DOLLAR GENERAL CORP

FORM 10-Q
(Quarterly Report)

Filed 11/27/02 for the Period Ending 09/30/02

Address	100 MISSION RIDGE GOODLETTSVILLE, TN, 37072
Telephone	6158554000
CIK	0000029534
Symbol	DG
SIC Code	5331 - Retail-Variety Stores
Industry	Discount Stores
Sector	Consumer Cyclicals
Fiscal Year	02/02

DOLLAR GENERAL CORP

FORM 10-Q
(Quarterly Report)

Filed 11/27/2002 For Period Ending 9/30/2002

Address	100 MISSION RIDGE
	GOODLETTSVILLE, Tennessee 37072
Telephone	615-855-4000
CIK	0000029534
Industry	Retail (Specialty)
Sector	Services
Fiscal Year	01/31

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

FORM 10-Q

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

For the quarterly period ended November 1, 2002

Commission file number 001-11421

DOLLAR GENERAL CORPORATION

(Exact name of registrant as specified in its charter)

Tennessee	61-0502302
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
100 Mission Ridge Goodlettsville, Tennessee 37072	(615) 855-4000
(Address of principal executive offices, zip code)	(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes [X] No [ ].

The number of shares of common stock outstanding as of November 15, 2002 was 333,298,015.

Dollar General Corporation
Form 10-Q
For the Quarter Ended November 1, 2002
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Part I. - Financial Information

Item 1. Financial Statements

DOLLAR GENERAL CORPORATION AND SUBSIDIARIES
Condensed Consolidated Balance Sheets
(In thousands)

	(Unaudited) November 1, 2002	February 1, 2002
ASSETS		
Current assets:		
Cash and cash equivalents	$ 37,101	$ 261,525
Merchandise inventories	1,249,120	1,131,023
Deferred income taxes	43,095	105,091
Other current assets	61,077	58,408
Total current assets	1,390,393	1,556,047
Property and equipment, at cost	1,581,427	1,473,693
Less accumulated depreciation and amortization	581,162	484,778
Net property and equipment	1,000,265	988,915
Other assets	20,506	7,423
Total assets	$ 2,411,164	$ 2,552,385
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term obligations	$ 15,834	$ 395,675
Accounts payable	410,426	322,463
Accrued expenses and other	246,815	253,413
Litigation settlement payable	200	162,000
Total current liabilities	673,275	1,133,551
Long-term obligations	502,498	339,470
Deferred income taxes	45,040	37,646
Shareholders' equity:		
Preferred stock	--	--
Common stock	166,691	166,359
Additional paid-in capital	313,023	301,848
Retained earnings	714,800	579,265
Accumulated other comprehensive loss	(1,382)	(3,228)
	1,193,132	1,044,244
Less other shareholders' equity	2,781	2,526
Total shareholders' equity	1,190,351	1,041,718
Total liabilities and shareholders' equity	$ 2,411,164	$ 2,552,385

See notes to condensed consolidated financial statements

DOLLAR GENERAL CORPORATION AND SUBSIDIARIES
Condensed Consolidated Statements of Income (Unaudited)
(Amounts in thousands except per share amounts)

	13 Weeks Ended			
	November 1, 2002	% of Net Sales	November 2, 2001	% of Net Sales
Net sales	$ 1,497,702	100.0%	$1,309,125	100.0%
Cost of goods sold	1,069,119	71.4	927,944	70.9
Gross profit	428,583	28.6	381,181	29.1
Selling, general and administrative expenses...	335,152	22.4	295,103	22.5
Litigation settlement and related proceeds ...	(25,041)	(1.7)	--	--
Operating profit	118,472	7.9	86,078	6.6
Interest expense, net	11,537	0.8	11,480	0.9
Income before income taxes	106,935	7.1	74,598	5.7
Provision for taxes on income	38,365	2.6	27,861	2.1
Net income	$ 68,570	4.6%	$ 46,737	3.6%
Earnings per share:				
Basic	$ 0.21		$ 0.14	
Diluted	$ 0.20		$ 0.14	
Weighted average shares:				
Basic	333,227		332,491	
Diluted	334,970		334,857	
Dividends per share	$ .032		$ .032	

See notes to condensed consolidated financial statements.

DOLLAR GENERAL CORPORATION AND SUBSIDIARIES
Condensed Consolidated Statements of Income (Unaudited)
(Amounts in thousands except per share amounts)

	39 Weeks Ended			
	November 1, 2002	% of Net Sales	November 2, 2001	% of Net Sales
Net sales	$ 4,340,841	100.0%	$ 3,736,883	100.0%
Cost of goods sold	3,144,539	72.4	2,702,994	72.3
Gross profit	1,196,302	27.6	1,033,889	27.7
Selling, general and administrative expenses	946,123	21.8	823,162	22.0
Litigation settlement and related proceeds	(29,541)	(0.7)	--	--
Operating profit	279,720	6.4	210,727	5.7
Interest expense, net	33,306	0.8	35,037	1.0
Income before income taxes	246,414	5.7	175,690	4.7
Provision for taxes on income	89,554	2.1	65,620	1.8
Net income	$ 156,860	3.6%	$ 110,070	2.9%
Earnings per share:				
Basic	$ 0.47		$ 0.33	
Diluted	$ 0.47		$ 0.33	
Weighted average shares:				
Basic	332,986		332,136	
Diluted	335,180		335,148	
Dividends per share	$ .096		$ .096	

See notes to condensed consolidated financial statements.

DOLLAR GENERAL CORPORATION AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows (Unaudited)
(In thousands)

	39 Weeks Ended	
	November 1, 2002	November 2, 2001
Cash flows from operating activities:		
Net income	$ 156,860	$ 110,070
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	102,302	92,104
Deferred income taxes	68,424	(5,795)
Tax benefit from stock option exercises	2,278	5,243
Litigation settlement	(161,800)	--
Change in operating assets and liabilities:		
Merchandise inventories	(118,097)	(236,980)
Other current assets	(2,774)	(3,732)
Accounts payable	87,963	84,581
Accrued expenses and other	6,968	(1,195)
Other	(14,124)	(2,549)
Net cash provided by operating activities	128,000	41,747
Cash flows from investing activities:		
Purchase of property and equipment	(104,727)	(100,184)
Proceeds from sale of property and equipment	379	230
Net cash used in investing activities	(104,348)	(99,954)
Cash flows from financing activities:		
Net borrowings under revolving credit facilities	168,400	--
Repayments of long-term obligations	(393,378)	(8,925)
Payments of cash dividends	(31,972)	(31,910)
Proceeds from exercise of stock options	4,844	11,557
Other financing activities	4,030	(6)
Net cash used in financing activities	(248,076)	(29,284)
Net decrease in cash and cash equivalents	(224,424)	(87,491)
Cash and cash equivalents, beginning of period	261,525	162,310
Cash and cash equivalents, end of period	$ 37,101	$ 74,819
Supplemental schedule of noncash investing and financing activities -		
Purchase of property and equipment under capital lease obligations	$ 8,134	$ 17,393

See notes to condensed consolidated financial statements.

Notes to Condensed Consolidated Financial Statements (Unaudited)

1. Basis of presentation and accounting policies

Basis of presentation

The accompanying unaudited condensed consolidated financial statements of Dollar General Corporation (the "Company") have been prepared in accordance with generally accepted accounting principles for interim financial information and are presented in accordance with the requirements of Form 10-Q and Rule 10-01 of Regulation S-X. Such financial statements consequently do not include all of the disclosures normally required by generally accepted accounting principles or those normally made in the Company's Annual Report on Form 10-K. Accordingly, the reader of this Quarterly Report on Form 10-Q should refer to the Company's Annual Report on Form 10-K for the year ended February 1, 2002 for additional information.

The accompanying condensed consolidated financial statements have been prepared in accordance with the Company's customary accounting practices and have not been audited. In management's opinion, all adjustments (which are of a normal recurring nature) necessary for a fair presentation of the consolidated financial position and results of operations for the 13-week and 39-week periods ended November 1, 2002 and November 2, 2001 have been made.

Certain prior year amounts have been reclassified to conform to the current period presentation. Ongoing estimates of inventory shrinkage and markdowns are included in the interim cost of goods sold calculation. Because the Company's business is moderately seasonal, the results for interim periods are not necessarily indicative of the results to be expected for the entire year.

Accounting pronouncements

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets." Under the new rules, goodwill and indefinite lived intangible assets are no longer amortized but are reviewed annually for impairment. Separable intangible assets that are not deemed to have an indefinite life will continue to be amortized over their useful lives. The Company began to apply the new accounting rules on February 2, 2002. The adoption of SFAS No. 141 has not had a material impact on the Company's financial position or results of operations.

The Company completed the transitional goodwill impairment reviews required by SFAS No. 142 during the second quarter of 2002. In performing the impairment review, the Company reviewed the operating performance of its retail operations. This review did not indicate any impairment of goodwill, which equaled $2.3 million as of November 1, 2002. The adoption of SFAS No. 142 has not had a material impact on the Company's financial position or results of operations.

The FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations," in June 2001. SFAS No. 143 applies to legal obligations associated with the retirement of certain tangible long-lived assets. This statement is effective for fiscal years beginning after June 15, 2002. Accordingly, the Company will adopt this statement on February 1, 2003. The Company believes the adoption of SFAS No. 143 will not have a material impact on the Company's financial position or results of operations.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 is effective for fiscal years beginning after December 15, 2001, and interim periods within those fiscal years. The Company adopted this statement on February 2, 2002. It supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of." The adoption of SFAS No. 144 has not had a material impact on the Company's financial position or results of operations.

In April 2002, the FASB issued SFAS No. 145 "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." SFAS No. 145 rescinds both SFAS Statement No. 4, "Reporting Gains and Losses from Extinguishment of Debt," and the amendment to SFAS No. 4, SFAS No. 64, "Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements." The Company will adopt the provisions of SFAS No. 145 on February 1, 2003 and believes the adoption of SFAS No. 145 will not have a material effect on the Company's financial position or results of operations.

In July 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 nullifies EITF Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred, whereas EITF No. 94-3 had recognized the liability at the commitment date to an exit plan. The Company is required to adopt the provisions of SFAS No. 146 effective for exit or disposal activities initiated after December 31, 2002. The Company believes the adoption of SFAS No. 146 will not have a material impact on its financial position or results of operations.

2. Comprehensive income

Comprehensive income consists of the following (in thousands):

	13 Weeks Ended	
	November 1, 2002	November 2, 2001
Net income	$68,570	$46,737
Net change in derivative financial instruments	630	(508)
	$69,200	$46,229

	39 Weeks Ended	
	November 1, 2002	November 2, 2001
Net income	$156,860	$110,070
Net change in derivative financial instruments	1,846	(3,552)
	$158,706	$106,518

3. Debt refinancing

At May 3, 2002, the Company had $383 million outstanding under two synthetic lease facilities (the "Synthetic Lease Facilities"), one with $212 million in outstanding capital leases and the other with $171 million in outstanding capital leases. As of such date, the Company also had a $175 million revolving credit agreement (the "Old Credit Facility"), under which no amounts were outstanding. The Synthetic Lease Facilities were scheduled to mature and the Old Credit Facility was scheduled to expire in September 2002.

On June 21, 2002, the Company closed on its previously announced $450 million revolving credit facility (the "New Credit Facilities"), pursuant to which SunTrust Bank is serving as Administrative Agent, Credit Suisse First Boston is the Syndication Agent and KeyBank N.A. and U.S. Bank N.A. are Co-Documentation Agents. The Company used the New Credit Facilities (i) to replace the Old Credit Facility, (ii) to refinance the Synthetic Lease Facilities and (iii) for working capital and other general corporate purposes. The New Credit Facilities are split between a $300 million three-year revolving credit facility, and a $150 million 364-day revolving credit facility. The Company pays interest on funds borrowed under the New Credit Facilities at rates that are subject to change based upon the rating of the Company's senior debt by independent agencies. The Company has two interest rate options, base rate (which is usually equal to prime rate) and LIBOR. At the Company's current ratings, the facility fees are 37.5 basis points and 32.5 basis points on the two facilities, respectively. The all-in drawn margin under the LIBOR option is LIBOR plus 237.5 basis points on both facilities. The all-in drawn margin under the base rate option is the base rate plus 125 basis points and the base rate plus 120 basis points on the two facilities, respectively. The New Credit Facilities are collateralized by the same real estate assets that served as collateral for the Synthetic Lease Facilities: approximately 400 of the Company's retail stores, its headquarters and two of its distribution centers. As of November 1, 2002, the Company had $168.4 million outstanding under the New Credit Facilities, at a rate of 3.8%.

