be harmed.

Our future success depends to a significant degree on the skills, experience and efforts of our executive officers and other key personnel. The loss of the services of any of our executive officers, particularly Richard W. Dreiling, our Chief Executive Officer, could have a material adverse effect on our operations. Our future success will also depend on our ability to attract and retain qualified personnel and a failure to attract and retain new qualified personnel could have an adverse effect on our operations. We do not currently maintain key person life insurance policies with respect to our executive officers or key personnel.

We face risks related to protection of customers' credit and debit card data and private data relating to us or our customers or employees.

In connection with credit card sales, we transmit confidential credit and debit card information. We also have access to, collect or maintain private or confidential information regarding our customers and employees, as well as our business. We have procedures and technology in place to safeguard our customers' debit and credit card information, our employees' private data, and our confidential business information. However, third parties may have the technology or know-how to breach the security of this information, and our security measures and those of our technology vendors may not effectively prohibit others from obtaining improper access to this information. A security breach of any kind could expose us to risks of data loss, litigation, government enforcement actions and costly response measures, and could seriously disrupt our operations. Any resulting negative publicity could significantly harm our reputation which could cause us to lose market share and have an adverse effect on our financial results.

Edgar Filing: DOLLAR GENERAL CORP - Form 10-K

While we have reduced our debt levels since 2007, we continue to have substantial debt that will need to be repaid or refinanced at or prior to applicable maturity dates which could adversely affect our ability to raise additional capital to fund our operations and limit our ability to pursue our growth strategy or other opportunities or to react to changes in the economy or our industry.

At February 3, 2012, we had total outstanding debt (including the current portion of long-term obligations) of \$2.618 billion, including a \$1.964 billion senior secured term loan facility which matures on July 6, 2014, \$450.7 million aggregate principal amount of 11.875% / 12.625% senior subordinated toggle notes due 2017, and borrowings of \$184.7 million under our senior secured asset-based revolving credit facility. We also had an additional \$807.9 million available for borrowing under the revolving credit facility, which was scheduled to mature July 6, 2013, but was amended on March 15, 2012 to increase the maximum borrowing to \$1.2 billion and extend the maturity date to July 6, 2014. This level of debt and our ability to repay or refinance this debt prior to maturity could have important negative consequences to our business, including:

increasing our vulnerability to general economic and industry conditions because our debt payment obligations may limit our ability to use our cash to respond to or defend against changes in the industry or the economy;

requiring a substantial portion of our cash flow from operations to be dedicated to the payment of principal and interest on our indebtedness, therefore reducing our ability to use our cash flow to fund our operations, capital expenditures and future business opportunities or pay dividends;

limiting our ability to pursue our growth strategy;

placing us at a disadvantage compared to our competitors who are less highly leveraged and may be better able to use their cash flow to fund competitive responses to changing industry, market or economic conditions;

limiting our ability to obtain additional financing for working capital, capital expenditures, debt service requirements, acquisitions and general corporate or other purposes; and

increasing the difficulty of our ability to make payments on our outstanding debt.

Our variable rate debt exposes us to interest rate risk which could adversely affect our cash flow.

The borrowings under the term loan facility and the senior secured asset-based revolving credit facility comprise our credit facilities and bear interest at variable rates. Other debt we incur also could be variable rate debt. If market interest rates increase, variable rate debt will create higher debt service requirements, which could adversely affect our cash flow. While we have entered and may in the future enter into agreements limiting our exposure to higher interest rates, any such agreements may not offer complete protection from this risk.

Our debt agreements contain restrictions that could limit our flexibility in operating our business.

Our credit facilities and the indentures governing our notes contain various covenants that could limit our ability to engage in specified types of transactions. These covenants limit our and our restricted subsidiaries' ability to, among other things:

incur additional indebtedness, issue disqualified stock or issue certain preferred stock;

pay dividends and make certain distributions, investments and other restricted payments;

create certain liens or encumbrances;

sell assets;

enter into transactions with our affiliates;

allow payments to us by our restricted subsidiaries;

merge, consolidate, sell or otherwise dispose of all or substantially all of our assets; and

designate our subsidiaries as unrestricted subsidiaries.

A breach of any of these covenants could result in a default under the agreement governing such indebtedness. Upon our failure to maintain compliance with these covenants, the lenders could elect to declare all amounts outstanding thereunder to be immediately due and payable and terminate all commitments to extend further credit thereunder. If the lenders under such indebtedness accelerate the repayment of borrowings, we cannot assure you that we will have sufficient assets to repay those borrowings, as well as our other indebtedness, including our outstanding notes. We have pledged a significant portion of our assets as collateral under our credit facilities. If we were unable to repay those amounts, the lenders under our credit facilities could proceed against the collateral granted to them to secure that indebtedness. Additional borrowings under the senior secured asset-based revolving credit facility will, if excess availability under that facility is less than a certain amount, be subject to the satisfaction of a specified financial ratio. Accordingly, our ability to access the full availability under our senior secured asset-based revolving credit facility may be constrained. Our ability to meet this financial ratio can be affected by events beyond our control, and we cannot assure you that we will meet this ratio, if applicable, and other covenants.

New accounting guidance or changes in the interpretation or application of existing accounting guidance could adversely affect our financial performance.

The implementation of proposed new accounting standards may require extensive systems, internal process and other changes that could increase our operating costs, and may also result in changes to our financial statements. In particular, the implementation of expected future accounting standards related to leases, as currently being contemplated by the convergence project between the Financial Accounting Standards Board ("FASB") and the International Accounting Standards Board ("IASB"), as well as the possible adoption of international financial reporting standards by U.S. registrants, could require us to make significant changes to our lease management, fixed asset, and other accounting systems, and in all likelihood would result in changes to our financial statements.

U.S. generally accepted accounting principles and related accounting pronouncements, implementation guidelines and interpretations with regard to a wide range of matters that are relevant to our business involve many subjective assumptions, estimates and judgments by our management. Changes in these rules or their interpretation or changes in underlying assumptions, estimates or judgments by our management could significantly change our reported or expected financial performance. The outcome of such changes could include litigation or regulatory actions which could have an adverse effect on our financial condition and results of operations.

Kohlberg Kravis Roberts & Co. L.P. ("KKR"), certain affiliates of Goldman, Sachs & Co. (the "GS Investors"), and other equity co-investors (collectively, the "Investors") have significant influence over us, including in connection with decisions that require the approval of shareholders, which could limit your ability to influence the outcome of key transactions, including a change of control.

Through their investment in Buck Holdings, L.P., the Investors hold a significant interest in our outstanding common stock. As a result, the Investors potentially have the ability to influence the outcome of matters that require a vote of our shareholders, including election of our Board of Directors and other corporate transactions, regardless of whether others believe that the transaction is in our best interests. In addition, pursuant to a shareholders' agreement that we entered into with Buck Holdings, L.P., KKR and the GS Investors, KKR has a consent right over certain significant corporate actions and KKR and the GS Investors have certain rights to appoint directors to our Board and its committees for so long as Buck Holdings, L.P. continues to hold a specified amount of our common stock.

Edgar Filing: DOLLAR GENERAL CORP - Form 10-K

The Investors are also in the business of making investments in companies and may from time to time acquire and hold interests in businesses that compete directly or indirectly with us. The Investors may also pursue acquisition opportunities that are complementary to our business, and, as a result, those acquisition opportunities may not be available to us. So long as the Investors, or other funds controlled by or associated with the Investors, continue to indirectly own a significant amount of our outstanding common stock, the Investors will continue to be able to strongly influence or effectively control our decisions. The concentration of ownership may have the effect of delaying, preventing or deterring a change of control of our company, could deprive shareholders of an opportunity to receive a premium for their common stock as part of a sale of our company and might ultimately affect the market price of our common stock.

If we, the Investors or other significant shareholders sell a large number of shares of our common stock, the market price of our common stock could decline.

The market price of our common stock could decline as a result of sales of a large number of shares of common stock in the market or the perception that such sales could occur. These sales, or the possibility that these sales may occur, also might make it more difficult for us to issue equity securities in the future at a time and at a price that we deem appropriate. As of February 3, 2012, we had approximately 338.1 million shares of common stock outstanding, of which approximately 46% were freely tradable on the New York Stock Exchange.

Pursuant to shareholders agreements, we have granted the Investors the right to cause us, in certain instances, at our expense, to file registration statements under the Securities Act of 1933, as amended, covering resales of our common stock held by them or to piggyback on a registration statement in certain circumstances. Certain members of management hold similar piggyback registration rights. As of February 3, 2012, these shares collectively represented approximately 54% of our outstanding common stock. To the extent that such registration rights are exercised, the resulting sale of a substantial number of shares of our common stock into the market could cause the market price of our common stock to decline. These shares also may be sold pursuant to Rule 144 under the Securities Act, depending on their holding period and subject to restrictions in the case of shares held by persons deemed to be our affiliates.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

As of March 2, 2012, we operated 9,961 retail stores located in 39 states as follows:

State	Number of Stores	State	Number of Stores
Alabama	540	Nebraska	80
Arizona	65	Nevada	7
Arkansas	287	New Hampshire	1
California	5	New Jersey	59
Colorado	28	New Mexico	56
Connecticut	2	New York	258
Delaware	30	North Carolina	559
Florida	555	Ohio	527
Georgia	569	Oklahoma	312
Illinois	371	Pennsylvania	432
Indiana	379	South Carolina	400
Iowa	175	South Dakota	11
Kansas	181	Tennessee	525
Kentucky	381	Texas	1,109
Louisiana	409	Utah	8
Maryland	76	Vermont	15
Michigan	288	Virginia	280
Minnesota	16	West Virginia	166
Mississippi	336	Wisconsin	99
Missouri	364		

Most of our stores are located in leased premises. Individual store leases vary as to their terms, rental provisions and expiration dates. Many 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 and many of these leases have renewal options. In recent years, an increasing percentage of our new stores have been subject to build-to-suit arrangements, including approximately 79% of our new stores in 2011.

As of March 2, 2012, we operated nine distribution centers, as described in the following table:

Location	Year Opened	Approximate Square Footage	Approximate Number of Stores Served
Scottsville, KY	1959	720,000	948
Ardmore, OK	1994	1,310,000	1,423
South Boston, VA	1997	1,250,000	943
Indianola, MS	1998	820,000	881
Fulton, MO	1999	1,150,000	1,381
Alachua, FL	2000	980,000	949
Zanesville, OH	2001	1,170,000	1,286
Jonesville, SC	2005	1,120,000	1,098
Marion, IN	2006	1,110,000	1,052

In addition, we have a distribution center that we recently constructed in Bessemer, Alabama of approximately 940,000 square feet that became fully operational on March 11, 2012, and leased space for a distribution center in Lebec, California of approximately 440,000 square feet that is expected to be operational in April 2012. We lease the distribution centers located in Oklahoma, Mississippi and Missouri and own the other six distribution centers in the table above. Approximately 7.25 acres of the land on which our Kentucky distribution center is located is subject to a ground lease. As of

Edgar Filing: DOLLAR GENERAL CORP - Form 10-K

February 3, 2012, we leased approximately 530,000 square feet of additional temporary warehouse space to support our distribution needs.