4. Commitments and Contingencies

On April 30, 2001, the Company announced that it had become aware of certain accounting issues that would cause it to restate its audited financial statements for fiscal years 1999 and 1998, and to restate the unaudited financial information for fiscal year 2000 that had been previously released by the Company. The Company subsequently restated such financial statements and financial information by means of its Form 10-K for the fiscal year ended February 2, 2001, which was filed on January 14, 2002.

The Securities and Exchange Commission is conducting an investigation into the circumstances that gave rise to the Company's April 30, 2001 announcement. The Company is cooperating with this investigation by providing documents and other information to the Securities and Exchange Commission. At this time, the Company is unable to predict the outcome of this investigation and the ultimate effects on the Company.

As previously discussed in the Company's periodic reports filed with the Securities and Exchange Commission, six purported shareholder derivative lawsuits related to the restatement were filed in Tennessee State Court against certain current and former Company directors and officers and Deloitte & Touche LLP, the Company's former independent accountant. The Company was named as a nominal defendant in the actions, which sought restitution and/or compensatory and punitive damages with interest, equitable and/or injunctive relief, costs and such further relief as the court deemed proper. Among other things, the plaintiffs alleged that certain current and former Company directors and officers breached their fiduciary duties to the Company and that Deloitte & Touche aided and abetted those breaches and was negligent in its service as the Company's independent accountant.

Two purported shareholder derivative lawsuits related to the restatement also were filed and consolidated in the United States District Court for the Middle District of Tennessee against certain current and former Company directors and officers alleging that they breached their fiduciary duties to the Company. The Company was named as a nominal defendant in these actions, which sought declaratory relief, compensatory and punitive damages, costs and such further relief as the court deemed proper.

The Company and the individual defendants reached a settlement agreement with the plaintiffs in the lead Tennessee state shareholder derivative action. The agreement included a payment to the Company from a portion of the proceeds of the Company's director and officer liability insurance policies as well as certain corporate governance and internal control enhancements. The terms of such agreement required that all of the derivative cases, including the federal derivative cases described above, be dismissed with prejudice by the courts in which they were pending in order for the settlement to be effective. Following confirmatory discovery, the settlement agreement received final approval by the Tennessee State Court on June 4, 2002. On July 5, 2002, the lead plaintiff in the federal derivative case appealed the approval of the settlement in the state derivative cases to the Court of Appeals of Tennessee. The Court of Appeals of Tennessee by Order dated July 22, 2002 dismissed such appeal. The federal lead plaintiff's right to appeal this dismissal expired on September 20, 2002 and the federal derivative action was dismissed on September 3, 2002.

The settlement of the shareholder derivative lawsuits resulted in a net payment to the Company, after attorneys' fees payable to the plaintiffs' counsel, of approximately $25.2 million in the third quarter of 2002, which payment is reflected in the Company's condensed consolidated financial statements.

Also as previously discussed in the Company's periodic reports filed with the Securities and Exchange Commission, the Company has settled the consolidated restatement-related class action filed in the United States District Court for the Middle District of Tennessee on behalf of a class of persons who purchased or otherwise made an investment decision regarding the Company's securities and related derivative securities between March 5, 1997 and January 14, 2002. The $162 million settlement was approved by the court on May 24, 2002. The Company received from its insurers $4.5 million in respect of such settlement in July 2002. In connection with the settlement, plaintiffs representing fewer than 1% of the shares traded during the class period chose to opt out of the class settlement and may elect to pursue recovery against the Company individually. The Company has reached an agreement in principle to settle potential claims by one such plaintiff and has recognized an expense of $0.2 million in respect of such agreement. The Company anticipates finalizing this settlement agreement in the fourth quarter of 2002. There can be no assurance, however, that such agreement will be finalized during this time period or on these terms. No other litigation has yet been filed or threatened by parties who opted out of the class action settlement. The Company cannot predict whether any additional litigation will be filed or estimate the potential liabilities associated with such litigation, but it does not believe that the resolution of any such litigation will have a material effect on the Company's financial position.

In July of 2002 the Company filed amended tax returns for 1998 and 1999. In October of 2002 the Company filed its tax returns for 2000 and 2001. In total, the Company requested approximately $28.2 million in refunds relating to these four years. In November of 2002 the Company received approximately $19.5 million of the anticipated refund. The Internal Revenue Service is currently conducting a normal examination of the income tax returns from 1998 and 1999. The results of the examination, and any other issues discussed with the IRS in the course of the examination, may result in additional tax liability to the Company.

5. Stock incentive plans

The Company has established stock incentive plans under which restricted stock awards and stock options to purchase common stock may be granted to executive officers, directors and key employees.

All stock options granted in 2002, 2001 and 2000 under the 1998 Stock Incentive Plan, the 1995 Employee Stock Incentive Plan, the 1993 Employee Stock Incentive Plan and the 1995 Outside Directors Stock Option Plan, were non-qualified stock options issued at a price equal to the fair market value of the Company's common stock on the date of grant. Non-qualified options granted under these plans have expiration dates no later than 10 years following the date of grant.

Under the plans, stock option grants have been made to key management employees ranging from executive officers to store managers and assistant store managers, as well as other employees, as prescribed prior to June 3, 2002 by the Corporate Governance and Compensation Committee of the Company's Board of Directors and from such date by the Board's newly formed Compensation Committee, in each case upon final approval by the Board. The number of options granted and the vesting schedules of those options are directly linked to the employee's performance, Company performance or employee tenure depending on the employee's position within the Company.

The plans also provide for annual stock option grants to non-employee directors according to a non-discretionary formula. The number of shares granted is dependent upon current director compensation levels and the fair market value of the stock on the grant date.

The Company applies Accounting Principles Board Opinion No. 25, "Accounting For Stock Issued to Employees" ("APB 25") and related interpretations in accounting for its plans. Under this intrinsic-value based method of accounting, compensation expense is generally not recognized for stock option grants in which the exercise price of the stock options equals the market price of the underlying stock on the date of grant and the number of shares subject to exercise is fixed. Had compensation cost for the Company's stock-based compensation plans been determined based on the fair value at the grant date for awards under these plans consistent with the methodology prescribed under SFAS No. 123, "Accounting for Stock Based Compensation," net income and earnings per share would have been reduced to the pro forma amounts indicated in the following table:

(Amounts in thousands except per share data)	13 Weeks Ended November 1, 2002	39 Weeks Ended November 1, 2002	Fiscal Year 2001	Fiscal Year 2000
Net income - as reported	$ 68,570	$ 156,860	$ 207,513	$ 70,642
Net income - pro forma	$ 64,676	$ 143,900	$ 196,052	$ 50,805
Earnings per share - as reported				
Basic	$ 0.21	$ 0.47	$ 0.63	$ 0.21
Diluted	$ 0.20	$ 0.47	$ 0.62	$ 0.21
Earnings per share - pro forma				
Basic	$ 0.19	$ 0.43	$ 0.59	$ 0.15
Diluted	$ 0.19	$ 0.43	$ 0.59	$ 0.15

Earnings per share have been adjusted to give retroactive effect to all common stock splits.

The pro forma effects on net income for 2002, 2001 and 2000 are not necessarily representative of the pro forma effect on net income in future years because they do not take into consideration pro forma compensation expense related to grants made prior to 1995. The average per share fair value of options granted during 2002, 2001 and 2000 was $6.85, $6.77 and $10.76, respectively.

The fair value of each stock option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

	2002	2001	2000
Expected dividend yield	0.8%	0.8%	0.7%
Expected stock price volatility	35.5%	35.3%	49.0%
Weighted average risk-free interest rate	5.3%	4.8%	6.2%
Expected life of options (years)	6.6	6.0	6.8

The Black-Scholes option model was developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee and director stock options.

6. Related party transactions

In July and August of 2002, Cal Turner, the Company's Chairman and then Chief Executive Officer, made voluntary payments to the Company totaling approximately $6.8 million in cash. Of such amount, approximately $6.0 million represented the value on

April 10, 2002 of stock Mr. Turner acquired on April 7, 1999 and April 20, 2000 upon the exercise of stock options (net of the strike price of such options), which stock Mr. Turner continues to own, and approximately $0.8 million represented the value of performance-based bonuses received by Mr. Turner in April 1999 and April 2000. Mr. Turner voluntarily paid such amounts to the Company because the options vested and the performance bonuses were paid based on performance measures that were attained under the Company's originally reported financial results for the period covered by the Company's restatement. Those measures would not have been attained under the subsequently restated results. The Company recorded the approximately $6.0 million receipt as a contribution of capital, which was recorded as an increase in additional paid-in capital in the condensed consolidated balance sheet as of November 1, 2002. The Company recorded the approximately $0.8 million receipt as a reduction of selling, general and administrative expenses during the third quarter of 2002.

7. Segment reporting

The Company manages its business on the basis of one reportable segment. As of November 1, 2002 and November 2, 2001, all of the Company's operations were located within the United States. The following data is presented in accordance with SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." The following amounts are in thousands:

	13 Weeks Ended	
	November 1, 2002	November 2, 2001
Sales by category:		
Highly consumable	$ 959,873	$ 796,271
Hardware and seasonal	196,213	185,028
Basic clothing	154,366	148,617
Home products	187,250	179,209
	$ 1,497,702	$ 1,309,125

	39 Weeks Ended	
	November 1, 2002	November 2, 2001
Sales by category:		
Highly consumable	$ 2,703,617	$ 2,255,342
Hardware and seasonal	627,303	538,913
Basic clothing	443,287	410,448
Home products	566,634	532,180
	$ 4,340,841	$ 3,736,883

8. Guarantor subsidiaries

All of the Company's subsidiaries, except for its not-for-profit subsidiary whose assets and revenues are not material, (the "Guarantors") have fully and unconditionally guaranteed on a joint and several basis the Company's obligations under certain outstanding notes payable. Each of the Guarantors is a direct or indirect wholly-owned subsidiary of the Company. In order to participate as a subsidiary guarantor on certain of the Company's financing arrangements, a subsidiary of the Company has entered into a letter agreement with certain state regulatory agencies to maintain stockholders' equity of at least $250 million.

Condensed combined financial information for the Guarantors is set forth below. Dollar amounts are in thousands.

BALANCE SHEET DATA: ASSETS	DOLLAR GENERAL CORPORATION	GUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTAL
	November 1, 2002			
Current assets:				
Cash and cash equivalents	$ (6,350)	$ 43,451	$ --	$ 37,101
Merchandise inventories	--	1,249,120	--	1,249,120
Deferred income taxes	8,634	34,461	--	43,095
Other current assets	41,307	1,051,827	(1,032,057)	61,077
Total current assets	43,591	2,378,859	(1,032,057)	1,390,393
Property and equipment, at cost	165,791	1,415,636	--	1,581,427
Less accumulated depreciation and amortization	62,030	519,132	--	581,162
Net property and equipment	103,761	896,504	--	1,000,265
Other assets	2,648,841	38,908	(2,667,243)	20,506
Total assets	$ 2,796,193	$ 3,314,271	$(3,699,300)	$ 2,411,164
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities:				
Current portion of long-term obligations	$ 8,079	$ 7,755	$ --	$ 15,834
Accounts payable	1,140,695	301,788	(1,032,057)	410,426
Accrued expenses and other	35,013	211,802	--	246,815
Litigation settlement payable	200	--	--	200
Total current liabilities	1,183,987	521,345	(1,032,057)	673,275
Long-term obligations	420,204	905,617	(823,323)	502,498
Deferred income taxes	1,651	43,389	--	45,040
Shareholders' equity:				
Preferred stock	--	--	--	--
Common stock	166,691	23,853	(23,853)	166,691
Additional paid-in capital	313,023	1,247,279	(1,247,279)	313,023
Retained earnings	714,800	572,788	(572,788)	714,800
Accumulated other comprehensive loss	(1,382)	--	--	(1,382)
	1,193,132	1,843,920	(1,843,920)	1,193,132
Less other shareholders' equity	2,781	--	--	2,781
Total shareholders' equity	1,190,351	1,843,920	(1,843,920)	1,190,351
Total liabilities and shareholders' equity	$ 2,796,193	$ 3,314,271	$(3,699,300)	$ 2,411,164