Our executive offices are located in approximately 302,000 square feet of buildings which we own in Goodlettsville, Tennessee.

ITEM 3. LEGAL PROCEEDINGS

The information contained in Note 9 to the consolidated financial statements under the heading "Legal proceedings" contained in Part II, Item 8 of this report is incorporated herein by this reference.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

EXECUTIVE OFFICERS OF THE REGISTRANT

Information regarding our current executive officers as of March 22, 2012 is set forth below. Each of our executive officers serves at the discretion of our Board of Directors and is elected annually by the Board to serve until a successor is duly elected. There are no familial relationships between any of our directors or executive officers.

Name	Age	Position
Richard W. Dreiling	58	Chairman and Chief Executive Officer
David M. Tehle	55	Executive Vice President and Chief Financial Officer
Kathleen R. Guion	60	Executive Vice President, Strategic Planning and Real Estate
Gregory A. Sparks	51	Executive Vice President, Store Operations
		Executive Vice President, Division President and Chief
Todd Vasos	50	Merchandising Officer
John W. Flanigan	60	Executive Vice President, Global Supply Chain
Susan S. Lanigan	49	Executive Vice President and General Counsel
Robert D. Ravener	53	Executive Vice President and Chief People Officer
Anita C. Elliott	47	Senior Vice President and Controller

Mr. Dreiling joined Dollar General in January 2008 as Chief Executive Officer and a member of our Board. He was appointed Chairman of the Board on December 2, 2008. Prior to joining Dollar General, Mr. Dreiling served as Chief Executive Officer, President and a director of Duane Reade Holdings, Inc. and Duane Reade Inc., the largest drugstore chain in New York City, from November 2005 until January 2008 and as Chairman of the Board of Duane Reade from March 2007 until January 2008. Prior to that, Mr. Dreiling, beginning in March 2005, served as Executive Vice President Chief Operating Officer of Longs Drug Stores Corporation, an operator of a chain of retail drug stores on the West Coast and Hawaii, after having joined Longs in July 2003 as Executive Vice President and Chief Operations Officer. From 2000 to 2003, Mr. Dreiling served as Executive Vice President Marketing, Manufacturing and Distribution at Safeway, Inc., a food and drug retailer. Prior to that, Mr. Dreiling served from 1998 to 2000 as President of Vons, a Southern California food and drug division of Safeway. He currently serves as the Vice Chairman of the Retail Industry Leaders Association (RILA). In 2010, he was named "Retailer of the Year" by Mass Market Retailer. Mr. Dreiling is a director of Lowe's Companies, Inc.

Mr. Tehle joined Dollar General in June 2004 as Executive Vice President and Chief Financial Officer. He served from 1997 to June 2004 as Executive Vice President and Chief Financial Officer of Haggar Corporation, a manufacturing, marketing and retail corporation. From 1996 to 1997, he was Vice President of Finance for a division of The Stanley Works, one of the world's largest manufacturers of tools, and from 1993 to 1996, he was Vice President and Chief Financial Officer of Hat Brands, Inc.,

Edgar Filing: DOLLAR GENERAL CORP - Form 10-K

a hat manufacturer. Earlier in his career, Mr. Tehle served in a variety of financial-related roles at Ryder System, Inc. and Texas Instruments. Mr. Tehle is a director of Jack in the Box, Inc.

Ms. Guion joined Dollar General in October 2003 as Executive Vice President, Store Operations. She was named Executive Vice President, Store Operations and Store Development in February 2005, and was promoted to Executive Vice President, Division President, Store Operations and Store Development in November 2005. Ms. Guion assumed the role of Executive Vice President of Strategic Planning and Real Estate in January 2012 after announcing her planned retirement effective July 31, 2012. From 2000 until joining Dollar General, Ms. Guion served as President and Chief Executive Officer of Duke and Long Distributing Company, a convenience store chain operator and wholesale distributor of petroleum products. Prior to that time, she served as an operating partner for Devon Partners (1999-2000), where she developed operating plans and assisted in the identification of acquisition targets in the convenience store industry, and as President and Chief Operating Officer of E-Z Serve Corporation (1997-1998), an owner/operator of convenience stores, mini-marts and gas marts. From 1987 to 1997, Ms. Guion served as the Vice President and General Manager of the largest division (Chesapeake Division) of company-owned stores at 7-Eleven, Inc., a convenience store chain. Other positions held by Ms. Guion during her tenure at 7-Eleven include District Manager, Zone Manager, Operations Manager, and Division Manager (Midwest Division).

Mr. Sparks joined Dollar General in March 2012 as Executive Vice President of Store Operations. Prior to joining Dollar General, Mr. Sparks served as Division President, Seattle Division, for Safeway Inc., a food and drug retailer, a role he had held since 2001. As Division President of the Seattle Division, Mr. Sparks was responsible for the supervision of approximately 200 stores and approximately 23,000 employees in the northwest region and oversaw real estate, finance and operations of the Seattle Division. Mr. Sparks has 36 years of retail experience including a 34-year career with Safeway where he held roles of increasing responsibility including merchandising manager (1987), category manager (1987-1990), divisional director of merchandising, grocery and general merchandise (1990-1997) and divisional vice president of marketing (1997-2001).

Mr. Vasos joined Dollar General in December 2008 as Executive Vice President, Division President and Chief Merchandising Officer. Prior to joining Dollar General, Mr. Vasos served in executive positions with Longs Drug Stores Corporation for 7 years, including Executive Vice President and Chief Operating Officer (February 2008 through November 2008) and Senior Vice President and Chief Merchandising Officer (2001-2008), where he was responsible for all pharmacy and front-end marketing, merchandising, procurement, supply chain, advertising, store development, store layout and space allocation, and the operation of three distribution centers. He also previously served in leadership positions at Phar-Mor Food and Drug Inc. and Eckerd Drug Corp.

Mr. Flanigan joined Dollar General as Senior Vice President, Global Supply Chain, in May 2008. He was promoted to Executive Vice President in March 2010. He has 25 years of management experience in retail logistics. Prior to joining Dollar General, he was group vice president of logistics and distribution for Longs Drug Stores Corporation from October 2005 to April 2008. In this role, he was responsible for overseeing warehousing, inbound and outbound transportation and facility maintenance to service over 500 retail outlets. From September 2001 to October 2005 he served as the Vice President of Logistics for Safeway Inc. where he oversaw distribution of food products from Safeway distribution centers to all retail outlets, inbound traffic and transportation. He also held distribution and logistics leadership positions at Vons a Safeway company, Specialized Distribution Management Inc., and Crum & Crum Logistics.

Ms. Lanigan joined Dollar General in July 2002 as Vice President, General Counsel and Corporate Secretary. She was promoted to Senior Vice President in October 2003 and to Executive Vice President in March 2005. Prior to joining Dollar General, Ms. Lanigan served as Senior Vice President, General Counsel and Secretary at Zale Corporation, a specialty retailer of fine jewelry. During her six years

Edgar Filing: DOLLAR GENERAL CORP - Form 10-K

with Zale, Ms. Lanigan held various positions, including Associate General Counsel. Prior to that, she held legal positions with both Turner Broadcasting System, Inc. and the law firm of Troutman Sanders LLP.

Mr. Ravener joined Dollar General as Senior Vice President and Chief People Officer in August 2008. He was promoted to Executive Vice President in March 2010. Prior to joining Dollar General, he served in human resources executive roles with Starbucks Coffee Company from September 2005 until August 2008 as the Senior Vice President of U.S. Partner Resources and, prior to that, as the Vice President, Partner Resources Eastern Division. As the Senior Vice President of U.S. Partner Resources at Starbucks, Mr. Ravener oversaw all aspects of human resources activity for more than 10,000 stores. Prior to serving at Starbucks, Mr. Ravener held Vice President of Human Resources roles for The Home Depot's Store Support Center and a domestic field division from April 2003 to September 2005. Mr. Ravener also served in executive roles in both human resources and operations at Footstar, Inc. and roles of increasing leadership at PepsiCo.

Ms. Elliott joined Dollar General as Senior Vice President and Controller in August 2005. Prior to joining Dollar General, she served as Vice President and Controller of Big Lots, Inc., a closeout retailer, from May 2001 to August 2005. Overseeing a staff of 140 employees at Big Lots, she was responsible for accounting operations, financial reporting and internal audit. Prior to serving at Big Lots, she served as Vice President and Controller for Jitney-Jungle Stores of America, Inc., a grocery retailer, from April 1998 to March 2001. At Jitney-Jungle, Ms. Elliott was responsible for the accounting operations and the internal and external financial reporting functions. Prior to serving at Jitney-Jungle, she practiced public accounting for 12 years, 6 of which were with Ernst & Young LLP.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

Our common stock is traded on the New York Stock Exchange under the symbol "DG." The high and low sales prices during each quarter in fiscal 2011 and 2010 were as follows:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2011				
High	\$ 33.58	\$ 35.09	\$ 40.71	\$ 43.07
Low	\$ 26.65	\$ 31.10	\$ 29.84	\$ 38.32

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2010				
High	\$ 29.91	\$ 31.41	\$ 30.20	\$ 33.73
Low	\$ 21.30	\$ 26.61	\$ 26.64	\$ 27.29

Our stock price at the close of the market on March 16, 2012, was \$44.69. There were approximately 1,171 shareholders of record of our common stock as of March 16, 2012.

Dividends

We have not declared or paid recurring dividends subsequent to our 2007 merger. We have no current plans to pay any cash dividends on our common stock and instead may retain earnings, if any, for future operation and expansion, repurchases of our common stock, or debt repayment. Any decision to declare and pay dividends in the future will be made at the discretion of our Board of Directors and will depend on, among other things, our results of operations, cash requirements, financial condition, contractual restrictions and other factors that our Board of Directors may deem relevant. In addition,

Edgar Filing: DOLLAR GENERAL CORP - Form 10-K

our ability to pay dividends is limited by covenants in our Credit Facilities and in the indenture governing our outstanding 11.875%/12.625% senior subordinated toggle notes due 2017 (the "Senior Subordinated Notes" or the "Notes"). See "Liquidity and Capital Resources" in the Management's Discussion and Analysis of Financial Condition and Results of Operations section of this report for a description of restrictions on our ability to pay dividends.

Issuer Purchases of Equity Securities

The following table contains information regarding purchases of our common stock made during the quarter ended February 3, 2012 by or on behalf of Dollar General or any "affiliated purchaser," as defined by Rule 10b-18(a)(3) of the Securities Exchange Act of 1934:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(b)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs(b)
10/29/11 - 11/30/11	37,460(a)	\$ 39.90		\$ 500,000,000
12/01/11 - 12/31/11	4,915,637	\$ 37.64	4,915,637	\$ 315,000,000
01/01/12 - 02/03/12		\$		\$ 315,000,000
Total	4,953,097	\$ 37.65	4,915,637	\$ 315,000,000

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

(b) On November 30, 2011 our Board of Directors approved a share repurchase program of up to \$500 million of outstanding shares of our common stock. Under the authorization, purchases may be made in the open market or in privately negotiated transactions from time to time subject to market conditions. This repurchase authorization has no expiration date.

ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth selected consolidated financial information of Dollar General Corporation as of the dates and for the periods indicated. The selected historical statement of operations data and statement of cash flows data for the fiscal years ended February 3, 2012, January 28, 2011 and January 29, 2010, and balance sheet data as of February 3, 2012 and January 28, 2011, have been derived from our historical audited consolidated financial statements included elsewhere in this report. The selected historical statement of operations data and statement of cash flows data for the fiscal years or periods, as applicable, ended January 30, 2009, February 1, 2008 and July 6, 2007 and balance sheet data as of January 29, 2010, January 30, 2009 and February 1, 2008 presented in this table have been derived from audited consolidated financial statements not included in this report.

We completed a merger with Buck Acquisition Corp. ("BAC") on July 6, 2007, and, as a result, a significant percentage of our outstanding common stock remains held by a Delaware limited partnership controlled by investment funds affiliated with Kohlberg Kravis Roberts & Co. L.P. As a result of the merger, the related purchase accounting adjustments, and a new basis of accounting beginning on July 7, 2007, the 2007 financial reporting periods presented below include the Predecessor period of the Company reflecting 22 weeks of operating results from February 3, 2007 to July 6, 2007 and 30 weeks of operating results for the Successor period, reflecting the merger from July 7, 2007 to February 1, 2008. BAC's results of operations for the period from March 6, 2007 to July 6, 2007 (prior to the merger on July 6, 2007) are also included in the consolidated financial statements for the 2007 Successor period described above, as a result of certain derivative financial instruments entered into by BAC prior to the merger. Other than these financial instruments, BAC had no assets, liabilities, or operations prior to the merger.

Due to the significance of the merger and related transactions that occurred in 2007, the 2011, 2010, 2009, 2008 and 2007 Successor financial information is not comparable to that of the 2007 Predecessor period presented in the accompanying table.

The information set forth below should be read in conjunction with, and is qualified by reference to, the Consolidated Financial Statements and related notes included in Part II, Item 8 of this report

Edgar Filing: DOLLAR GENERAL CORP - Form 10-K

and the Management's Discussion and Analysis of Financial Condition and Results of Operations included in Part II, Item 7 of this report.

(Amounts in millions, excluding per share data, number of stores, selling square feet, and net sales per square foot)	Successor				Predecessor	
	Year Ended				March 6, 2007 through February 1, 2008(2)(3)	February 3, 2007 through July 6, 2007(3)
	February 3, 2012(1)	January 28, 2011	January 29, 2010	January 30, 2009		
Statement of Operations Data:						
Net sales	\$ 14,807.2	\$ 13,035.0	\$ 11,796.4	\$ 10,457.7	\$ 5,571.5	\$ 3,923.8
Cost of goods sold	10,109.3	8,858.4	8,106.5	7,396.6	3,999.6	2,852.2
Gross profit	4,697.9	4,176.6	3,689.9	3,061.1	1,571.9	1,071.6
Selling, general and administrative expenses	3,207.1	2,902.5	2,736.6	2,448.6	1,324.5	960.9
Litigation settlement and related costs, net				32.0		
Transaction and related costs					1.2	101.4
Operating profit	1,490.8	1,274.1	953.3	580.5	246.1	9.2
Interest income	(0.1)	(0.2)	(0.1)	(3.1)	(3.8)	(5.0)
Interest expense	205.0	274.2	345.7	391.9	252.9	10.3
Other (income) expense	60.6	15.1	55.5	(2.8)	3.6	
Income (loss) before income taxes	1,225.3	985.0	552.1	194.4	(6.6)	4.0
Income tax expense (benefit)	458.6	357.1	212.7	86.2	(1.8)	12.0
Net income (loss)	\$ 766.7	\$ 627.9	\$ 339.4	\$ 108.2	\$ (4.8)	\$ (8.0)
Earnings (loss) per share basic	\$ 2.25	\$ 1.84	\$ 1.05	\$ 0.34	\$ (0.02)	
Earnings (loss) per share diluted	2.22	1.82	1.04	0.34	(0.02)	
Dividends per share			0.7525			
Statement of Cash Flows Data:						
Net cash provided by (used in):						
Operating activities	\$ 1,050.5	\$ 824.7	\$ 672.8	\$ 575.2	\$ 239.6	\$ 201.9
Investing activities	(513.8)	(418.9)	(248.0)	(152.6)	(6,848.4)	(66.9)
Financing activities	(908.0)	(130.4)	(580.7)	(144.8)	6,709.0	25.3
Total capital expenditures	(514.9)	(420.4)	(250.7)	(205.5)	(83.6)	(56.2)
Other Financial and Operating Data:						
Same store sales growth(4)	6.0%	4.9%	9.5%	9.0%	1.9%	2.6%
Same store sales(4)	\$ 13,626.7	\$ 12,227.1	\$ 11,356.5	\$ 10,118.5	\$ 5,264.2	\$ 3,656.6
Number of stores included in same store sales calculation	9,254	8,712	8,324	8,153	7,735	7,655
Number of stores (at period end)	9,937	9,372	8,828	8,362	8,194	8,205
Selling square feet (in thousands at period end)	71,774	67,094	62,494	58,803	57,376	57,379
Net sales per square foot(5)	\$ 213	\$ 201	\$ 195	\$ 180	\$ 165	\$ 164
Consumables sales	73.2%	71.6%	70.8%	69.3%	66.4%	66.7%
Seasonal sales	13.8%	14.5%	14.5%	14.6%	16.3%	15.4%
Home products sales	6.8%	7.0%	7.4%	8.2%	9.1%	9.2%
Apparel sales	6.2%	6.9%	7.3%	7.9%	8.2%	8.7%
Rent expense	\$ 542.3	\$ 489.3	\$ 428.6	\$ 389.6	\$ 214.5	\$ 150.2
Balance Sheet Data (at period end):						
Cash and cash equivalents and short-term investments	\$ 126.1	\$ 497.4	\$ 222.1	\$ 378.0	\$ 119.8	
Total assets	9,688.5	9,546.2	8,863.5	8,889.2	8,656.4	
Long-term debt	2,618.5	3,288.2	3,403.4	4,137.1	4,282.0	
Total shareholders' equity	4,668.5	4,054.5	3,390.3	2,831.7	2,703.9	

(1)

The fiscal year ended February 3, 2012 was comprised of 53 weeks.

Edgar Filing: DOLLAR GENERAL CORP - Form 10-K

- (2) Includes the results of BAC for the period prior to its merger with and into Dollar General Corporation from March 6, 2007 (the date of BAC's formation) through July 6, 2007 and the post-merger results of Dollar General Corporation for the period from July 7, 2007 through February 1, 2008.
- (3) Includes the effects of certain strategic merchandising and real estate initiatives that resulted in the closing of approximately 460 stores and changes in our inventory management model which resulted in greater inventory markdowns than in previous years.
- (4) Same-store sales are calculated based upon stores that were open at least 13 full fiscal months and remain open at the end of the reporting period. When applicable, we exclude the sales in the 53rd week of a 53-week year from the same-store sales calculation.
- (5) Net sales per square foot was calculated based on total sales for the preceding 12 months as of the ending date of the reporting period divided by the average selling square footage during the period, including the end of the fiscal year, the beginning of the fiscal year, and the end of each of our three interim fiscal quarters. For the period from February 3, 2007 through July 6, 2007, average selling square footage was calculated using the average square footage as of July 6, 2007 and as of the end of each of the four preceding quarters.

	Successor Year Ended				March 6, 2007 through February 1, 2008	Predecessor February 3, 2007 through July 6, 2007
	February 3, 2012	January 28, 2011	January 29, 2010	January 30, 2009		
Ratio of earnings to fixed charges(1):	3.8x	3.1x	2.1x	1.4x	(2)	1.1x

- (1) For purposes of computing the ratio of earnings to fixed charges, (a) earnings consist of income (loss) before income taxes, plus fixed charges less capitalized expenses related to indebtedness (amortization expense for capitalized interest is not significant) and (b) fixed charges consist of interest expense (whether expensed or capitalized), the amortization of debt issuance costs and discounts related to indebtedness, and the interest portion of rent expense.
- (2) For the Successor period from March 6, 2007 through February 1, 2008, fixed charges exceeded earnings by \$6.6 million.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This discussion and analysis should be read with, and is qualified in its entirety by, the Consolidated Financial Statements and the notes thereto. It also should be read in conjunction with the Cautionary Disclosure Regarding Forward-Looking Statements and the Risk Factors disclosures set forth in the Introduction and in Item 1A of this report, respectively.

Executive Overview

We are the largest discount retailer in the United States by number of stores, with 9,961 stores located in 39 states as of March 2, 2012, primarily in the southern, southwestern, midwestern and eastern United States. We offer a broad selection of merchandise, including consumable products such as food, paper and cleaning products, health and beauty products and pet supplies, and non-consumable products such as seasonal merchandise, home decor and domestics, and apparel. Our merchandise includes high quality national brands from leading manufacturers, as well as comparable quality private brand selections with prices at substantial discounts to national brands. We offer our customers these national brand and private brand products at everyday low prices (typically \$10 or less) in our convenient small-box (small store) locations.

Edgar Filing: DOLLAR GENERAL CORP - Form 10-K

A significant percentage of our outstanding common stock is held by Buck Holdings, L.P., a Delaware limited partnership controlled by investment funds affiliated with Kohlberg Kravis Roberts & Co. L.P. (collectively, "KKR"). The membership interests of Buck Holdings, L.P. and Buck Holdings, LLC, the general partner of Buck LP, are held by a private investor group, including affiliates of each of KKR and Goldman, Sachs & Co. and other equity investors (collectively, the "Investors").

The customers we serve are value-conscious, and Dollar General has always been intensely focused on helping our customers make the most of their spending dollars. We believe our convenient store format and broad selection of high quality products at compelling values have driven our substantial growth and financial success over the years. Like other companies, we have been operating in an environment with heightened economic challenges and uncertainties. Consumers are facing high rates of unemployment, fluctuating food, gasoline and energy costs, rising medical costs, and a continued weakness in housing and consumer credit markets, and the timetable and strength of any economic recovery is uncertain. Nonetheless, as a result of our long-term mission of serving the value-conscious customer, coupled with a vigorous focus on improving our operating and financial performance, our 2011 and 2010 financial results were strong, and we remain optimistic with regard to executing our operating priorities in 2012.