BALANCE SHEET DATA: ASSETS	February 1, 2002 DOLLAR GENERAL CORPORATION	GUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTAL
Current assets:				
Cash and cash equivalents	$ 217,539	$ 43,986	$ --	$ 261,525
Merchandise inventories	--	1,131,023	--	1,131,023
Deferred income taxes	79,203	25,888	--	105,091
Other current assets	15,406	913,082	(870,080)	58,408
Total current assets	312,148	2,113,979	(870,080)	1,556,047
Property and equipment, at cost	158,347	1,315,346	--	1,473,693
Less accumulated depreciation and amortization	51,832	432,946	--	484,778
Net property and equipment	106,515	882,400	--	988,915
Other assets	2,079,572	2,022	(2,074,171)	7,423
Total assets	$ 2,498,235	$ 2,998,401	$(2,944,251)	$ 2,552,385
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities:				
Current portion of long-term obligations	$ 65,682	$ 329,993	$ --	$ 395,675
Accounts payable	944,830	247,713	(870,080)	322,463
Accrued expenses and other	76,526	176,887	--	253,413
Litigation settlement payable	162,000	--	--	162,000
Total current liabilities	1,249,038	754,593	(870,080)	1,133,551
Long-term obligations	200,460	830,881	(691,871)	339,470
Deferred income taxes	7,019	30,627	--	37,646
Shareholders' equity:				
Preferred stock	--	--	--	--
Common stock	166,359	23,853	(23,853)	166,359
Additional paid-in capital	301,848	929,680	(929,680)	301,848
Retained earnings	579,265	428,767	(428,767)	579,265
Accumulated other comprehensive loss	(3,228)	--	--	(3,228)
	1,044,244	1,382,300	(1,382,300)	1,044,244
Less other shareholders' equity	2,526	--	--	2,526
Total shareholders' equity	1,041,718	1,382,300	(1,382,300)	1,041,718
Total liabilities and shareholders' equity	$ 2,498,235	$ 2,998,401	$(2,944,251)	$ 2,552,385

	13 Weeks Ended November 1, 2002			
	DOLLAR GENERAL CORPORATION	GUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTAL
STATEMENTS OF INCOME DATA:				
Net sales	$ 34,739	$1,497,702	$(34,739)	$ 1,497,702
Cost of goods sold	--	1,069,119	--	1,069,119
Gross profit	34,739	428,583	(34,739)	428,583
Selling, general and administrative expenses	26,863	343,028	(34,739)	335,152
Litigation settlement and related proceeds	(25,041)	--	--	(25,041)
Operating profit	32,917	85,555	--	118,472
Interest expense, net	8,389	3,148	--	11,537
Income before income taxes	24,528	82,407	--	106,935
Provision for taxes on income	9,658	28,707	--	38,365
Equity in subsidiaries' earnings, net	53,700	--	(53,700)	--
Net income	$ 68,570	$ 53,700	$(53,700)	$ 68,570

	13 Weeks Ended November 2, 2001			
	DOLLAR GENERAL CORPORATION	GUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTAL
STATEMENTS OF INCOME DATA:				
Net sales	$42,113	$1,309,125	$(42,113)	$1,309,125
Cost of goods sold	--	927,944	--	927,944
Gross profit	42,113	381,181	(42,113)	381,181
Selling, general and administrative expenses	38,446	298,770	(42,113)	295,103
Operating profit	3,667	82,411	--	86,078
Interest expense, net	2,270	9,210	--	11,480
Income before income taxes	1,397	73,201	--	74,598
Provision for taxes on income	521	27,340	--	27,861
Equity in subsidiaries' earnings, net	45,861	--	(45,861)	--
Net income	$46,737	$ 45,861	$(45,861)	$ 46,737

	39 Weeks Ended November 1, 2002			
	DOLLAR GENERAL CORPORATION	GUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTAL
STATEMENTS OF INCOME DATA:				
Net sales	$ 96,590	$4,340,841	$ (96,590)	$ 4,340,841
Cost of goods sold	--	3,144,539	--	3,144,539
Gross profit	96,590	1,196,302	(96,590)	1,196,302
Selling, general and administrative expenses	84,984	957,729	(96,590)	946,123
Litigation settlement and related proceeds	(29,541)	--	--	(29,541)
Operating profit	41,147	238,573	--	279,720
Interest expense, net	19,939	13,367	--	33,306
Income before income taxes	21,208	225,206	--	246,414
Provision for taxes on income	8,369	81,185	--	89,554
Equity in subsidiaries' earnings, net	144,021	--	(144,021)	--
Net income	$ 156,860	$ 144,021	$(144,021)	$ 156,860

	39 Weeks Ended November 2, 2001			
	DOLLAR GENERAL CORPORATION	GUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTAL
STATEMENTS OF INCOME DATA:				
Net sales	$119,799	$3,736,883	$(119,799)	$3,736,883
Cost of goods sold	--	2,702,994	--	2,702,994
Gross profit	119,799	1,033,889	(119,799)	1,033,889
Selling, general and administrative expenses	106,921	836,040	(119,799)	823,162
Operating profit	12,878	197,849	--	210,727
Interest expense, net	12,192	22,845	--	35,037
Income before income taxes	686	175,004	--	175,690
Provision for taxes on income	257	65,363	--	65,620
Equity in subsidiaries' earnings, net	109,641	--	(109,641)	--
Net income	$110,070	$ 109,641	$(109,641)	$ 110,070

	39 weeks ended November 1, 2002			
	DOLLAR GENERAL CORPORATION	GUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTAL
STATEMENTS OF CASH FLOWS DATA:				
Cash flows from operating activities:				
Net income	$ 156,860	$ 144,021	$(144,021)	$ 156,860
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	12,106	90,196	--	102,302
Deferred income taxes	64,235	4,189	--	68,424
Equity in subsidiaries' earnings, net	(144,021)	--	144,021	--
Tax benefit from stock option exercises	2,278	--	--	2,278
Litigation settlement	(161,800)	--	--	(161,800)
Change in operating assets and liabilities:				
Merchandise inventories	--	(118,097)	--	(118,097)
Other current assets	(27,753)	7,452	17,527	(2,774)
Accounts payable	260,992	(157,249)	(15,780)	87,963
Accrued expenses and other	(28,235)	35,203	--	6,968
Other	(8,826)	(3,551)	(1,747)	(14,124)
Net cash provided by operating activities	125,836	2,164	--	128,000
Cash flows from investing activities:				
Purchase of property and equipment	(9,586)	(95,141)	--	(104,727)
Proceeds from sale of property and equipment	169	210	--	379
Issuance of long-term notes receivable	(96,590)	--	96,590	--
Contribution of capital	(317,602)	--	317,602	--
Net cash used in investing activities	(423,609)	(94,931)	414,192	(104,348)
Cash flows from financing activities:				
Net borrowings under revolving credit facilities	168,400	--	--	168,400
Issuance of long-term obligations	--	96,590	(96,590)	--
Repayments of long-term obligations	(71,418)	(321,960)	--	(393,378)
Payments of cash dividends	(31,972)	--	--	(31,972)
Proceeds from exercise of stock options	4,844	--	--	4,844
Other financing activities	4,030	--	--	4,030
Issuance of common stock, net	--	317,602	(317,602)	--
Net cash provided by (used in) financing activities	73,884	92,232	(414,192)	(248,076)
Net decrease in cash and cash equivalents	(223,889)	(535)	--	(224,424)
Cash and cash equivalents, beginning of period	217,539	43,986	--	261,525
Cash and cash equivalents, end of period	$ (6,350)	$ 43,451	$ --	$ 37,101

	39 weeks ended November 2, 2001			
	DOLLAR GENERAL CORPORATION	GUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTAL
STATEMENTS OF CASH FLOWS DATA:				
Cash flows from operating activities:				
Net income	$ 110,070	$ 109,641	$(109,641)	$ 110,070
Adjustments to reconcile net income to net cash provided by / (used in) operating activities:				
Depreciation and amortization	10,984	81,120	--	92,104
Deferred income taxes	(171)	(5,624)	--	(5,795)
Equity in subsidiaries' earnings, net	(109,641)	--	109,641	--
Tax benefit from stock option exercises	5,243	--	--	5,243
Change in operating assets and liabilities:				
Merchandise inventories	--	(236,980)	--	(236,980)
Other current assets	(4,296)	35,204	(34,640)	(3,732)
Accounts payable	29,400	20,541	34,640	84,581
Accrued expenses and other	3,984	(5,179)	--	(1,195)
Other	7,451	(10,000)	--	(2,549)
Net cash provided by (used in) operating activities	53,024	(11,277)	--	41,747
Cash flows from investing activities:				
Purchase of property and equipment	(14,772)	(85,412)	--	(100,184)
Proceeds from sale of property and equipment	15	215	--	230
Issuance of long-term notes receivable	(119,799)	--	119,799	--
Other	2,050	--	(2,050)	--
Net cash used in investing activities	(132,506)	(85,197)	117,749	(99,954)
Cash flows from financing activities:				
Issuance of long-term obligations	--	119,799	(119,799)	--
Repayments of long-term obligations	(798)	(8,127)	--	(8,925)
Payments of cash dividends	(31,910)	--	--	(31,910)
Proceeds from exercise of stock options	11,557	--	--	11,557
Other financing activities	(6)	(2,050)	2,050	(6)
Net cash provided by (used in) financing activities	(21,157)	109,622	(117,749)	(29,284)
Net increase (decrease) in cash and cash equivalents	(100,639)	13,148	--	(87,491)
Cash and cash equivalents, beginning of period	120,643	41,667	--	162,310
Cash and cash equivalents, end of period	$ 20,004	$ 54,815	$ --	$ 74,819

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following text contains references to years 2002, 2001 and 2000, which represent fiscal years of Dollar General Corporation (the "Company") ending or ended, as applicable, January 31, 2003, February 1, 2002 and February 2, 2001, respectively. This discussion and analysis should be read in conjunction with, and is qualified in its entirety by, the condensed consolidated financial statements and the notes thereto as of November 1, 2002.

Forward-Looking Statements

Except for specific historical information, many of the matters discussed in this Form 10-Q may express or imply projections of revenues or expenditures, statements of plans and objectives for future operations or statements of future economic performance. These, and similar statements, are forward-looking statements concerning matters that involve risks, uncertainties and other factors which may cause the actual performance of the Company to differ materially from those expressed or implied by these statements. All forward-looking information should be evaluated in the context of these risks, uncertainties and other factors. The words "believe," "anticipate," "project," "plan," "expect," "estimate," "objective," "forecast," "goal," "intend," "will likely result," or "will continue" and similar expressions generally identify forward-looking statements. The Company believes the assumptions underlying these forward-looking statements are reasonable; however, any of the assumptions could be inaccurate, and therefore, actual results may differ materially from those projected in the forward-looking statements. The factors that may result in actual results differing from such forward-looking information include, but are not limited to: the Company's ability to maintain adequate liquidity through its cash resources and credit facilities; the Company's ability to comply with the terms of the Company's credit facilities (or obtain waivers for non-compliance); transportation and distribution delays or interruptions, including, but not limited to, the impact of the recent management lockout of the West Coast dockworkers and any ongoing work slowdown on the economy and on the Company's ability to receive inventory; inventory risks due to shifts in market demand; changes in product mix; interruptions in suppliers' businesses; costs and potential problems and interruptions associated with implementation of new or upgraded systems and technology; fuel price and interest rate fluctuations; a deterioration in general economic conditions caused by acts of war or terrorism; temporary changes in demand due to weather patterns; delays associated with building, opening and operating new stores; the impact of the Securities and Exchange Commission inquiry related to the restatement of certain of the Company's financial statements further described in Part II, Item 1 of this Form 10-Q; and other factors described from time to time in the Company's filings with the Securities and Exchange Commission and press releases, and other communications.

Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this Form 10-Q. Except as may be required by law, the Company undertakes no obligation to publicly update or revise any forward-looking statements contained herein to reflect events or circumstances occurring after the date of this Form 10-Q or to reflect the occurrence of unanticipated events. Readers are advised, however, to consult any further disclosures the Company may make on related subjects in its Forms 10-Q, 8-K and 10-K filed with the Securities and Exchange Commission.

Results of Operations

The nature of the Company's business is modestly seasonal. Historically, sales in the fourth quarter have been higher than sales achieved in each of the first three quarters of the fiscal year. Expenses, and to a greater extent operating income, vary by quarter. Results of a period shorter than a full year may not be indicative of results expected for the entire year. Furthermore, comparing any period with a period other than the same period of the previous year may reflect the seasonal nature of the Company's business.