At the beginning of 2008, we defined four operating priorities, which we remain keenly focused on executing. These priorities are: 1) drive productive sales growth, 2) increase our gross margins, 3) leverage process improvements and information technology to reduce costs, and 4) strengthen and expand Dollar General's culture of serving others.

Our first priority is driving productive sales growth by increasing shopper frequency and transaction amount and maximizing sales per square foot. In 2011, sales in same-stores increased by 6.0%, due to increases in traffic and average transaction, and, to a lesser extent, the impact of inflation. Sales in same-stores were aided by continued enhancements to our category management processes which help us determine the most productive merchandise offerings for our customers. Specific sales growth initiatives in 2011 included: improvement in merchandise in-stock levels; the completion of the final phase of raising the shelf height in our stores to 78 inches, which impacted health and beauty aids; further emphasis on the \$1.00 price point; the expansion of the number of coolers in approximately 500 existing stores; and the impact of 575 remodeled and relocated stores during the year. In addition to same-store sales growth, we opened 625 new stores in 2011. Our small box stores offer consumable items, including packaged and refrigerated foods, to communities that might not otherwise have convenient access at value prices. To further expand this opportunity, we opened 12 new Dollar General Market stores in 2011.

Our second priority is to increase gross profit through effective category management, the expansion of private brand offerings, increased foreign sourcing, shrink reduction, distribution efficiencies and improvements to our pricing and markdown model, while remaining committed to our everyday low price strategy. We constantly review our pricing strategy and work diligently to minimize product cost increases as we focus on providing our customers quality merchandise at great values. In our consumables category, we strive to offer the optimal balance of the most popular nationally advertised brands and our own private brands, which generally have higher gross profit rates than national brands. Throughout 2011, we experienced increased product costs, primarily as the result of increases in the costs of certain commodities which were passed through to us. These increased product costs negatively affected gross profit and resulted in an increased LIFO provision. In addition, elevated costs of diesel fuel affected our overall merchandise costs in 2011. Our shrink reduction efforts were successful in 2011 and we believe we have additional opportunities to reduce shrink in our stores.

Our third priority is leveraging process improvements and information technology to reduce costs. We are committed as an organization to extract costs that do not affect the customer experience. In 2011, much of our focus was on decreasing our store labor costs while improving our store standards

Edgar Filing: DOLLAR GENERAL CORP - Form 10-K

and overall customer experience. We effectively implemented a new workforce management system resulting in significant cost savings as a percentage of sales. We also further implemented an energy management system in the stores. As part of our efforts to continue to increase productivity, we installed faster data transmission technology in our stores and believe that going forward, we will have additional opportunities to leverage this investment and our other information technology resources to create greater efficiencies in our retail store operations.

Our fourth priority is to strengthen and expand Dollar General's culture of serving others. For customers this means helping them "Save time. Save money. Every day!" by providing clean, well-stocked stores with quality products at low prices. For employees, this means creating an environment that attracts and retains key employees throughout the organization. For the public, this means giving back to our store communities through our charitable and other efforts. In 2011, we donated approximately \$2.4 million through our corporate charitable giving program. For shareholders, this means meeting their expectations of an efficiently and profitably run organization that operates with compassion and integrity.

Our continued focus on these four priorities resulted in improved 2011 financial performance over the prior year as follows. Note that fiscal 2011 consisted of 53 weeks while fiscal 2010 consisted of 52 weeks. Basis points, as referred to below, are equal to 0.01 percent of total sales.

Total sales in 2011 (53 weeks) increased 13.6% over 2010. Sales in same-stores increased 6.0%, with increases in both customer traffic and average transaction amount. Consumables, most notably food, drove 85% of the total increase in sales. Average sales per square foot in 2011 were \$213 (including a \$4 contribution from the 53rd week), up from \$201 in 2010.

Operating profit increased 17.0% to \$1.49 billion, or 10.1% of sales, compared to \$1.27 billion, or 9.8% of sales in 2010. The improvement in our operating profit rate was attributable to a 61 basis-point reduction of SG&A offset by a 31 basis-point contraction of our gross profit rate.

The improvement in SG&A, as a percentage of sales, was due in large part to increased sales (including the 53rd week) and improved utilization of store labor. For other factors, see the detailed discussion that follows.

We are pleased with our ability to manage our gross profit rate in a period of significant commodity cost increases and related LIFO charges, high fuel costs and limited discretionary spending by our core customers. Our gross profit rate was also affected by numerous factors including a decrease in our mix of non-consumables and higher markdowns.

Interest expense decreased by \$69 million in 2011 to \$205 million, primarily as the result of lower average outstanding long-term obligations. In 2011, we repurchased the remaining balance of our 10.625% senior notes, resulting in a non-operating charge of \$60 million. Total long-term obligations of \$2.62 billion as of February 3, 2012 were \$670 million less than in the prior year.

We reported net income of \$767 million, or \$2.22 per diluted share, for fiscal 2011, compared to net income of \$628 million, or \$1.82 per diluted share, for fiscal 2010.

We generated approximately \$1.05 billion of cash flows from operating activities in 2011, an increase of over 27 percent compared to 2010. Cash flow was primarily utilized to support our capital expenditures, repurchase long-term obligations, and repurchase our common stock.

During 2011, we opened 625 new stores, remodeled or relocated 575 stores, and closed 60 stores. Included in these totals are 12 new and 25 remodeled Dollar General Market stores.

As discussed in more detail below, in recent years, we have generated significant cash flows from operating activities. We have used a portion of these cash flows to pay down debt and to invest in new store growth through our traditional leased stores. In the second half of 2010 we made a strategic

Edgar Filing: DOLLAR GENERAL CORP - Form 10-K

decision to purchase certain of our leased stores and continued to purchase some stores in 2011. We believe that the current environment in the real estate markets provides an opportunity to make these investments at levels which are expected to result in favorable returns and positively impact our operating results.

In 2012, we plan to continue to focus on our four key operating priorities. We will continue to refine and improve our store standards in order to increase sales, focusing on achieving a consistent look and feel across the chain. Continued progress on improving our merchandise in-stock position is an important element in improving overall customer service and increasing sales. As part of our category management program, we plan to expand our refrigerated food offerings, further expand our private brand consumables and increase the number of \$1.00 price point items in our stores. With regard to non-consumables, we plan to further improve the quality and appeal of our seasonal, home and apparel merchandise, and to continue to offer the items our customers want and need most frequently. We will continue our focused shrink reduction efforts by employing our exception reporting tools and enhanced shrink optimization processes. We will also continue to pursue global opportunities to directly source a larger portion of our products, with the potential for significant savings to current costs.

With regard to leveraging information technology and process improvements to reduce costs, we will continue to focus on making improvements that benefit our merchandising and operations efforts, including further implementation of a new supply chain/procurement system which we anticipate will produce benefits in 2013 and beyond, as well as enhanced pricing and markdown capabilities, merchandise selection and allocation procedures. We expect to gain further efficiencies with additional utilization of our workforce management systems and high speed data transmission capabilities.

Finally, we are pleased with the performance of our 2011 new stores, remodels and relocations, and in 2012 we plan to open 625 new stores and remodel or relocate an additional 550 stores. Included in our 2012 new store growth plans are 40 new Dollar General Market stores and we also intend to continue tests of a larger format traditional store with additional coolers and freezers in several markets.

In the first half of 2011, we utilized cash flow from operations and borrowings under our revolving credit agreement to repurchase the \$864 million remaining balance of our outstanding 10.625% Senior Notes, reducing our interest expense and strengthening our financial position. Then, in December 2011, we repurchased approximately 4.9 million shares of our outstanding common stock for \$185 million. In 2012, we plan to refinance the remaining \$451 million of our 11.875%/12.625% outstanding Senior Subordinated Notes further reducing interest expense. In addition, we plan to repurchase additional shares of our common stock under our current authorization with a remaining balance of \$315 million.

Key Financial Metrics. We have identified the following as our most critical financial metrics for 2011:

Same-store sales growth;

Sales per square foot;

Gross profit, as a percentage of sales;

Selling, general and administrative expenses, as a percentage of sales;

Operating profit;

Inventory turnover;

Cash flow;

Net income;

Earnings per share;

Earnings before interest, income taxes, depreciation and amortization; and

Return on invested capital.

Readers should refer to the detailed discussion of our operating results below for additional comments on financial performance in the current year periods as compared with the prior year periods.

Results of Operations

Accounting Periods. The following text contains references to years 2011, 2010 and 2009, which represent fiscal years ended February 3, 2012, January 28, 2011 and January 29, 2010, respectively. Our fiscal year ends on the Friday closest to January 31. Fiscal year 2011 was a 53-week accounting period and fiscal years 2010 and 2009 were 52-week accounting periods.

Seasonality. The nature of our business is seasonal to a certain extent. Primarily because of sales of holiday-related merchandise, sales in our fourth quarter (November, December and January) 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 profit 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-K

The following table contains results of operations data for fiscal years 2011, 2010 and 2009, and the dollar and percentage variances among those years.

(amounts in millions, except per share amounts)				2011 vs. 2010		2010 vs. 2009	
	2011	2010	2009	Amount Change	% Change	Amount Change	% Change
<i>Net sales by category:</i>							
Consumables	\$ 10,833.7	\$ 9,332.1	\$ 8,356.4	\$ 1,501.6	16.1%	\$ 975.7	11.7%
% of net sales	73.17%	71.59%	70.84%				
Seasonal	2,051.1	1,887.9	1,711.5	163.2	8.6	176.4	10.3
% of net sales	13.85%	14.48%	14.51%				
Home products	1,005.2	917.6	869.8	87.6	9.5	47.9	5.5
% of net sales	6.79%	7.04%	7.37%				
Apparel	917.1	897.3	858.8	19.8	2.2	38.6	4.5
% of net sales	6.19%	6.88%	7.28%				
Net sales	\$ 14,807.2	\$ 13,035.0	\$ 11,796.4	\$ 1,772.2	13.6%	\$ 1,238.6	10.5%
Cost of goods sold	10,109.3	8,858.4	8,106.5	1,250.8	14.1	751.9	9.3
% of net sales	68.27%	67.96%	68.72%				
Gross profit	4,697.9	4,176.6	3,689.9	521.4	12.5	486.7	13.2
% of net sales	31.73%	32.04%	31.28%				
Selling, general and administrative expenses	3,207.1	2,902.5	2,736.6	304.6	10.5	165.9	6.1
% of net sales	21.66%	22.27%	23.20%				
Operating profit	1,490.8	1,274.1	953.3	216.7	17.0	320.8	33.7
% of net sales	10.07%	9.77%	8.08%				
Interest income	(0.1)	(0.2)	(0.1)	0.1	(58.6)	(0.1)	52.8
% of net sales	(0.00)%	(0.00)%	(0.00)%				
Interest expense	205.0	274.2	345.7	(69.2)	(25.2)	(71.5)	(20.7)
% of net sales	1.38%	2.10%	2.93%				
Other (income) expense	60.6	15.1	55.5	45.5	301.4	(40.4)	(72.8)
% of net sales	0.41%	0.12%	0.47%				
Income before income taxes	1,225.3	985.0	552.1	240.3	24.4	432.9	78.4
% of net sales	8.27%	7.56%	4.68%				
Income taxes	458.6	357.1	212.7	101.5	28.4	144.4	67.9
% of net sales	3.10%	2.74%	1.80%				
Net income	\$ 766.7	\$ 627.9	\$ 339.4	\$ 138.8	22.1%	\$ 288.4	85.0%
% of net sales	5.18%	4.82%	2.88%				
Diluted earnings per share	\$ 2.22	\$ 1.82	\$ 1.04	\$ 0.40	22.0%	\$ 0.78	75.0%

Net Sales. The net sales increase in 2011 reflects a same-store sales increase of 6.0% compared to 2010. Same-stores include stores that have been open for at least 13 months and remain open at the end of the reporting period. For 2011, there were 9,254 same-stores which accounted for sales of \$13.63 billion. Same-store sales increases are calculated based on the comparable calendar weeks in the prior year. Accordingly, the same store sales percentage for 2011 discussed above excludes sales from the 53rd week as there was no comparable week in 2010. Net sales for the 53rd week of 2011 totaled \$289.3 million. The remainder of the increase in sales in 2011 was attributable to new stores, partially offset by sales from closed stores. The increase in sales reflects increased customer traffic and average transaction amounts, which is the result of the continued refinement of our merchandise offerings, the

Edgar Filing: DOLLAR GENERAL CORP - Form 10-K

optimization of our category management processes, further improvement in store standards, and an increase in sales prices resulting primarily from passing through certain cost increases and increased utilization of square footage in our stores. Increases in sales of consumables outpaced our non-consumables, with sales of packaged foods, snacks, beverages and perishables, contributing the majority of the increase throughout the year.

The net sales increase in 2010 reflects a same-store sales increase of 4.9% compared to 2009. For 2010, there were 8,712 same-stores which accounted for sales of \$12.23 billion. The remainder of the increase in sales in 2010 was attributable to new stores, partially offset by sales from closed stores. The increase in sales reflects the refinement of our merchandise offerings, improvements in our category management processes and store standards, and increased utilization of square footage in our stores.

Of our four major merchandise categories, the consumables category, which generally has a lower gross profit rate than the other three categories, has grown most significantly over the past several years. Because of the impact of sales mix on gross profit, we continually review our merchandise mix and strive to adjust it when appropriate. Maintaining an appropriate sales mix is an integral part of achieving our gross profit and sales goals. Both the number of customer transactions and average transaction amount increased in 2011 and 2010, and we believe that our stores have benefited to some degree from attracting new customers who are seeking value as a result of the challenging macroeconomic environment in recent years.

Gross Profit. The gross profit rate as a percentage of sales was 31.7% in 2011 compared to 32.0% in 2010, a decline of 31 basis points. Consumables, which generally have lower markups than non-consumables, represented a greater percentage of sales in 2011 than in 2010. Our purchase costs increased primarily due to increased commodity costs. In addition, we incurred higher markdowns and our transportation costs were impacted by higher fuel rates in 2011. Our LIFO provision increased to \$47.7 million in 2011 compared to \$5.3 million in 2010. In 2011, our mix of home and apparel merchandise decreased as percentage of sales and the gross profit rate within these categories decreased due, in part, to higher markdowns. Although we saw improvement in the home category in the latter part of 2011, we believe the economic environment continues to impede our ability to grow sales in discretionary areas such as this. Factors positively affecting gross profit include the selective price increases noted above as well as lower inventory shrinkage and distribution center costs, as a percentage of sales.

The gross profit rate as a percentage of sales was 32.0% in 2010 compared to 31.3% in 2009. Factors contributing to the increase in the 2010 gross profit rate include increased markups resulting primarily from higher purchase markups, partially offset by increased markdowns, as well as our category management efforts and increased sales volumes which have contributed to our ability to reduce purchase costs from our vendors. Our merchandising team continues to work closely with our vendors to provide quality merchandise at value prices to meet our customers' demands. In 2010 we recorded a LIFO provision of \$5.3 million, reflecting an increase in certain merchandise costs, the most significant of which occurred in the 2010 fourth quarter, compared to a LIFO benefit of \$2.5 million in 2009.

SG&A Expense. SG&A expense was 21.7% as a percentage of sales in 2011 compared to 22.3% in 2010, an improvement of 61 basis points reflecting the favorable impact of the 13.6% increase in sales. In addition, retail labor expense increased at a rate lower than our increase in sales, partially due to the rollout of our workforce management system. A decrease in incentive compensation driven by more aggressive bonus targets, and various cost reduction efforts affecting rent, benefits, electricity and other power costs, among other expenses, also contributed to the overall decrease in SG&A as a percentage of sales. Costs that increased at a rate higher than our increase in sales included those associated with our high speed store data network discussed above, depreciation and amortization expense and fees associated with the increased use of debit cards. Depreciation and amortization

Edgar Filing: DOLLAR GENERAL CORP - Form 10-K

increases were primarily due to investments in the store data network and store properties purchased. SG&A in 2011 includes expenses totaling \$13.1 million for payments and accruals related to the settlement and expected settlement of two legal matters. SG&A in 2011 and 2010 includes expenses totaling \$11.1 million and \$19.7 million, respectively, for expenses (primarily share-based compensation) incurred in connection with secondary offerings of our common stock.

SG&A expense was 22.3% as a percentage of sales in 2010 compared to 23.2% in 2009, an improvement of 93 basis points. Decreases in incentive compensation, the cost of health benefits, consulting fees and severance costs contributed to the overall decrease in SG&A as a percentage of sales, as did other cost reduction and productivity initiatives. Other costs increasing at a rate lower than our 10.5% increase in sales include utilities, which reflect lower waste management costs resulting from our recycling efforts, as well as repairs and maintenance. Our increased sales levels in 2010 also favorably impacted SG&A, as a percentage of sales. Debit card fees increased at a higher rate than the increase in sales, primarily as a result of increased usage as a percentage of total transactions. As noted above, SG&A in 2010 included expenses (primarily share-based compensation) totaling \$19.7 million, relating to two secondary offerings of our common stock. SG&A in 2009 included expenses totaling \$68.3 million, or 58 basis points, including \$58.8 million relating to the termination of an advisory agreement among us, KKR and Goldman, Sachs & Co. and \$9.4 million resulting from the acceleration of certain equity based compensation related to the completion of our initial public offering.

Interest Expense. The decrease in interest expense in 2011 compared to 2010 was primarily the result of lower average outstanding long-term obligations and lower average interest rates due to the redemption of our Senior Notes with cash and borrowings under our revolving credit facility in the first half of 2011 and lower all-in interest rates on our term loan, primarily due to reduced notional amounts on our interest rate swaps.

The decrease in interest expense in 2010 compared to 2009 was primarily the result of lower average outstanding long-term obligations and lower all-in interest rates on our term loan, also primarily due to reduced notional amounts on our interest rate swaps.

We had outstanding variable-rate debt of \$1.63 billion and \$0.93 billion as of February 3, 2012 and January 28, 2011, respectively, after taking into consideration the impact of interest rate swaps. The remainder of our outstanding indebtedness at February 3, 2012 and January 28, 2011 was fixed rate debt.

See the detailed discussion under "Liquidity and Capital Resources" regarding indebtedness incurred to finance our 2007 merger along with subsequent repurchases of various long-term obligations and the related effect on interest expense in the periods presented.

Other (Income) Expense. In 2011, we recorded pretax losses of \$60.3 million resulting from repurchases of \$864.3 million aggregate principal amount of our Senior Notes plus accrued and unpaid interest.

In 2010, we recorded pretax losses of \$14.7 million resulting from the repurchase in the open market of \$115.0 million aggregate principal amount of our Senior Notes plus accrued and unpaid interest.

In 2009, we recorded charges totaling \$55.5 million, which primarily represents losses on debt retirement totaling \$55.3 million, and which also includes expenses of \$0.6 million related to hedge ineffectiveness on certain of our interest rate swaps.

Income Taxes. The effective income tax rates for 2011, 2010, and 2009 were expenses of 37.4%, 36.3%, and 38.5%, respectively.

Edgar Filing: DOLLAR GENERAL CORP - Form 10-K

The 2011 effective tax rate of 37.4% was greater than the statutory tax rate of 35% due primarily to the inclusion of state income taxes in the total effective tax rate. The 2011 effective rate was greater than the 2010 rate of 36.3% primarily due to the effective resolution of various examinations by the taxing authorities in 2010 that did not reoccur, to the same extent, in 2011. These factors resulted in rate increases in 2011, as compared to 2010, associated with state income taxes and income tax related interest expense. Increases in federal jobs related tax credits, primarily due to the Hire Act's Retention Credit, reduced the effective rate in 2011 as compared to 2010. The Retention Credit was only effective for 2011. Other provisions authorizing various federal jobs credits (primarily the Work Opportunity Tax Credit or WOTC) that we receive have generally expired for employees hired after December 31, 2011. Barring re-enactment of these credits by Congress, the benefit realized by the company associated with jobs credits in 2012 will be significantly lower than the benefit realized in 2011, thereby increasing the 2012 effective rate. We anticipate that the combined lapse of the Retention Credit and the expiration of the other jobs credits (WOTC) will increase our 2012 effective rate by approximately 1.0% as compared to the 2011 rate.

The 2010 effective tax rate of 36.3% was greater than the statutory tax rate of 35%, also due primarily to the inclusion of state income taxes in the total effective tax rate. The 2010 effective rate was less than the 2009 rate due principally to reductions in state income tax expense, income tax related interest expense and other expense items. The 2010 effective resolution of various examinations by the taxing authorities, when combined with unfavorable examination results in 2009, resulted in a decrease in the year-to-year state income tax expense rate. This decrease in state income tax expense was partially offset by an increase in state income tax expense due to a shift in income to companies within the group that have a higher effective state income tax rate. In addition, decreases also occurred due to favorable outcomes in 2010 associated with reductions in income tax related interest accruals and income tax related penalty accruals due to favorable income tax examination results, the completion of a federal income tax examination, and reductions in expense associated with uncertain tax benefit accruals.