13 WEEKS ENDED NOVEMBER 1, 2002 AND NOVEMBER 2, 2001

Net Sales. Net sales for the 13 weeks ended November 1, 2002 were $1.50 billion as compared against $1.31 billion during the 13 weeks ended November 2, 2001, an increase of 14.4%. The increase resulted primarily from 591 net new stores and a same store sales increase of 5.2%. Same store sales increases are calculated based on the comparable calendar weeks in the prior year and include only those stores that were open both at the end of a fiscal period and the beginning of the preceding fiscal year. The same store sales increase can be attributed to the strength of the Company's highly consumable category. During the current fiscal year the Company has added approximately 425 new items in the highly consumable category. As a group, these items have been successful and have contributed heavily to the overall same store sales increase. Additionally, the highly consumable category has benefited from the testing of a limited number of perishable products in some of the Company's stores, (approximately 1,300 at November 1, 2002). Net sales increases by category were as follows:
highly consumable 20.5%, hardware and seasonal 6.0%; basic clothing 3.9%; and home products 4.5%.

Gross Profit. Gross profit during the current year period was $428.6 million, or 28.6% of sales, versus $381.2 million, or 29.1% of sales, during the comparable period in the prior year, an increase of 12.4%. The reduction in the gross margin rate as a percentage of sales was due primarily to a higher shrink provision and, to a lesser extent, a lower average mark-up on inventory purchases in the current year period. The lower average mark-up on inventory purchases was due to lower than planned receipts of high mark-up seasonal items during the current year quarter and to a high volume of purchases in the lower mark-up highly consumable category. The Company attributes some of the shortfall in seasonal receipts to the effects of the widely-publicized management lockout of the West Coast dockworkers. The Company expects to recoup some of the shortfall of the third quarter seasonal receipts during the fourth quarter. The late arrival of the seasonal product may have had a nominal impact on the sale of seasonal items in the current year period but is not expected to have a material effect on the Company's ongoing sales performance. During the current year period, in conjunction with the completion of chain-wide SKU level physical inventory counts, the Company evaluated the adequacy of the remaining balance of the markdown recorded in the fourth quarter of 2000 to assist with the disposition of certain excess inventory. Based on this evaluation, the Company recorded an additional markdown in the current year period to assist with the disposition of the remaining excess inventory which had the impact of reducing inventory at cost and increasing cost of goods sold by approximately $2.2 million.

Selling, General and Administrative Expenses ("SG&A"). SG&A expenses during the current year period were $335.2 million, or 22.4% of sales, versus $295.1 million, or 22.5% of sales, during the comparable period in the prior year, an increase of 13.6%. The Company recorded a net $0.8 million of restatement-related SG&A expenses in the current year period as compared to $9.3 million in restatement-related SG&A expenses during the comparable period in the prior year. Excluding restatement-related expenses, SG&A expenses would have been $334.4 million, or 22.3% of sales, in the current year period, versus $285.8 million, or 21.8% of sales, in the prior year period, an increase of 17.0%.

The increase in SG&A expenses, excluding restatement-related expenses, as a percentage of sales in the current year period is due primarily to percentage increases in store labor, workers' compensation, and health care costs that were in excess of the percentage increase in sales. The increase in store labor costs reflects various actions taken to improve store conditions, including increasing labor hours and improving employee wages.

Litigation Settlement and Related Proceeds. The Company recorded $25.0 million in net restatement litigation proceeds during the current year period which amount included $25.2 million in insurance proceeds associated with the restatement-related shareholder derivative litigation offset by a $0.2 million expected settlement of a shareholder class action opt-out claim also related to the Company's restatement. See Note 4 to the Company's condensed consolidated financial statements as of November 1, 2002.

Interest Expense, Net. Interest expense in the current year period was $11.5 million, or 0.8% of sales, as compared to $11.5 million, or 0.9% of sales, in the prior year period.

Provision for Taxes on Income. The Company's effective tax rate was 35.9% in the current year period and 37.3% in the prior year period. The reduction in the effective tax rate in the current year period is partially a result of certain tax planning strategies implemented in the fourth quarter of the prior year which reduced the Company's annualized effective tax rate to 36.7%. The Company's effective tax rate was further reduced in the current quarter by favorable adjustments to prior estimates determined after the recent filing of the Company's amended tax returns for 1998 and 1999 as well as the original returns for the 2000 and 2001 years.

Net Income. Net income during the current year period was $68.6 million, or 4.6% of sales, versus $46.7 million, or 3.6% of sales, during the comparable period in the prior year, an increase of 46.7%. Diluted earnings per share in the current year period were $0.20 versus $0.14 in the prior year period. Excluding restatement-related expenses and the litigation settlement and related proceeds noted above, diluted earnings per share in the current year period were $0.16 versus $0.16 in the prior year period.

39 WEEKS ENDED NOVEMBER 1, 2002 AND NOVEMBER 2, 2001

Net Sales. Net sales for the 39 weeks ended November 1, 2002 were $4.34 billion as compared against $3.74 billion during the comparable period in the prior year, an increase of 16.2%. The increase resulted primarily from 591 net new stores and a same store sales increase of 7.2%. Same store sales increases are calculated based on the comparable calendar weeks in the prior year, and include only those stores that were open both at the end of a fiscal period and at the beginning of the preceding fiscal year. The Company attributes the increase in same store sales to a number of factors, including the introduction of new items in the highly consumable category, a stronger presentation of seasonal merchandise during the first 26 weeks of this year as compared to the same period in the prior year, the addition of perishable products in some of the Company's stores (approximately 1,300 as of November 1,2002), and improved ordering practices by the Company's stores. Net sales increases by category were as follows: highly consumable 19.9%, hardware and seasonal 16.4%, basic clothing 8.0%, and home products 6.5%.

Gross Profit. Gross profit during the current year period was $1.20 billion, or 27.6% of sales, versus $1.03 billion, or 27.7% of sales, during the comparable period in the prior year, an increase of 15.7%. The modest decrease in the gross margin rate as a percentage of sales as compared against the prior year period was due principally to a higher shrink provision and, to a lesser extent, a lower purchase mark-up in the current year period. The Company's inventory shrinkage provision calculated at the retail value of the inventory, as a percentage of sales, was 3.57% as compared to 2.94% in the comparable prior year period. The Company is taking numerous actions to improve its shrinkage results, including, but not limited to, establishing an asset protection department focused on shrink reduction, structuring the store bonus program to include shrinkage results as a significant component, installing surveillance cameras in high risk stores and analyzing inventory levels to identify shrink problems at an early stage. The Company cannot make assurances that these efforts will be successful in reducing shrink. Accordingly, it is possible that shrinkage results may continue to negatively impact the Company's gross profit results. The lower purchase mark-up on inventory purchases is due in part to a decision by the Company to purchase fewer high margin but slower turning items and to reduce its inventory position in the basic clothing and home products categories. The negative factors impacting the gross margin rate were partially offset by a reduction in distribution and transportation costs as a percentage of sales.

Selling, General and Administrative Expenses. SG&A expenses during the current year period were $946.1 million, or 21.8% of sales, versus $823.2 million, or 22.0% of sales, during the comparable period in the prior year, an increase of 14.9%. The Company recorded a net $5.4 million in SG&A expenses, primarily professional fees, in the current year period related to the restatement of certain previously released financial data versus $18.3 million of such expenses in the prior year period. Excluding restatement-related expenses, SG&A expenses would have been $940.7 million, or 21.7% of sales, in the current year period versus $804.9 million, or 21.5% of sales, in the prior year period, an increase of 16.9%.

The increase in SG&A expenses, excluding restatement-related expenses, as a percentage of sales in the current year period is due primarily to percentage increases in store labor and workers' compensation costs that were in excess of the percentage increase in sales. The increase in store labor costs reflects various actions taken to improve store conditions, including increasing labor hours and improving employee wages.

Litigation Settlement and Related Proceeds. The Company recorded $29.5 million in net restatement litigation proceeds during the current year period, which amount included $29.7 million in insurance proceeds associated with the settlement of the restatement-related class action and shareholder derivative litigation offset by a $0.2 million expected settlement of a shareholder class action opt-out claim related to the Company's restatement. See Note 4 to the Company's condensed consolidated financial statements as of November 1, 2002.

Interest Expense, Net. Interest expense was $33.3 million, or 0.8% of sales, in the current year period as compared to $35.0 million, or 1.0% of sales, in the prior year period, a decrease of 4.9%. The decrease is primarily attributable to the general reduction in interest rates on variable rate obligations and to lower average outstanding borrowings in the current year period.

Provision for Taxes on Income. The Company's effective tax rate was 36.3% in the current year period and 37.3% in the prior year period. The reduction in the effective tax rate in the current year period is partially a result of certain tax planning strategies implemented in the fourth quarter of the prior year which reduced the Company's annualized effective tax rate to 36.7%. The Company's effective tax rate was further reduced in the current year period by favorable adjustments to prior estimates determined after the recent filing of the Company's amended tax returns for 1998 and 1999 as well as the original returns for the 2000 and 2001 years.

Net Income. Net income during the current year period was $156.9 million, or 3.6% of sales, versus $110.1 million, or 2.9% of sales, during the comparable period in the prior year, an increase of 42.5%. Diluted earnings per share in the current year period were $0.47 versus $0.33 in the prior year period. Excluding restatement-related expenses and the litigation settlement and related proceeds noted above, diluted earnings per share in the current year period were $0.42 versus $0.36 in the prior year period.

Liquidity and Capital Resources

Current Financial Condition / Recent Developments. At November 1, 2002, the Company's total debt (including the current portion of long-term obligations and short-term borrowings) was $518.3 million, and the Company had $37.1 million of cash and cash equivalents and $1.19 billion of shareholders' equity, compared to $735.1 million of total debt, $261.5 million of cash and cash equivalents and $1.04 billion of shareholders' equity at February 1, 2002.

The Company has a $450 million revolving credit facility consisting of a $300 million three-year revolving credit facility and a $150 million 364-day revolving credit facility (the "New Credit Facilities"). The Company pays interest on funds borrowed under the New Credit Facilities at rates that are subject to change based upon the rating of the Company's senior debt by independent agencies. The Company has two interest rate options, base rate (which is usually equal to prime rate) and LIBOR. At the Company's current ratings, the facility fees are 37.5 basis points and 32.5 basis points on the two facilities, respectively. The all-in drawn margin under the LIBOR option is LIBOR plus 237.5 basis points on both facilities. The all-in drawn margin under the base rate option is the base rate plus 125 basis points and the base rate plus 120 basis points on the two facilities, respectively. The New Credit Facilities are secured by approximately 400 of the Company's retail stores, its headquarters and two of its distribution centers. As of November 1, 2002, the Company had $168.4 million outstanding under the New Credit Facilities, at a rate of 3.8%. See Note 3 to the Company's condensed consolidated financial statements as of November 1, 2002 for further discussion of the New Credit Facilities and the facilities replaced thereby.

The Company has $200 million (principal amount) of 8 5/8% unsecured notes due June 15, 2010. Interest on the notes is payable semi-annually on June 15 and December 15 of each year. The holders of the notes may elect to have their notes repaid on June 15, 2005, at 100% of the principal amount plus accrued and unpaid interest. The Company may seek, from time to time, to retire its outstanding notes through cash purchases on the open market, privately negotiated transactions or otherwise. Such repurchases, if any, will depend on prevailing market conditions, the Company's liquidity requirements, contractual restrictions and other factors. The amounts involved may be material.

The Company has been in discussions with respect to the Company's leases of its distribution centers in Indianola, Mississippi and Fulton, Missouri, related to an alleged default arising under those leases from the restatement of certain of the Company's financial statements as further described in Part II, Item I of this Form 10-Q. The Company has reached agreement with all relevant parties to effect a waiver of such alleged default and incorporate certain amendments in the lease documents relating to such properties, and such waiver and amendment has become effective.

In 2002, the Company disbursed $162 million in settlement of the restatement-related class action litigation. The $162 million was accrued as an expense in the Company's 2000 financial statements. In July of 2002, the Company received from its insurers $4.5 million pursuant to the settlement of the restatement-related class action lawsuits. In August of 2002, the Company received $25.2 million in insurance settlement proceeds pursuant to the settlement of the restatement-related shareholder derivative litigation. The Company recognized income of $4.5 million in the second quarter of 2002 and $25.2 million in the third quarter of 2002 to reflect the receipt of these proceeds. See Note 4 to the Company's condensed consolidated financial statements as of November 1, 2002.