The 2009 effective tax rate of 38.5% was greater than the statutory tax rate of 35% due primarily to the inclusion of state income taxes in the total effective tax rate.

Off Balance Sheet Arrangements

The entities involved in ownership structure underlying the leases for three of our distribution centers meet the accounting definition of a Variable Interest Entity ("VIE"). One of these distribution centers has been recorded as a financing obligation whereby its property and equipment are reflected in our consolidated balance sheets. The land and buildings of the other two distribution centers have been recorded as operating leases. We are not the primary beneficiary of these VIEs and, accordingly, have not included these entities in our consolidated financial statements. Other than the foregoing, we are not party to any off balance sheet arrangements.

Effects of Inflation

In 2011, we experienced increased commodity cost pressures mainly related to food, housewares and apparel products which were driven by increases in cotton, sugar, coffee, groundnut, resin, petroleum and other raw material commodity costs. We believe that our ability to selectively increase selling prices in response to cost increases partially mitigated the effect of these cost increases on our overall results of operations. We experienced little or no overall product cost inflation in 2010 and 2009.

Liquidity and Capital Resources

Current Financial Condition

During the past three years, we have generated an aggregate of approximately \$2.55 billion in cash flows from operating activities. During that period, we expanded the number of stores we operate by 1,575, or approximately 19%, remodeled or relocated 1,529 stores, or approximately 15% of stores we operated as of February 3, 2012, and incurred approximately \$1.19 billion in capital expenditures. We made certain strategic decisions which slowed our store growth for a period prior to 2009, but we reaccelerated store growth beginning in 2009 and currently plan to continue that strategy in 2012 and for the foreseeable future.

At February 3, 2012, we had total outstanding debt (including the current portion of long-term obligations) of \$2.62 billion, which includes our senior secured asset-based revolving credit facility ("ABL Facility" and, together with the Term Loan Facility, the "Credit Facilities"), and senior subordinated notes, all of which are described in greater detail below. We had \$807.9 million available for borrowing under the ABL Facility at February 3, 2012. Our liquidity needs are significant, primarily due to our debt service and other obligations. Our substantial debt could adversely affect our ability to raise additional capital to fund our operations, limit our ability to react to changes in the economy or our industry or to pursue our growth strategy, expose us to interest rate risk to the extent of our variable rate debt, and increase the difficulty of our ability to make payments on our outstanding debt securities.

We believe our cash flow from operations and existing cash balances, combined with availability under the Credit Facilities (described in greater detail below), will provide sufficient liquidity to fund our current obligations, projected working capital requirements and capital spending for a period that includes the next twelve months as well as the next several years.

The ABL Facility was amended and restated on March 15, 2012 as discussed below under "Recent Developments."

Credit Facilities

Overview. The Credit Facilities consist of the \$1.964 billion Term Loan Facility and the ABL Facility which was recently amended to a maximum of \$1.2 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.

Interest Rates and Fees. 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 under the Term Loan Facility is 2.75% for LIBOR borrowings and 1.75% for base-rate borrowings. The interest rate for borrowings under the Term Loan Facility was 3.1% (without giving effect to the market rate swaps discussed below) as of February 3, 2012.

The current interest rate for the amended ABL Facility is described below under "Recent Developments." As of February 3, 2012, the applicable margin for borrowings under the ABL Facility (except for the last out tranche) was 1.50% for LIBOR borrowings and 0.50% for base-rate borrowings, the applicable margin for the last out borrowings was 2.25% for LIBOR borrowings and 1.25% for base-rate borrowings and the commitment fee to the lenders for any unutilized commitments was 0.375% per annum. See Item 7A. "Quantitative and Qualitative Disclosures About Market Risk" below for a discussion of our use of interest rate swaps to manage our interest rate risk.

Edgar Filing: DOLLAR GENERAL CORP - Form 10-K

Prepayments. The senior secured credit agreement for the Term Loan Facility requires us to prepay outstanding term loans, subject to certain exceptions, with:

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;

100% of the net cash proceeds of all non-ordinary course asset sales or other dispositions of property in excess of \$25.0 million in the aggregate and subject to our right to reinvest the proceeds; and

100% of the net cash proceeds of any incurrence of debt, other than proceeds from debt permitted under the senior secured credit agreement.

The mandatory prepayments discussed above will be applied to the Term Loan Facility as directed by the senior secured credit agreement. 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.

In addition, the senior secured credit agreement for the ABL Facility requires us to prepay the ABL Facility, subject to certain exceptions, as follows:

With 100% of the net cash proceeds of all non-ordinary course asset sales or other dispositions of Revolving Facility Collateral (as defined below) in excess of \$1.0 million in the aggregate and subject to our right to reinvest the proceeds; and

To the extent such extensions of credit exceed the then current borrowing base (as defined in the senior secured credit agreement for the ABL Facility).

The mandatory prepayments discussed above will be applied to the ABL Facility as directed by the senior secured credit agreement for the ABL Facility. No prepayments have been required under the prepayment provisions listed above.

An event of default under the senior secured credit agreements will occur upon a change of control as defined in the senior secured credit agreements governing our Credit Facilities. Upon an event of default, indebtedness under the Credit Facilities may be accelerated, in which case we will be required to repay all outstanding loans plus accrued and unpaid interest and all other amounts outstanding under the Credit Facilities.

Amortization. The original terms of the Term Loan Facility required quarterly payments of principal beginning September 30, 2009. As a result of voluntary prepayments under the Term Loan Facility, no further quarterly principal installments will be required prior to maturity of the Term Loan on July 6, 2014. There is no amortization under the ABL Facility.

Guarantee and Security. 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.

Edgar Filing: DOLLAR GENERAL CORP - Form 10-K

Certain Covenants and Events of Default. 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;

amend material agreements governing our subordinated indebtedness, including the Senior Subordinated Notes discussed below;

change our lines of business.

The senior secured credit agreements also contain certain customary affirmative covenants and events of default.

At February 3, 2012, we had the following amounts outstanding under our ABL Facility: borrowings of \$184.7 million; standby letters of credit of \$21.7 million; and commercial letters of credit of \$16.7 million.

Senior Notes due 2015 and Senior Subordinated Toggle Notes due 2017

Overview. 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 consolidated statement of income for 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 February 3, 2012 compared to the prior year end.

As of February 3, 2012, 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. An option 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 expired in 2011. As a result, all interest on the Senior Subordinated Notes has been paid or will be payable in cash.

The Senior Subordinated Notes are fully and unconditionally guaranteed by each of the existing and future direct or indirect wholly owned domestic subsidiaries that guarantee the obligations under our Credit Facilities.

We intend to redeem some or all of the Senior Subordinated Notes near the first scheduled call date in July 2012. We may redeem some or all of the Senior Subordinated Notes at any time at

Edgar Filing: DOLLAR GENERAL CORP - Form 10-K

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 on the open market, in privately negotiated transactions or otherwise. Such repurchases, if any, will depend on prevailing market conditions, our liquidity requirements, contractual restrictions and other factors. The amounts involved may be material.

Change of Control. 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.

Covenants. 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 and or make certain distributions, investments and other restricted payments;

create certain liens or encumbrances;

sell assets;

enter into transactions with our affiliates;

allow payments to us by our restricted subsidiaries;

consolidate, merge, sell or otherwise dispose of all or substantially all of our assets; and

designate our subsidiaries as unrestricted subsidiaries.

Events of Default. 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 February 3, 2012, this ratio was 1.1 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

Edgar Filing: DOLLAR GENERAL CORP - Form 10-K

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

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

(in millions)	Year Ended	
	February 3, 2012	January 28, 2011
Net income	\$ 766.7	\$ 627.9
Add (subtract):		
Interest income	(0.1)	(0.2)
Interest expense	205.0	274.1
Depreciation and amortization	264.1	242.3
Income taxes	458.6	357.1
EBITDA	1,694.3	1,501.2
Adjustments:		
Loss on debt retirements	60.3	14.6
Loss on hedging instruments	0.4	0.4
Advisory and consulting fees to affiliates		0.1
Non-cash expense for share-based awards	15.3	16.0
Litigation settlement and related costs, net	13.1	
Indirect merger-related costs	0.9	1.3
Other non-cash charges (including LIFO)	53.3	11.5
Total Adjustments	143.3	43.9
Adjusted EBITDA	\$ 1,837.6	\$ 1,545.1

Interest Rate Swaps

We use interest rate swaps to minimize the risk of adverse changes in interest rates. These swaps are intended to reduce risk by hedging an underlying economic exposure. Because of high correlation between the derivative financial instrument and the underlying exposure being hedged, fluctuations in the value of the financial instruments are generally offset by reciprocal changes in the value of the underlying economic exposure. Our principal interest rate exposure relates to outstanding amounts under our Credit Facilities. At February 3, 2012, we had interest rate swaps with a total notional amount of approximately \$533.3 million. For more information see Item 7A "Quantitative and Qualitative Disclosures about Market Risk" below.

Fair Value Accounting

We have classified our interest rate swaps, as further discussed in Item 7A. below, in Level 2 of the fair value hierarchy, as the significant inputs to the overall valuations are based on market-observable data or information derived from or corroborated by market-observable data, including market-based inputs to models, model calibration to market-clearing transactions, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency. Where models

Edgar Filing: DOLLAR GENERAL CORP - Form 10-K

are used, the selection of a particular model to value a derivative depends upon the contractual terms of, and specific risks inherent in, the instrument as well as the availability of pricing information in the market. We use similar models to value similar instruments. Valuation models require a variety of inputs, including contractual terms, market prices, yield curves, credit curves, measures of volatility, and correlations of such inputs. For our derivatives, all of which trade in liquid markets, model inputs can generally be verified and model selection does not involve significant management judgment.

We incorporate credit valuation adjustments to appropriately reflect both our own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements of our derivatives. The credit valuation adjustments are calculated by determining the total expected exposure of the derivatives (which incorporates both the current and potential future exposure) and then applying each counterparty's credit spread to the applicable exposure. For derivatives with two-way exposure, such as interest rate swaps, the counterparty's credit spread is applied to our exposure to the counterparty, and our own credit spread is applied to the counterparty's exposure to us, and the net credit valuation adjustment is reflected in our derivative valuations. The total expected exposure of a derivative is derived using market-observable inputs, such as yield curves and volatilities. The inputs utilized for our own credit spread are based on implied spreads from our publicly-traded debt. For counterparties with publicly available credit information, the credit spreads over LIBOR used in the calculations represent implied credit default swap spreads obtained from a third party credit data provider. In adjusting the fair value of our derivative contracts for the effect of nonperformance risk, we have considered the impact of netting and any applicable credit enhancements, such as collateral postings, thresholds, mutual puts, and guarantees. Additionally, we actively monitor counterparty credit ratings for any significant changes.