The Company believes that its existing cash balances, cash flows from operations, the New Credit Facilities and its ongoing access to the capital markets will provide sufficient financing to meet the Company's currently foreseeable liquidity and capital resource needs.

In July of 2002 the Company filed amended tax returns for 1998 and 1999. In October of 2002 the Company filed its tax returns for 2000 and 2001. In total, the Company requested approximately $28.2 million in refunds relating to these four years. In November of 2002 the Company received approximately $19.5 million of the anticipated refund. The Internal Revenue Service is currently conducting a normal examination of the income tax returns from 1998 and 1999. The results of the examination, and any other issues discussed with the IRS in the course of the examination, may result in additional tax liability to the Company.

Other than net reductions in borrowings outstanding under variable rate debt as discussed above, there have been no significant changes in the fair value of the Company's outstanding debt.

The Company plans to open approximately 650 stores during the fiscal year ending January 30, 2004. The Company anticipates funding the costs associated with such openings by cash flow from operations and/or by existing credit facilities.

Cash flows provided by operating activities. Net cash provided by operating activities totaled $128.0 million during the first 39 weeks of 2002, as compared to a $41.7 million source of cash during the comparable period in the prior year. The primary source of cash in 2002 was the Company's net income plus depreciation and amortization expense, which together totaled $259.2 million. Other sources of cash in the current year period include an increase in accounts payable of $88.0 million and a decrease in the net deferred tax asset of $68.4 million. The increase in accounts payable is a result of the seasonal increase in inventory levels in anticipation of the holiday selling season. The decrease in the net deferred tax asset primarily reflects the tax benefit that the Company will receive in its 2002 income tax return with respect to the $162.0 million payment in settlement of the restatement-related class action litigation, described in Note 4 of the Company's condensed consolidated financial statements as of November 1, 2002. Though the Company accrued this litigation settlement expense in its fiscal year 2000 financial statements, for income tax reporting purposes a deduction could not be taken until the funds were actually disbursed in 2002. A significant use of cash in the current year period was a $118.1 million increase in inventory levels. The Company has made improving its inventory productivity statistics a priority. Inventory turns have improved on a rolling 12-month basis from 3.1 times to 3.4 times as measured at November 2, 2001 and November 1, 2002, respectively, and same store inventories have been reduced by approximately 16% as compared to the comparable prior year period. The Company has also reduced its purchases of high margin but slower turning items in the basic clothing and home products categories. Another significant use of cash in the current year period was the $162.0 million shareholder class action litigation settlement payment described above.

The primary source of net cash from operating activities during the prior year period was the Company's net income plus depreciation and amortization expense, which together totaled $202.2 million. The primary uses of cash in the prior year period were an increase in inventories of $237.0 million primarily reflecting the net addition of 485 stores and an increase in seasonal merchandise. The increase in inventory was partially financed by an $84.6 million increase in accounts payable.

Cash flows used in investing activities. Net cash used in investing activities during the first 39 weeks of 2002 totaled $104.3 million, as compared to a $100.0 million use of cash during the comparable period in the prior year. The $104.3 million spent in the current year period consisted primarily of $39.1 million for new stores and relocations, $15.5 million for various store-related technology projects and $21.2 million for distribution and transportation projects. The $100.0 million spent in the prior year period consisted primarily of $39.6 million for new stores and relocations, $42.8 million for various store-related fixtures and $11.4 million for various systems related projects.

Cash flows used in financing activities. Net cash used in financing activities during the first 39 weeks of 2002 was $248.1 million, which consisted principally of $32.0 million in dividends and $225.0 million of net debt repayments related primarily to the refinancing of certain synthetic lease facilities. Net cash used in financing activities during the comparable period in the prior year was $29.3 million, which consisted principally of $31.9 million in dividends and $8.9 million of net debt repayments offset by $11.6 million in proceeds from stock options exercised.

Critical Accounting Policy

As discussed in the Company's fiscal 2001 Annual Report on Form 10-K, inventories are stated at the lower of cost or market with cost determined using the retail last-in, first-out ("LIFO") method. Under the retail inventory method ("RIM"), the valuation of inventories at cost and the resulting gross margins are calculated by applying a calculated cost-to-retail ratio to the retail value of inventories. 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 retail inventory method will result in valuing inventories at lower of cost or market 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, merchandise markon, markups, markdowns, and shrinkage, which significantly impact the ending inventory valuation at cost as well as resulting gross margins. These significant estimates, coupled with the fact that the RIM is an averaging process, can, under certain circumstances, produce distorted or inaccurate 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, and applying RIM to transactions over a period of time that includes different rates of gross profit, such as those relating to seasonal merchandise. To reduce the potential of such distortions in the valuation of inventory from occurring, the Company's RIM utilizes 10 departments in which fairly homogenous classes of merchandise inventories having similar gross margins are grouped. In addition, failure to take markdowns currently can result in an overstatement of cost under the lower of cost or market principle.

Management believes that the Company's RIM provides an inventory valuation which reasonably approximates cost and results in carrying inventory at the lower of cost or market.

As previously disclosed, the Company has been collecting SKU level inventory information at each of its stores during 2002 in an effort to establish an item-based perpetual inventory system. In conjunction with this undertaking, in an effort to improve inventory valuation and cost of goods sold estimates, the Company will be expanding the number of departments it utilizes for its gross margin calculations and refining estimates of its retail ownership
mix. These changes, when adopted, may result in an inventory adjustment and may also impact the RIM calculation results in fiscal 2003 and in subsequent years. The Company currently cannot estimate the impact of such changes.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We have no material changes to the disclosures relating to this item that are set forth in our report on Form 10-K for the fiscal year ended February 1, 2002.

Item 4. Controls and Procedures

As of a date within 90 days prior to the filing of this quarterly report on Form 10-Q, the Company, under the supervision and with the participation of the Company's management, including the Acting Chief Executive Officer and the Chief Financial Officer, evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-14(c) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act")). Based on that evaluation, the Company's management, including the Acting Chief Executive Officer and the Chief Financial Officer, concluded that the Company's disclosure controls and procedures are effective for the purposes set forth in the definition thereof in Exchange Act Rule 13a-14(c). There have been no significant changes in the Company's internal controls or in other factors that could significantly affect internal controls subsequent to the date of their most recent evaluation.

Part II. - Other Information

Item 1. Legal Proceedings

Restatement-Related Proceedings

On April 30, 2001, the Company announced that it had become aware of certain accounting issues that would cause it to restate its audited financial statements for fiscal years 1999 and 1998, and to restate the unaudited financial information for fiscal year 2000 that had been previously released by the Company. The Company subsequently restated such financial statements and financial information by means of its Form 10-K for the fiscal year ended February 2, 2001, which was filed on January 14, 2002.

The Securities and Exchange Commission is conducting an investigation into the circumstances that gave rise to the Company's April 30, 2001 announcement. The Company is cooperating with this investigation by providing documents and other information to the Securities and Exchange Commission. At this time, the Company is unable to predict the outcome of this investigation and the ultimate effects on the Company.

As previously discussed in the Company's periodic reports filed with the Securities and Exchange Commission, six purported shareholder derivative lawsuits related to the restatement were filed in Tennessee State Court against certain current and former Company directors and officers and Deloitte & Touche LLP, the Company's former independent accountant. The Company was named as a nominal defendant in the actions, which sought restitution and/or compensatory and punitive damages with interest, equitable and/or injunctive relief, costs and such further relief as the court deemed proper. By order entered October 31, 2001, the court appointed Michael Dixon, Jr., Carolinas Electrical Workers Retirement Fund and Thomas Dewey, plaintiffs in one of the six filed cases, as lead plaintiffs. Among other things, the plaintiffs alleged that certain current and former Company directors and officers breached their fiduciary duties to the Company and that Deloitte & Touche aided and abetted those breaches and was negligent in its service as the Company's independent accountant.

Two purported shareholder derivative lawsuits related to the restatement also were filed and consolidated in the United States District Court for the Middle District of Tennessee against certain current and former Company directors and officers alleging that they breached their fiduciary duties to the Company. The Company was named as a nominal defendant in these actions, which sought declaratory relief, compensatory and punitive damages, costs and such further relief as the court deemed proper.

The Company and the individual defendants reached a settlement agreement with the plaintiffs in the lead Tennessee state shareholder derivative action. The agreement included a payment to the Company from a portion of the proceeds of the Company's director and officer liability insurance policies as well as certain corporate governance and internal control enhancements. The terms of such agreement required that all of the derivative cases, including the federal derivative cases described above, be dismissed with prejudice by the courts in which they were pending in order for the settlement to be effective. Following confirmatory discovery, the settlement agreement received final approval by the Tennessee State Court on June 4, 2002. On July 5, 2002, the lead plaintiff in the federal derivative case appealed the approval of the settlement in the state derivative cases to the Court of Appeals of Tennessee. The Court of Appeals of Tennessee dismissed such appeal by Order dated July 22, 2002. The federal lead plaintiff's right to appeal this dismissal expired on September 20, 2002, and the federal derivative action was dismissed on September 3, 2002.

The settlement of the shareholder derivative lawsuits resulted in a net payment to the Company, after attorneys' fees payable to the plaintiffs' counsel, of approximately $25.2 million during the third quarter of 2002.

Also as previously discussed in the Company's periodic reports filed with the Securities and Exchange Commission, the Company has settled the consolidated restatement-related class action filed in the United States District Court for the Middle District of Tennessee on behalf of a class of persons who purchased or otherwise made an investment decision regarding the Company's securities and related derivative securities between March 5, 1997 and January 14, 2002. The $162 million settlement was approved by the court on May 24, 2002. The Company received from its insurers $4.5 million in respect of such settlement in July 2002. In connection with the settlement, plaintiffs representing fewer than 1% of the shares traded during the class period chose to opt out of the class settlement and may elect to pursue recovery against the Company individually. The Company has reached an agreement in principle to settle potential claims by one such plaintiff and has recognized an expense of $0.2 million in respect of such agreement. The Company anticipates finalizing this settlement agreement in the fourth quarter of 2002. There can be no assurance, however, that such agreement will be finalized during this time period or on these terms. No other litigation has yet been filed or threatened by parties who opted out of the class action settlement. The Company cannot predict whether any additional litigation will be filed or estimate the potential liabilities associated with such litigation, but it does not believe that the resolution of any such litigation will have a material effect on the Company's financial position.

Other Litigation

The Company was involved in other litigation, investigations of a routine nature and various legal matters during the reporting period, which were and are being defended and otherwise handled in the ordinary course of business. While the ultimate results of these matters cannot be determined or predicted, management believes that they have not had and will not have a material adverse effect on the Company's results of operations or financial position.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits.

The exhibits listed on the accompanying Exhibit Index beginning on page 37 hereof are filed as a part of this report and such Exhibit Index is incorporated herein by reference.

(b) Reports on Form 8-K.

The following reports on Form 8-K were furnished during the quarter covered by this report on Form 10-Q:

(1) A Current Report on Form 8-K, dated October 10, 2002, was furnished to the Securities and Exchange Commission pursuant to Item 9 in connection with an announcement regarding September 2002 sales results and the October 2002 sales outlook.

(2) A Current Report on Form 8-K, dated September 16, 2002, was furnished to the Securities and Exchange Commission pursuant to Item 9 in connection with an announcement regarding the formation of a special committee to search for a Chief Executive Officer to succeed Cal Turner.

(3) A Current Report on Form 8-K, dated September 5, 2002, was furnished to the Securities and Exchange Commission pursuant to Item 9 in connection with an announcement regarding August 2002 sales results and the September 2002 sales outlook.

(4) A Current Report on Form 8-K, dated August 29, 2002, was furnished to the Securities and Exchange Commission pursuant to Item 9 in connection with a conference call regarding the Company's financial results for the second quarter of the 2002 fiscal year.

(5) A Current Report on Form 8-K, dated August 28, 2002, was furnished to the Securities and Exchange Commission pursuant to Item 9 in connection with an announcement regarding the Company's financial results for the second quarter of the 2002 fiscal year.

(6) A Current Report on Form 8-K, dated August 28, 2002, was furnished to the Securities and Exchange Commission pursuant to Item 9 in connection with the filing of certain Company officer sworn statements and written certifications.

(7) A Current Report on Form 8-K, dated August 8, 2002, was furnished to the Securities and Exchange Commission pursuant to Item 9 in connection with an announcement regarding July 2002 sales results and the August 2002 sales outlook.

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

DOLLAR GENERAL CORPORATION

By: /s/ James J. Hagan

James J. Hagan
Executive Vice President and Chief Financial Officer (Principal Financial and Chief Accounting Officer)

November 27, 2002

CERTIFICATIONS

I, Donald S. Shaffer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Dollar General Corporation;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluations as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

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Date: November 27, 2002              /s/ Donald S. Shaffer
                                     ----------------------------------------
                                     Donald S. Shaffer
                                     Acting Chief Executive Officer, President
                                     and Chief Operating Officer
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I, James J. Hagan, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Dollar General Corporation;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluations as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 27, 2002

/s/ James J. Hagan

James J. Hagan
Executive Vice President and
Chief Financial Officer

EXHIBIT INDEX

Pursuant to Item 601 of Regulation S-K

Exhibit No.	Description of Exhibit
10	Executive Employment Agreement by and between Dollar General Corporation and Donald S. Shaffer dated as of November 12, 2002.

Exhibit 10
EXECUTIVE EMPLOYMENT AGREEMENT

THIS EXECUTIVE EMPLOYMENT AGREEMENT (this "Agreement") is entered into as of the 12th day of November, 2002 (the "Effective Date"), by and between DOLLAR GENERAL CORPORATION, a Tennessee corporation (the "Company"), and DONALD S. SHAFFER ("Executive").

WHEREAS, Executive presently serves as the President and Chief Operating Officer of the Company pursuant to that certain letter agreement, dated May 14, 2001, executed by each of Executive and Cal Turner, Jr. (the "Original Agreement");

WHEREAS, the Company's Board of Directors (the "Board") is considering candidates (including Executive) for the position of Chief Executive Officer of the Company, and desires Executive to temporarily assume the responsibilities of Chief Executive Officer (such interim position hereinafter referred to as "Acting CEO"), in addition to Executive's responsibilities as President and Chief Operating Officer ("COO":), until such time as the Company has hired an individual to permanently fulfill the duties of Chief Executive Officer (such permanent position hereinafter referred to as "Permanent CEO");

WHEREAS, the Company further desires to ensure Executive's continued employment for a reasonable Transition Period following the hiring of a Permanent CEO other than Executive;

WHEREAS, Executive is willing to serve as Acting CEO and, if he is not retained as Permanent CEO, during a reasonable Transition Period thereafter, to continue to serve as President and COO of the Company; and

WHEREAS, the Parties hereto contemplate that Executive may remain employed by the Company after the Term hereof (as defined below), but that any such continued employment will not be governed by this Agreement.

NOW, THEREFORE, in consideration of the mutual covenants and agreements hereinafter set forth, the Company and Executive (collectively, the "Parties") agree as follows:

1. Term.

The term of Executive's employment under this Agreement (the "Term") shall be the period commencing on the Effective Date and ending at the end of the Post-Transition Period (as defined in Section 8(d) below).

2. Employment. Executive agrees to be employed by Company upon the terms and subject to the conditions set forth in this Agreement.

(a) Employment as Acting CEO. Throughout the period beginning on the Effective Date and ending on the date thereafter that the Company employs a Permanent CEO (the "Interim Period"), Executive shall serve as Acting CEO of the Company.

The Parties hereby acknowledge and agree that the Interim Period is not expected to exceed (and may be substantially less than) six months; provided, however, that Executive hereby covenants to and agrees with the Company that Executive shall continue to serve as Acting CEO for such longer period of time as the Company shall reasonably require, not to exceed one year.

(b) Employment as President, Chief Operating Officer and Otherwise;
Transition Period. Throughout the Interim Period and, thereafter, for the Transition Period (as defined below), Executive shall continue to serve as President and Chief Operating Officer of the Company.

Notwithstanding any other provision of this Agreement to the contrary, Executive hereby agrees with and covenants to the Company that Executive shall continue to serve the Company as President and COO for the 180-day period following the Interim Period (if the Company hires a Permanent CEO other than Executive), or such shorter period of time as the Board shall determine is necessary or appropriate for the best interests of the Company and for a smooth transition to the Permanent CEO (the "Transition Period"). In any event, the Board shall give Executive written notice of the expiration of the Transition Period if it is to be less than 180 days. The Transition Period shall, in no event, exceed 180 days from the end of the Interim Period.

(c) Performance of Duties. In his capacity as Acting CEO, Executive shall (i) be responsible for the general management of the operations of the Company, (ii) faithfully and diligently perform such duties required of a CEO and customarily performed by a person acting in the capacity of CEO and those that may be designated by the Board consistent with that title and position, and (iii) report directly to the Board or to a Committee designated by the Board.

In his capacities as President and COO, Executive (i) shall faithfully and diligently perform such duties customarily performed by a person acting in such respective capacities and those that may be designated by the Board or, when employed, by the Permanent CEO, consistent with such respective titles and positions, and (ii) shall report directly to the Permanent CEO.

Executive shall devote his full working time, attention, skills, and best efforts to advance the Company's business and affairs and perform his duties under this Agreement. Executive may, however, engage in civic, charitable, and professional or trade activities so long as those activities do not interfere with the performance of his duties under this Agreement.

(d) Place of Performance. During the Term, Executive shall be based in Nashville, Tennessee, or at such other location within a 30-mile radius of Nashville, Tennessee. Company shall not request or require Executive to relocate his principal place of employment outside of a 30-mile radius of Nashville, Tennessee.

3. Termination of Prior Employment Arrangement. By the execution of this Agreement, Executive and the Company hereby acknowledge and agree that the employment arrangement heretofore existing between Executive and the Company, as evidenced by the Original Agreement or otherwise, shall end and shall be replaced and superseded in all respects by the terms of this Agreement, such that the Original Agreement (or any other document or arrangement regarding the Parties' employment arrangement prior to the execution and delivery of this Agreement) shall be deemed terminated and of no further force or effect (including, without limitation, the termination of any severance pay or other post-termination rights contemplated therein).

4. Compensation.

(a) Base Salary. Company agrees to pay to Executive a base salary of no less than an annual rate of $625,000 ("Base Salary"), payable in twice monthly installments consistent with the Company's payroll practices. During the Interim Period, Executive shall receive an additional $8334 a month in Base Salary.

(b) Performance Bonus. Executive shall continue to participate in the Management Incentive TEAMSHARE bonus program upon the same terms and conditions of his participation in such program immediately prior to the Effective Date, subject in any event to any changes to such program that may from time to time be lawfully effected by the Board.

(c) Participation in Welfare, Savings and Retirement Plans. Executive shall be entitled to participate in the Company's 401K Retirement and Savings Plan, Supplemental Executive Retirement Plan, Compensation Deferral Program, and any other employee benefit plans and arrangements offered generally to active senior executives of the Company as of the Execution Date, as well as any other health and insurance, disability, and other welfare benefit plans, or savings, deferred compensation, retirement or pension, or death benefit plans or arrangements provided or available generally to active senior executives of the Company in effect from time to time during the Term. To the extent not offered generally to active senior executives of the Company, Executive shall be entitled to participate in any other insurance benefits to which he was entitled immediately prior to the Effective Date pursuant to his employment as President and COO (collectively, the "Benefit Plans").

Executive's participation in any or all of the Benefit Plans, however, shall be subject to the terms and conditions of the Benefit Plans as they may hereafter be amended or restated (or discontinued) by the Company, including Executive's satisfaction of all applicable eligibility requirements and vesting provisions of the Benefit Plans. The Company shall not have any obligation under this Agreement to continue any or all of the Benefit Plans. Executive hereby acknowledges receipt of written plan materials distributed to participants or prospective participants in the currently effective Benefit Plans.

(d) Stock Options. Executive shall be entitled to participate in any stock option, performance share, phantom stock, or similar long-term stock-based incentive plan provided or available generally to active senior executives of the Company in effect from time to time during the Term, each as amended from time to time. The extent to which Executive shall participate in those option plans or any such other plan shall be determined by the Board or any committee thereof authorized to make such determinations on behalf of the Board.

(e) Withholding. All compensation payable to Employee pursuant to this Agreement shall be subject to, and Company shall deduct and withhold, all applicable federal, state and local withholding, employment, social security and other similar taxes.

5. Reimbursement of Business and Other Expenses. Executive is authorized to incur reasonable travel and business expenses that are consistent with his position and incurred in carrying out his duties and responsibilities under this Agreement, and Company shall promptly reimburse him for all such travel and business expenses incurred in connection with carrying out the business of the Company, subject to reasonable documentation in accordance with the policies of Company.

6. Perquisites. During the Term, Executive shall be entitled to participate in

all of Company's executive fringe benefits to the same extent of Executive's participation in such benefit arrangements immediately prior to the Effective Date, in each case in accordance with the terms and conditions of such arrangements as are in effect from time to time. Executive is also entitled to reimbursement from Company for, or Company's payment of, all reasonable attorneys' and other professional fees and expenses incurred by or on behalf of Executive relating in any manner to the negotiation and preparation of this Agreement, including (without limitation) the conditions to Executive's employment relationship with Company under this Agreement. The benefits described in this Section 6 shall be referred to, collectively, as the "Perquisites."

7. Vacation. Executive shall be entitled to two weeks' paid vacation each calendar year. Company shall pay Executive any earned and unused vacation upon the termination of Executive's employment.

8. Termination of Employment. The following paragraphs describe circumstances under which Executive's employment may terminate. The final day of his employment under any circumstance shall be the "Employment Termination Date."

(a) Death. Executive's employment shall terminate, without the need for any action by the Company, upon Executive's death.

(b) Disability. If a Disability (as defined below) of Executive occurs during the Term, the Company may notify Executive of the Company's intention to terminate Executive's employment under this Agreement for Disability. In that event, the Executive's employment shall terminate effective on the date such notice of termination is given to Executive (the "Disability Effective Date"). In this Agreement "Disability" means:

(i) a long-term disability, as defined in the Company's applicable Benefit Plan as then in effect; or

(ii) Executive's inability reasonably to perform his duties under this Agreement because of any medically determinable physical or mental impairment that (x) can reasonably be expected to result in death or (y) has lasted or can reasonably be expected to last for at least 30 consecutive days. In this circumstance, the existence of a Disability shall be determined by the Board or the Permanent CEO, in its or his sole and absolute discretion, upon receipt of competent medical advice from a qualified physician selected by or acceptable to the Board or the Permanent CEO. In this circumstance, Executive shall, if there is any question about his Disability, submit to a physical examination by a qualified physician selected by the Board or the Permanent CEO.

(c) Termination by the Company.

(i) Termination for Cause. The Company may terminate Executive's employment under this Agreement for Cause (as defined below) as follows:

(A) Cause Defined. "Cause" means any of: (1) Executive's failure to perform his duties under this Agreement or in accordance with the Company's employment policies and procedures, as reasonably determined by the Board in good faith, other than any such failure resulting from a Disability, (2) any willful act or omission by Executive that, in the good-faith judgment of the Board, has had or is likely to have a material adverse impact on the Company's business interests or reputation, (3) Executive is convicted of, or pleads nolo contendere to, any allegation of, fraud, embezzlement, theft, or other criminal conduct (excluding a traffic violation) that, in the good-faith judgment of the Board, has had or is likely to have a material adverse impact on Executive's ability to perform his executive responsibilities, or
(4) a breach of any of Executive's covenants in Sections 11 and
12 (collectively, the "Restrictive Covenants").

(B) Required Notice. A termination for Cause shall be effective only if the Chairman of the Board or, at the Board's instruction, the Permanent CEO, has given Executive written notice of the Board's intention to terminate for Cause, describing Executive's acts or omissions that are believed to constitute Cause. Termination for Cause shall be effective immediately upon delivery of notice of termination to Executive, or such later time as may be stated in such notice.

(ii) Without Cause. The Company may terminate Executive's employment with the Company, at any time for any (or no) reason, prior to expiration of the Term of this Agreement, upon at least 30 days' written notice to Executive. Such termination shall be effective upon the expiration of the notice period specified in the notice of termination.

(d) Post-Transition Resignation. At any time during the 90-day period beginning upon the expiration of the Transition Period (the "Post-Transition Period"), the end of such Post-Transition Period likewise constituting the expiration of the Term of this Agreement, Executive may terminate his employment, for any (or no) reason, upon written notice to the Permanent CEO (a "Post-Transition Resignation"). In such event, Executive shall be entitled to the payments and benefits set out in Section 9(b) below. For the avoidance of doubt, if this Agreement has not otherwise terminated, the Parties may agree during the Transition Period or Post-Transition Period that Executive's employment with the Company will continue after expiration of the Term under terms and conditions mutually agreed.