As of February 3, 2012, the net credit valuation adjustments reduced the settlement values of our derivative liabilities by \$0.1 million. Various factors impact changes in the credit valuation adjustments over time, including changes in the credit spreads of the parties to the contracts, as well as changes in market rates and volatilities, which affect the total expected exposure of the derivative instruments. When appropriate, valuations are also adjusted for various factors such as liquidity and bid/offer spreads, which factors we deemed to be immaterial as of February 3, 2012.

Contractual Obligations

The following table summarizes our significant contractual obligations and commercial commitments as of February 3, 2012 (in thousands):

Contractual obligations	Total	Payments Due by Period			
		1 year	1 - 3 years	3 - 5 years	5+ years
Long-term debt obligations	\$ 2,613,392	\$	\$ 2,148,200	\$ 305	\$ 464,887
Capital lease obligations	5,089	590	607	767	3,125
Interest(a)	493,388	138,572	221,100	107,669	26,047
Self-insurance liabilities(b)	219,965	79,752	90,883	31,597	17,733
Operating leases(c)	3,660,001	537,842	938,286	704,205	1,479,668
Subtotal	\$ 6,991,835	\$ 756,756	\$ 3,399,076	\$ 844,543	\$ 1,991,460

Commercial commitments(d)	Total	Commitments Expiring by Period			
		1 year	1 - 3 years	3 - 5 years	5+ years
Letters of credit	\$ 16,710	\$ 16,710	\$	\$	\$
Purchase obligations(e)	725,202	723,665	1,537		
Subtotal	\$ 741,912	\$ 740,375	\$ 1,537	\$	\$
Total contractual obligations and commercial commitments(f)	\$ 7,733,747	\$ 1,497,131	\$ 3,400,613	\$ 844,543	\$ 1,991,460

- (a) Represents obligations for interest payments on long-term debt and capital lease obligations, and includes projected interest on variable rate long-term debt, using 2011 year end rates. Variable rate long-term debt includes the balance of the senior secured asset-based revolving credit facility of \$184.7 million, the balance of our tax increment financing of \$14.5 million, and \$1.430 billion of the senior secured term loan facility net of the effect of interest rate swaps.
- (b) We retain a significant portion of the risk for our workers' compensation, employee health insurance, general liability, property loss and automobile insurance. As these obligations do not have scheduled maturities, these amounts represent undiscounted estimates based upon actuarial assumptions. Reserves for workers' compensation and general liability which existed as of the date of our 2007 merger were discounted in order to arrive at estimated fair value. All other amounts are reflected on an undiscounted basis in our consolidated balance sheets.
- (c) Operating lease obligations are inclusive of amounts included in deferred rent and closed store obligations in our consolidated balance sheets.
- (d) Commercial commitments include information technology license and support agreements, supplies, fixtures, letters of credit for import merchandise, and other inventory purchase obligations.
- (e) Purchase obligations include legally binding agreements for software licenses and support, supplies, fixtures, and merchandise purchases (excluding such purchases subject to letters of credit).
- (f) We have potential payment obligations associated with uncertain tax positions that are not reflected in these totals. We anticipate that approximately \$0.3 million of such amounts will be paid in the coming year. We are currently unable to make reasonably reliable estimates of the period of cash settlement with the taxing authorities for our remaining \$41.1 million of reserves for uncertain tax positions.

Recent Developments

On March 15, 2012, the ABL Facility was amended and restated. The maturity date was extended from July 6, 2013 to July 6, 2014 and the total commitment was increased from \$1.031 billion to \$1.2 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) shall not exceed the borrowing base which equals the sum of (i) 90% of the net orderly liquidation value of all our eligible inventory and that of each guarantor thereunder and (ii) 90% of all our accounts receivable and credit/debit card receivables and that of each guarantor thereunder, in each case, subject to customary reserves and eligibility criteria.

Edgar Filing: DOLLAR GENERAL CORP - Form 10-K

The initial applicable margin for all borrowings under the ABL Facility is 1.75% for LIBOR borrowings and 0.75% for base-rate borrowings. We are also required to pay a commitment fee to the lenders under the ABL Facility for any unutilized commitments, initially at a rate of 0.375% per annum. The applicable margins for borrowings and the commitment fees under the ABL Facility are subject to adjustment each quarter based on average daily excess availability under the ABL Facility. We also must pay customary letter of credit fees.

The entire principal amounts (if any) outstanding under the ABL Facility are due and payable in full at maturity, on July 6, 2014, on which day the commitments thereunder will terminate. All obligations and related guarantees under the ABL Facility are secured by the Revolving Facility Collateral, subject to certain exceptions.

In addition, we recently commenced efforts to amend our Term Loan Facility to extend the maturity of a portion of the Term Loan Facility from 2014 to 2017. There can be no assurance that we will be able to amend the Term Loan Facility on these terms, or at all.

Share Repurchase Program

On November 30, 2011, our Board of Directors approved a share repurchase program of up to \$500 million of outstanding shares of our common stock. Under the authorization, purchases may be made in the open market or in privately negotiated transactions from time to time subject to market conditions. This repurchase authorization has no expiration date. As part of this repurchase program, pursuant to a Share Repurchase Agreement between Dollar General and Buck Holdings L.P., dated December 4, 2011, concurrent with the closing of a secondary offering in December 2011, Dollar General purchased 4,915,637 shares of Common Stock from Buck Holdings, L.P. for an aggregate purchase price of \$185 million.

Other Considerations

We have no current plans to pay any cash dividends on our common stock and instead may retain earnings, if any, for future operation and expansion, common stock repurchases and debt repayment. Any decision to declare and pay dividends in the future will be made at the discretion of our Board of Directors, subject to certain limitations found in covenants in our Credit Facilities and in the indenture governing the Senior Subordinated Notes as discussed in more detail above, and will depend on, among other things, our results of operations, cash requirements, financial condition, contractual restrictions and other factors that our Board of Directors may deem relevant.

Our inventory balance represented approximately 49% of our total assets exclusive of goodwill and other intangible assets as of February 3, 2012. Our proficiency in managing our inventory balances can have a significant impact on our cash flows from operations during a given fiscal year. As a result, efficient inventory management has been and continues to be an area of focus for us.

As described in Note 9 to the 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. As discussed in Note 5 to the Consolidated Financial Statements, we also have certain income tax-related contingencies. 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

Cash flows from operating activities. A significant component of our increase in cash flows from operating activities in 2011 compared to 2010 was the increase in net income due to increases in sales and gross profit, and lower SG&A expenses as a percentage of sales, as described in more detail above under "Results of Operations." Significant components of the increase in cash flows from operating activities in 2011 compared to 2010 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, partially offset by reduced interest accruals. The timing of interest and certain other accruals and the related payments were affected by the 53rd week in 2011. Partially offsetting this increase in cash flows were an increase in income taxes paid in 2011 compared to 2010 due to increased net income and changes in inventory balances, which increased by 14% in 2011 compared to an increase of 16% in 2010. Although we continue to closely monitor our inventory balances, they often fluctuate from period to period and from year to year based on new store openings, the timing of purchases, merchandising initiatives and other factors. Inventory levels in the consumables category increased by \$132.3 million, or 13%, in 2011 compared to an increase of \$133.9 million, or 16%, in 2010. The seasonal category increased by \$27.5 million, or 7%, in 2011 compared to an increase of \$55.2 million, or 18%, in 2010. The home products category increased \$24.6 million, or 14%, in 2011 compared to an increase of \$25.2 million, or 17%, in 2010. The apparel category increased by \$59.4 million, or 24%, in 2011 compared to an increase of \$32.3 million, or 15%, in 2010.

A significant component of our increase in cash flows from operating activities in 2010 compared to 2009 was the increase in net income due to increases in sales and gross profit, and lower SG&A expenses as a percentage of sales, as described in more detail above under "Results of Operations." Partially offsetting this increase in cash flows were changes in inventory balances, which increased by 16% in 2010 compared to an increase of 7% in 2009. Inventory levels in the consumables category increased by \$133.9 million, or 16%, in 2010 compared to an increase of \$111.4 million, or 15%, in 2009. The seasonal category increased by \$55.2 million, or 18%, in 2010 compared to an increase of \$25.3 million, or 9%, in 2009. The home products category increased \$25.2 million, or 17%, in 2010 compared to a decline of \$9.1 million, or 6%, in 2009. The apparel category increased by \$32.3 million, or 15%, in 2010 compared to a decline of \$22.9 million, or 10%, in 2009. In addition, increased net income resulted in an increase in income taxes paid in 2010 compared to 2009. Changes in Accrued expenses and other were affected in part by reductions of income tax reserves and reduced accruals for incentive compensation, partially offset by the timing of payments related to a litigation settlement in prior years and by lower accruals for interest on long-term debt.

Cash flows from investing activities. Significant components of property and equipment purchases in 2011 included the following approximate amounts: \$120 million for distribution centers, including our newly built center in Alabama; \$114 million for new leased stores; \$80 million for improvements and upgrades to existing stores; \$80 million for stores purchased or built by us; \$73 million for remodels and relocations of existing stores; \$28 million for systems-related capital projects; and \$15 million for transportation-related capital. 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 2011, we opened 625 new stores and remodeled or relocated 575 stores.

Significant components of our property and equipment purchases in 2010 included the following approximate amounts: \$156 million for improvements, upgrades, remodels and relocations of existing stores; \$100 million for new leased stores; \$91 million for stores purchased or built by us; \$45 million for distribution and transportation-related capital expenditures; and \$22 million for information systems upgrades and technology-related projects. During 2010 we opened 600 new stores and remodeled or relocated 504 stores.

Edgar Filing: DOLLAR GENERAL CORP - Form 10-K

Significant components of our property and equipment purchases in 2009 included the following approximate amounts: \$114 million for improvements, upgrades, remodels and relocations of existing stores; \$69 million for new leased stores; \$28 million for distribution and transportation-related capital expenditures; \$24 million for various administrative capital costs; and \$11 million for information systems upgrades and technology-related projects. During 2009 we opened 500 new stores and remodeled or relocated 450 stores.

Capital expenditures during 2012 are projected to be in the range of \$600-\$650 million. We anticipate funding 2012 capital requirements with cash flows from operations, and if necessary, we also have significant availability under our ABL Facility. Approximately 65 percent of projected capital spending is for investment in store growth and development for approximately 625 new stores and for approximately 550 stores to be remodeled or relocated. Capital expenditures are anticipated for the construction of new stores; costs related to new leased stores such as leasehold improvements, fixtures and equipment; the purchase of existing stores; and continued investment in our existing store base. Approximately 15 percent of projected capital spending is for transportation, distribution and special projects; and the remaining 20 percent is for routine and ongoing capital requirements.