(e) Executive May Not Voluntarily Terminate Employment Prior to
Expiration of Transition Period. In light of his importance to the Company during each of the Interim Period and the Transition Period, Executive is not entitled to voluntarily terminate his employment with Company at any time before the expiration of the Transition Period (as such period shall be determined by the Board or in accordance with the terms of Section 2(b) above). If Executive does voluntarily resign his employment prior to expiration of the Transition Period (an "Improper Resignation"), he shall not be entitled to any of the benefits or payments set out in Section 9(b) below.

(f) Hiring of Executive to Permanent CEO Position. In the event that the Board shall, in good faith, offer Executive the Permanent CEO position, the Parties agree that, upon Executive either accepting or declining the offer, this Agreement shall be deemed terminated and of no further force or effect. If Executive declines a good faith, bona fide offer, he shall not be entitled to the payments and benefits described in Section 9(b) below.

9. Rights and Obligations upon Termination of Employment.

(a) Termination for Cause, Death, Disability, Improper Resignation,
Executive's decline of Offer to Become Permanent CEO or Upon Expiration of
Term. If Executive's employment under this Agreement is terminated for cause, death, disability, Improper Resignation, his refusal of a good faith offer to become Permanent CEO, or at the expiration of the Term, he shall be entitled to (i) any amounts payable to Executive under the terms of any of the applicable Benefit Plans in effect on the Employment Termination Date; (ii) any amounts due but not yet paid to Executive by the Company and
(iii) any other benefits or payments to which he is entitled as a matter of law. He shall not be entitled to any of the additional benefits set out in Section 9(b) below.

(b) Termination without Cause; Resignation during Post-Transition
Period. If Executive's employment is terminated (x) by the Company without Cause prior to the expiration of the Term (it being understood by the Parties that termination by expiration shall not constitute termination without Cause) or (y) as the result of Executive's resignation during the Post-Transition Period, then Executive shall be entitled to the following:

(i) Continuation of Executive's Base Salary as of the date immediately preceding the Employment Termination Date for twenty-four consecutive months following the termination, payable in accordance with the Company's normal payroll times and procedures; and

(ii) Executive shall be entitled to participate, at his election, in the Company's Retiree Medical Plan. For the twenty-four month period after the Employment Termination Date, he may do so at the same cost to him as he paid for health care insurance coverage under the Company's medical insurance plan immediately prior to the Employment Termination Date and the Company shall reimburse him for the difference in premium (grossed up for taxes), if any. Thereafter, he may continue his participation in the Retiree Medical Plan at his own cost; and

(iii) For the Dental, Vision, Disability and Life Insurance Benefit Plans, if Executive elects and maintains (A) continued coverage under the Consolidated Omnibus Benefits Reconciliation Act of 1985 and corresponding regulations ("COBRA"), (B) continuation coverage under any similar provision of any state insurance law (in either event, a "Continued Coverage Plan") and/or (C) conversion or porting of the policy, then for up to a maximum of twenty-four months after the Employment Termination Date, reimbursement to Executive of the difference between (x) the premiums paid or payable by Executive for coverage under the applicable Continued Coverage Plan or converted/ported plan for himself and his dependents (if any) and (y) the premiums that Executive would have paid for comparable coverage under the applicable Benefit Plan if Executive's employment under this Agreement had not ceased (in either case, such payment shall be grossed up for taxes); except that these payments shall expire or terminate immediately upon Executive's becoming eligible for similar coverage under another employer's benefits plan or policy; and

(iv) For the twenty-four month period following the Employment Termination Date, continuation of those Perquisites described in Section 6 above, as long as they are offered to senior executives of the Company, except that these Perquisites shall expire or terminate immediately upon Executive's becoming eligible for similar Perquisites at another employer; and

(v) If TeamShare Bonus payments are made to participants for Fiscal Year 2002, Executive shall be entitled to participate in the TeamShare Bonus program for that year based on his base salary at the Fiscal Year end or, if earlier, his Employment Termination Date. To the extent TeamShare Bonuses are paid by the Company to participants for the two fiscal years (post 2002) during which the twenty-four month salary continuation period referenced in 9(b)(i) above falls, Executive shall be entitled to receive payment(s) from the Company equal to the bonus payment he would have received under TeamShare for that year had he still been employed at the time of the bonus payment; provided, however, that, if there is no TeamShare Bonus payment made to participants for either of those two fiscal years, then Company shall pay Executive the equivalent of a "Level 1" Bonus Payment as defined in the TeamShare Bonus Plan for each such fiscal year based on his base salary at the Employment Termination Date; and

(vi) In the event that Executive (or, in the event of Executive's death, Executive's dependents) shall move his residence more than 100 miles from Nashville, Tennessee within 18 months after the Employment Termination Date, (A) reimbursement of closing costs related to any new home purchase, up to a maximum amount equal to two percent (2%) of the purchase price of such new home, and (B) reimbursement of documented expenses reasonably related to such change of residence, up to a maximum amount of $55,000 (excluding the amount of closing costs reimbursed pursuant to the immediately preceding clause (A)); or, in the alternative, at the discretion of Executive, the Company will purchase Executive's primary residence in Nashville at a price agreed upon by the parties. If the parties cannot agree on a price, the Company shall pay for three independent appraisals (one by a certified appraiser selected by Company; one by a certified appraiser selected by Executive; and one by a certified appraiser agreed to by both parties). The purchase price paid by the Company shall be the average of the three appraisals.

Any payments or reimbursements under this Section 9(b) shall not be deemed the continuation of Executive's employment for any purpose. The Company's obligations under this Section 9(b) will not negate or reduce (A) any obligation that the Company may have to Executive under COBRA, (B) any amounts due but not yet paid to Executive by the Company, or (C) any amounts payable to Executive, or any other rights that Executive may have, under the terms of any of the applicable Benefit Plans in effect on the Employment Termination Date; except that any disability payments to Executive, or any death benefits to Executive's

estate, heirs, or legatees, under any of the applicable Benefit Plans shall be credited to and offset against the amounts payable under this Section 9(b). Further, the Company may, at any time and in its sole discretion, make a lump-sum payment of all amounts, or all remaining amounts, due to Executive under Section 9(b)(i).

(c) General Release; Compliance with Restrictive Covenants. The payment or provision of any amounts or benefits under this Section 9(b) shall be conditioned upon both (i) the Company's receipt of an irrevocable Settlement Agreement, General Release, and Covenant Not to Sue, in substantially the form of Addendum A attached to this Agreement (the "Release"), that is executed and performed by Executive (or in the case of Executive's death, his estate, heirs, or legatees), (ii) Executive's compliance with the terms of the Release and with the Restrictive Covenants during the applicable time periods set forth therein. The Company may discontinue or reduce the amounts or benefits under this Section 9(b) if the Company reasonably believes, or establishes by any legal or injunctive proceeding permitted by the terms of this Agreement, that there is or has been any violation by Executive of the Release or any of the Restrictive Covenants. Any such discontinuance or reduction shall not preclude the Company from seeking any legal or injunctive relief permitted by the terms of this Agreement.

(d) No Obligation to Mitigate; Discontinuance of Severance Benefits in

Certain Circumstances.

(i) Executive shall not be obligated to seek or secure new employment or to become self-employed after the Employment Termination Date. To the extent Executive secures full time employment during the 24 month period after the Employment Termination Date, (x) his entitlement to any of the Benefits or Perquisites set forth in sections 9(b)(iii) and (iv) above shall be offset as described therein, and (y) his entitlement to any additional bonus payments under Section 9(b)(v) shall cease. Other than as provided in Section 9(d)(ii) below, Executive shall retain those salary continuation benefits described in Section 9(b)(i) above.

(ii) Notwithstanding the foregoing clause (i), each of the severance benefits described in Section 9(b) above shall terminate immediately upon Executive's association or affiliation with, employment by, or taking of any financial interest in (whether directly or indirectly, as principal, agent, manager, employee, partner, shareholder, director, officer, consultant or otherwise) any discount retailer, including, without limitation but solely for purposes of example, WalMart Stores, Family Dollar Stores, Fred's, The 99 Cents Store or Dollar Tree Stores; provided, however, that Executive's ownership of less than five percent (5%) of any class of publicly traded securities of an entity shall not constitute a breach of this Section 9(d).

(e) Tax Limitation on Severance Benefits. Notwithstanding anything in this Agreement or elsewhere to the contrary, if any payment or benefit received, to be received, or deemed received (under applicable tax law) by Executive under this Agreement or under any other agreement, plan, practice, or policy of the Company would (i) constitute a "parachute payment" within the meaning of Section 280G of the Internal Revenue Code of 1986, as amended (the "Code"), or any similar or successor provision to Section 280G, and
(ii) but for this Section 9(e), be subject to the excise tax imposed by Section 4999 of the Code, then such payment or benefit shall be reduced to the largest amount which would result in no portion of such payment or benefit being subject to the excise tax imposed by Section 4999 of the Code.

10. [Intentionally Deleted]

11. Confidential Information. Executive acknowledges that, as a result of his relationship with the Company, he has and will continue to have access to the trade secrets and confidential information and proprietary know-how of the Company (which in the Restrictive Covenants includes the Company's subsidiaries and affiliates) or its customers or clients that is confidential, proprietary, or a trade secret ("Confidential Information"). At all times, both during and after the Term, Executive shall keep and retain in confidence and not disclose to any other person, except as required in the course of his employment with the Company, or use for his personal benefit or the benefit of any other person, any Confidential Information.

(a) Examples of Confidential Information. Confidential Information includes

(i) the Company's standard operating procedures, processes, pricing practices, formula, know-how, or scientific, technical, or product information, whether or not patentable or otherwise protectable, which is of value to the Company and not generally known by the Company's competitors, (ii) all confidential information obtained from other persons, vendors, and service providers concerning their products, pricing, business arrangements with the Company, businesses, or equipment specifications, (iii) confidential business information of the Company, including marketing and business plans, strategies, projections, business opportunities, vendor information, identities, or contact information, sales and costs information, internal financial statements or reports, profit, loss, or margin information, and customer or client price information, and (iv) other information designated by the Company or deemed by law to be confidential information.

(b) Confidentiality Policies; Return of Property. During the Term Executive shall comply with all employee policies and procedures established by the Company to protect Confidential Information. At the Employment Termination Date, and otherwise at the Company's request, Executive shall promptly return to the Company all Confidential Information and other property of the Company (tangible and intangible) then in Executive's possession or control.

12. Noncompete - Executive agrees that, during the Term and for twenty four months following the Employment Termination Date, he will not, directly or indirectly, compete with the Company by providing to any company that operates in states in which Dollar General operates at the Employment Termination Date and that is a discount retailer, including, without limitation but solely for purposes of example, WalMart Stores, Inc., Family Dollar Stores, Fred's, The 99 Cents Store or Dollar Tree Stores, services substantially similar to the services provided by Executive during his last two years of employment with Company. Executive shall not be obligated to abide by the foregoing covenant if the Company defaults in the payment of any severance compensation or benefits.

13. Nonsolicitation. In consideration of the mutual promises in this Agreement, the sufficiency of which is acknowledged by the Parties, Executive agrees that, during the Term and for 24 consecutive months after the Employment Termination Date, Executive will not, directly or indirectly, as principal, agent, manager, employee, partner, shareholder, director, officer, consultant, or otherwise hire or employ any current or former (defined as employed by the Company within the 90 days preceding the Employment Termination Date) employee of the Company or any of the Company's subsidiaries or affiliates that are known by Executive to be such, or use or disclose to any person, partnership, association, corporation or other entity any information obtained while employed by the Company concerning the names, addresses, salaries, or performance evaluations of employees of the Company, or any of its subsidiaries or affiliates. The Parties intend the above restrictions on competition to be completely severable and independent, and any invalidity or unenforceability of any one or more such restrictions shall not render invalid or unenforceable any one or more of the other restrictions.