Included in our 2012 new store growth plans are 40 new Dollar General Market stores, some of which we will introduce in new markets, including California and Nevada. We also intend to test a larger format traditional store with additional coolers and freezers in several markets. The Market and larger format traditional stores require higher investments than our traditional stores which can vary depending on numbers of coolers, square feet, type of construction and layout. Because we are testing several different formats, the costs of rolling out these concepts in larger quantities, should we decide to do so, are uncertain at the present time. We plan to undertake these expenditures as part of our efforts to improve our infrastructure and increase our cash generated from operating activities.

Cash flows from financing activities. On July 15, 2011, we redeemed \$839.3 million aggregate principal amount of our outstanding Senior Notes at total cost of \$883.9 million including associated premiums, and on April 29, 2011, we repurchased in the open market \$25.0 million aggregate principal amount of Senior Notes at a total cost of \$26.8 million including associated premiums. 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 \$184.7 million during 2011. In December 2011, we repurchased 4.9 million outstanding shares from our principal shareholder at a total cost of \$185.0 million.

During 2010, we repurchased \$115.0 million outstanding principal amount of our outstanding Senior Notes at a total cost of \$127.5 million including associated premiums. We had no borrowings or repayments under the ABL Facility in 2010.

In 2009, we had cash inflows from the issuance of equity of \$443.8 million primarily due to our initial public offering of 22.7 million shares of common stock. We used the proceeds from the offering to redeem outstanding Notes with a total principal amount of \$400.9 million at a premium, and used cash generated from operations to repay \$336.5 million outstanding principal amount on our Term Loan Facility. We had no borrowings or repayments under the ABL Facility in 2009. In addition, we paid a dividend and related amounts totaling \$239.7 million using cash generated from operations.

Critical Accounting Policies and Estimates

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

Edgar Filing: DOLLAR GENERAL CORP - Form 10-K

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, if any, 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.

Edgar Filing: DOLLAR GENERAL CORP - Form 10-K

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. During 2011, 2010 and 2009 we recorded pre-tax impairment charges of \$1.0 million, \$1.7 million and \$5.0 million, respectively, for certain store assets that we deemed to be impaired.

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 and many of these leases have

renewal options. As of February 3, 2012, approximately 26% 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, the historical volatility of our stock price, applicable interest rates and the dividend yield of our stock. 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 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Financial Risk Management

We are exposed to market risk primarily from adverse changes in interest rates, and to a lesser degree commodity prices. To minimize this risk, we may periodically use financial instruments, including derivatives. As a matter of policy, we do not buy or sell financial instruments for speculative or trading purposes and all derivative financial instrument transactions must be authorized and executed pursuant to approval by the Board of Directors. All financial instrument positions taken by us are intended to be used to reduce risk by hedging an underlying economic exposure. Because of high correlation between the derivative financial instrument and the underlying exposure being hedged, fluctuations in the value of the financial instruments are generally offset by reciprocal changes in the value of the underlying economic exposure.

Interest Rate Risk

We manage our interest rate risk through the strategic use of fixed and variable interest rate debt and, from time to time, derivative financial instruments. Our principal interest rate exposure relates to outstanding amounts under our Credit Facilities. As of February 3, 2012, we had variable rate borrowings of \$1.964 billion under our Term Loan Facility and \$184.7 million under our ABL Facility. The maximum availability under our ABL Facility was increased to \$1.2 billion on March 15, 2012 as described above under "Liquidity and Capital Resources." In order to mitigate a portion of the variable rate interest exposure under the Credit Facilities, we entered into certain interest rate swaps which became effective on July 31, 2007. Pursuant to these swaps, we swapped three month LIBOR rates for

Edgar Filing: DOLLAR GENERAL CORP - Form 10-K

fixed interest rates, resulting in the payment of an all-in fixed rate of 7.68% on an original notional amount of \$2.0 billion originally scheduled to amortize on a quarterly basis until maturity at July 31, 2012.

In October 2008, a counterparty to one of our 2007 swap agreements defaulted. We terminated this agreement and in November 2008 we subsequently cash settled the swap. Representatives of the counterparty challenged our calculation of the cash settlement, and this matter was settled in 2011 as described in "Legal Proceedings" under Note 9 of the footnotes to the consolidated financial statements. As of February 3, 2012, the notional amount under the remaining 2007 swaps is \$233.3 million.

Effective December 31, 2008, we entered into a \$475.0 million interest rate swap in order to mitigate an additional portion of the variable rate interest exposure under the Credit Facilities. This swap is scheduled to mature on January 31, 2013. Under the terms of this agreement we swapped one month LIBOR rates for fixed interest rates, resulting in the payment of a fixed rate of 5.06% on a notional amount of \$475.0 million through April 2010, \$400.0 million from May 2010 through October 2011, and \$300.0 million to maturity.

A change in interest rates on variable rate debt impacts our pre-tax earnings and cash flows; whereas a change in interest rates on fixed rate debt impacts the economic fair value of debt but not our pre-tax earnings and cash flows. Our interest rate swaps qualify for hedge accounting as cash flow hedges. Therefore, changes in market fluctuations related to the effective portion of these cash flow hedges do not impact our pre-tax earnings until the accrued interest is recognized on the derivatives and the associated hedged debt. Based on our variable rate borrowing levels and interest rate swaps outstanding during 2011 and 2010, the annualized effect of a one percentage point change in variable interest rates would have resulted in a pretax reduction of our earnings and cash flows of approximately \$16.3 million in 2011 and \$9.3 million in 2010.

The conditions and uncertainties in the global credit markets have increased the credit risk of other counterparties to our swap agreements. In the event such counterparties fail to perform under our swap agreements and we are unable to enter into new swap agreements on terms favorable to us, our ability to effectively manage our interest rate risk may be materially impaired. We attempt to manage counterparty credit risk by periodically evaluating the financial position and creditworthiness of such counterparties, monitoring the amount for which we are at risk with each counterparty, and where possible, dispersing the risk among multiple counterparties. There can be no assurance that we will manage or mitigate our counterparty credit risk effectively.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of
Dollar General Corporation

We have audited the accompanying consolidated balance sheets of Dollar General Corporation and subsidiaries as of February 3, 2012 and January 28, 2011, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended February 3, 2012. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Dollar General Corporation and subsidiaries at February 3, 2012 and January 28, 2011, and the consolidated results of their operations and their cash flows for each of the three years in the period ended February 3, 2012, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Dollar General Corporation and subsidiaries' internal control over financial reporting as of February 3, 2012, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 22, 2012 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Nashville, Tennessee
March 22, 2012

DOLLAR GENERAL CORPORATION AND SUBSIDIARIES**CONSOLIDATED BALANCE SHEETS****(In thousands, except per share amounts)**

	February 3, 2012	January 28, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 126,126	\$ 497,446
Merchandise inventories	2,009,206	1,765,433
Prepaid expenses and other current assets	139,742	104,946
Total current assets	2,275,074	2,367,825
Net property and equipment	1,794,960	1,524,575
Goodwill	4,338,589	4,338,589
Other intangible assets, net	1,235,954	1,256,922
Other assets, net	43,943	58,311
Total assets	\$ 9,688,520	\$ 9,546,222
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term obligations	\$ 590	\$ 1,157
Accounts payable	1,064,087	953,641
Accrued expenses and other	397,075	347,741
Income taxes payable	44,428	25,980
Deferred income taxes	3,722	36,854
Total current liabilities	1,509,902	1,365,373
Long-term obligations	2,617,891	3,287,070
Deferred income taxes	656,996	598,565
Other liabilities	229,149	231,582
Commitments and contingencies		
Redeemable common stock	6,087	9,153
Shareholders' equity:		
Preferred stock, 1,000 shares authorized		
Common stock; \$0.875 par value, 1,000,000 shares authorized, 338,089 and 341,507 shares issued and outstanding at February 3, 2012 and January 28, 2011, respectively	295,828	298,819
Additional paid-in capital	2,960,940	2,945,024
Retained earnings	1,416,918	830,932
Accumulated other comprehensive loss	(5,191)	(20,296)
Total shareholders' equity	4,668,495	4,054,479
Total liabilities and shareholders' equity	\$ 9,688,520	\$ 9,546,222

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

DOLLAR GENERAL CORPORATION AND SUBSIDIARIES**CONSOLIDATED STATEMENTS OF INCOME****(In thousands, except per share amounts)**

	February 3, 2012	For the Year Ended January 28, 2011	January 29, 2010
Net sales	\$ 14,807,188	\$ 13,035,000	\$ 11,796,380
Cost of goods sold	10,109,278	8,858,444	8,106,509
Gross profit	4,697,910	4,176,556	3,689,871
Selling, general and administrative expenses	3,207,106	2,902,491	2,736,613
Operating profit	1,490,804	1,274,065	953,258
Interest income	(91)	(220)	(144)
Interest expense	204,991	274,212	345,744
Other (income) expense	60,615	15,101	55,542
Income before income taxes	1,225,289	984,972	552,116
Income tax expense	458,604	357,115	212,674
Net income	\$ 766,685	\$ 627,857	\$ 339,442
Earnings per share:			
Basic	\$ 2.25	\$ 1.84	\$ 1.05
Diluted	\$ 2.22	\$ 1.82	\$ 1.04
Weighted average shares:			
Basic	341,234	341,047	322,778
Diluted	345,117	344,800	324,836

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

DOLLAR GENERAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(In thousands except per share amounts)

	Common Stock Shares	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balances, January 30, 2009	317,845	\$ 278,114	\$ 2,489,647	\$ 103,364	\$ (39,430)	\$ 2,831,695
Comprehensive income:						
Net income				339,442		339,442
Unrealized net gain on hedged transactions, net of income tax expense of \$2,553					5,263	5,263
Comprehensive income						344,705
Issuance of common stock	22,700	19,863	421,299			441,162
Cash dividends, \$0.7525 per common share, and related amounts				(239,731)		(239,731)
Share-based compensation expense			15,009			15,009
Tax benefit from stock option exercises			3,072			3,072
Issuance of common stock under stock incentive plans	304	266	2,020			2,286
Other equity settlements under stock incentive plans	(263)	(230)	(7,670)			(7,900)
Balances, January 29, 2010	340,586	\$ 298,013	\$ 2,923,377	\$ 203,075	\$ (34,167)	\$ 3,390,298
Comprehensive income:						
Net income				627,857		627,857
Unrealized net gain on hedged transactions, net of income tax expense of \$9,406					13,871	13,871
Comprehensive income						641,728
Share-based compensation expense			12,805			12,805
Tax benefit from stock option exercises			10,110			10,110
Issuance of common stock under stock incentive plans	93	82	1,943			2,025
Exercise of stock options	872	763	(8,399)			(7,636)
Other equity settlements under stock incentive plans	(44)	(39)	5,188			5,149
Balances, January 28, 2011	341,507	\$ 298,819	\$ 2,945,024	\$ 830,932	\$ (20,296)	\$ 4,054,479
Comprehensive income:						
Net income				766,685		