14. Reformation; Severability; Injunctive Relief.

(a) Reformation. The Parties intend all provisions of the Restrictive Covenants to be enforced to the fullest extent permitted by law. Accordingly, should a court of competent jurisdiction determine that the scope of any provision of the Restrictive Covenants is too broad to be enforced as written, based on their duration, scope of activities, or otherwise, the Parties intend that the court reform the provision to such narrower scope as it determines to be reasonable and enforceable. The Parties agree that each of the agreements set forth in the Restrictive Covenants constitutes a separate agreement independently supported by good and adequate consideration, shall be severable from the other provisions of this Agreement, and (with this Section 13) shall survive the expiration or termination of this Agreement or Executive's employment under this Agreement. Executive agrees that the Company shall be entitled to enforce any and all of Executive's covenants contained in the Restrictive Covenants, regardless of the existence of any claim or cause of action of Executive against the Company, whether predicated on this Agreement or otherwise, and such claim or cause of action shall not constitute a defense to the enforcement by the Company of any of the Restrictive Covenants.

(b) Severability. If any provision of this Agreement is held to be illegal, invalid, or unenforceable under present or future laws, (i) such provision shall be fully severable, (ii) this Agreement shall be construed and enforced as if such illegal, invalid, or unenforceable provision never constituted a part of this Agreement, and (iii) the remaining provisions of this Agreement shall remain in full force and effect and shall not be affected by the illegal, invalid, or unenforceable provision or by its severance from this Agreement. Furthermore, in lieu of such illegal, invalid, or unenforceable provision, there shall be added as part of this Agreement a provision as similar in its terms to such illegal, invalid, or unenforceable provision as may be possible and be legal, valid, and enforceable.

(c) Injunctive Relief. Executive acknowledges the difficulty in forecasting damages arising from the breach of any of the Restrictive Covenants and that the Company may be irreparably harmed thereby. Therefore, Executive agrees that the Company shall be entitled to elect to enforce each of the Restrictive Covenants by means of injunctive relief or an order of specific performance and that such remedy shall be available in addition to all other remedies available at law or in equity to the Company, including the recovery of damages from Executive's agents or affiliates involved in such breach.

15. Disputes. Any dispute or question arising out of or relating to this Agreement, that cannot otherwise be resolved, shall be resolved by proceedings before any court of proper jurisdiction in accordance with this Agreement.

16. Successors and Assigns; Survival of Rights and Obligations.

(a) Binding Agreement; Executive's Personal Agreement. This Agreement shall be binding upon and inure to the benefit of Executive and his heirs and legal representatives and the Company and its successors and assigns. Executive's rights and obligations under this Agreement are personal and may not be assigned or transferred in whole or in part by Executive (except that his rights may be transferred upon his death by will, trust, or the laws of intestacy).

(b) The Company's Successor. The Company will require any successor to all or substantially all of the business and assets of the Company (whether direct or indirect, by purchase, merger, consolidation or otherwise) to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place; except that no such assumption and agreement will be required if the successor is bound by operation of law to perform this Agreement. In this Agreement, the term "Company" shall include any successor to the Company's business and assets that assumes and agrees to perform this Agreement (either by agreement or by operation of law).

(c) Survival. The respective rights and obligations of the Parties under this Agreement (including Sections 8 through 14) shall survive the expiration or termination of the Term to the extent necessary to give full effect to those rights and obligations.

17. Additional Obligations. During and after the Term, Executive shall, upon reasonable notice from the Company, furnish the Company with such information as may be in Executive's possession, and cooperate with the Company as may reasonably be requested by the Company, in connection with any legal or governmental proceedings in which the Company or any of its affiliates is or may become a party. During his employment hereunder, the reimbursement of Executive's expenses shall be governed by Section 5; after termination of his employment, the Company shall reimburse Executive for his reasonable expenses in fulfilling his obligations under this Section 16.

18. Miscellaneous.

(a) Notices. Any notice, consent, demand, request, approval, or other communication to be given under this Agreement by one Party to the other ("Notice") must be in writing and must be either (i) personally delivered,
(ii) mailed by registered or certified mail, postage prepaid with return receipt requested, (iii) delivered by same-day or overnight courier service, or (iv) delivered by facsimile transmission, in any event to the address or number set forth below or to such other address or number as may be designated by either or both of the Parties from time to time in accordance with this Section 17(a):

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If to the Company:    Dollar General Corporation
                      Attn:  General Counsel's Office
                      100 Mission Ridge
                      Goodlettsville, Tennessee 37072-2171
                      Facsimile: 615/855-5180
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If to Executive: At the address beneath Executive's signature hereto.

Notices delivered personally or by courier service shall be deemed given and received as of actual receipt. Notices mailed as described above shall be deemed given and received three business days after mailing or upon actual receipt, whichever is earlier. Notices delivered by facsimile transmission shall be deemed given and received upon receipt by the sender of the transmission confirmation. If Executive's Notice information changes, he will immediately notify Company.

(b) Entire Agreement. This Agreement, including the Addenda (which are integral parts of this Agreement), supersedes any and all other agreements and understandings of any kind, either oral or written, between the Parties with respect to the subject matter of this Agreement and contains all of the covenants and agreements between the Parties with respect to the subject matter of this Agreement.

(c) Modification. Except as stated in the next sentence, no change or modification of this Agreement shall be valid or binding upon the Parties, nor shall any waiver of any term or condition be so binding, unless the change or modification or waiver is in writing and signed by the Parties.

(d) GOVERNING LAW; CONSENT TO FORUM. THIS AGREEMENT HAS BEEN NEGOTIATED, EXECUTED, AND DELIVERED AT, AND SHALL BE DEEMED TO HAVE BEEN MADE IN DAVIDSON COUNTY, TENNESSEE. THIS AGREEMENT SHALL BE GOVERNED BY, ENFORCED UNDER, AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF TENNESSEE. AS PART OF THE CONSIDERATION FOR THIS AGREEMENT, AND REGARDLESS OF ANY PRESENT OR FUTURE DOMICILE OR PRINCIPAL PLACE OF BUSINESS OF EXECUTIVE, EXECUTIVE HEREBY CONSENTS AND AGREES THAT THE COURTS IN DAVIDSON COUNTY, TENNESSEE, SHALL HAVE JURISDICTION TO HEAR AND DETERMINE ANY JUDICIAL DISPUTES BETWEEN THE PARTIES OR OTHER MATTERS EXPRESSLY PERMITTED BY THIS AGREEMENT TO BE LITIGATED IN A COURT. EXECUTIVE EXPRESSLY SUBMITS AND CONSENTS IN ADVANCE TO SUCH JURISDICTION IN ANY ACTION OR SUIT COMMENCED IN ANY SUCH COURT AND HEREBY WAIVES ANY OBJECTION WHICH EXECUTIVE MAY HAVE BASED UPON LACK OF PERSONAL JURISDICTION, IMPROPER VENUE, OR FORUM NON CONVENIENS.

(e) Counterparts. This Agreement may be executed in counterparts, each of which constitutes an original, but all of which constitute one document.

(f) Gender. Whenever the context requires, words in this Agreement denoting gender shall include the masculine, feminine, and neuter.

(g) Estate. If Executive dies during his employment hereunder, any amounts due him from the Company under this Agreement as of the date of his death shall be paid to his estate, heirs, or legatees.

(h) Waiver of Breach. Any waiver by a Party of a breach of any provision of this Agreement by the other Party shall not operate or be construed as a waiver of any other or any subsequent breach.

(i) Certain Defined Terms. As used in this Agreement, (i) "person" means an individual or any corporation, partnership, trust, unincorporated association, or other legal entity, whether acting in an individual, fiduciary, or other capacity, and any government, court, or other governmental agency, (ii) "include" and "including" shall not denote or signify any limitation, (iii) "business day" means any Monday through Friday other than any such weekday on which the executive offices of the Company are closed, and (iv) "Section" is a reference to a Section in this Agreement, unless otherwise stated, and (v) "affiliate" of a person means any other person controlling, controlled by, or under common control with that first person (and for this purpose, "control" and correlative terms mean the power to direct the management of the business and affairs of a person). In addition, the use herein of "annual" or "monthly" (or similar terms) to indicate a measurement period shall not itself be deemed to grant rights to Executive for employment or compensation for such period.

(j) Captions and Section Headings. Captions and Section or subsection headings used herein are for convenience only and are not a part of this Agreement and shall not be used in any construction of this Agreement.

(Signature Page Follows)

IN WITNESS WHEREOF, the Parties have executed this Agreement as of the date first above written.

The Company: DOLLAR GENERAL CORPORATION

By: /s/ Susan S. Lanigan

Name: Susan S. Lanigan
Title: Vice President, General Counsel and Secretary

Executive: *DONALD S. SHAFFER*

/s/ Donald S. Shaffer

Address: 515 Westview Avenue
Nashville, Tennessee 36205

Facsimile: 615/463-7956

EXECUTIVE EMPLOYMENT AGREEMENT - Signature Page
DALLAS 1197233v6

ADDENDUM A
Settlement Agreement, General Release, and Covenant Not to Sue

[See attached]

SETTLEMENT AGREEMENT,
GENERAL RELEASE, AND COVENANT NOT TO SUE

This Settlement Agreement, General Release, and Covenant Not to Sue ("Agreement") is made and entered into as of the _______ day of ____________, 200___, by and between Donald S. Shaffer ("Executive") and Dollar General Corporation, a Tennessee corporation (the "Company"), both of which are hereinafter collectively referred to as the "parties."

Recitals

WHEREAS, Executive was employed as the Company's Acting Chief Executive Officer, President and Chief Operating Officer pursuant to the terms and conditions of that certain Executive Employment Agreement, dated as of November __, 2002 (the "Employment Agreement"), by and between Executive and the Company;

WHEREAS, Executive's employment under the Employment Agreement shall terminate or has terminated effective ___________, 200___ (the "Termination Date"); and ------------

WHEREAS, the parties desire to settle fully and finally, in the manner set forth herein, all differences between them which have arisen, or which may arise, prior to, or at the time of, the execution of this Agreement, including, but in no way limited to, any and all claims and controversies arising out of the Employment Agreement, the employment relationship between Executive and the Company, and the cessation or termination thereof;

Agreement

NOW, THEREFORE, in consideration of the Recitals and the mutual promises, covenants and agreements set forth herein, the parties covenant and agree as follows:

1. Executive, for himself and on behalf of his attorneys, heirs, legatees, assigns, successors, executors, and administrators, IRREVOCABLY AND UNCONDITIONALLY RELEASES, ACQUITS, AND FOREVER DISCHARGES the Company, its current and former parent, subsidiary, affiliated, and related corporations, firms, associations, partnerships, limited liability companies, and other entities, their successors and assigns, and the current and former owners, members, shareholders, managers, directors, officers, partners, employees, agents, attorneys, representatives, and insurers of said corporations, firms, associations, partnerships, limited liability companies, and other entities, and their guardians, successors, assigns, heirs, executors, and administrators (hereinafter collectively referred to as the "Releasees"), from any and all claims, complaints, grievances, liabilities, obligations, promises, agreements, damages, causes of action, rights, debts, demands, controversies, costs, losses, damages, and expenses (including, without limitation, attorneys' fees and expenses) whatsoever (collectively, "Claims") under any municipal, local, state, or federal law, common or statutory -- including, but in no way limited to, Claims under the Age Discrimination in Employment Act of 1967, 29 U.S.C. ss. 621, et seq. -- for any actions or omissions whatsoever, whether known or

unknown, that are

connected with or related to the Employment Agreement, the employment of Executive by the Company, or the cessation or termination thereof, which existed or may have existed prior to, or contemporaneously with, the execution of this Agreement. Executive does not, however, release, acquit, or discharge the Releasees from any Claim arising out of any nonperformance or failure to perform by the Company of any of its obligations under this Agreement or any Claim not connected with or related to the Employment Agreement, the employment of Executive by the Company, or the cessation or termination thereof.

2. Executive, for himself and on behalf of his attorneys, heirs, legatees, assigns, successors, executors, and administrators, COVENANTS NOT TO SUE OR OTHERWISE CONSENT TO PARTICIPATE IN ANY ACTION AGAINST, any of the Releasees based upon any of the Claims released in paragraph 1 of this Agreement.

3. Executive waives and releases forever any right or rights he might have to employment, reemployment, or reinstatement with the Company or any of the other Releasees, except as may be provided under the terms of this Agreement.

4. Upon the expiration of seven (7) days after Executive's execution of this Agreement, the Company agrees to begin to pay or provide Executive the severance payments and benefits under Section 8 of the Employment Agreement in accordance with the surviving terms of the Employment Agreement.

5. The parties hereto recognize that, by entering into this Agreement, the Company and each other Releasee does not admit, and does specifically deny, any violation of any local, state, or federal law, common or statutory. The parties further recognize that this Agreement has been entered into in release and compromise of any Claims which might be asserted by Executive in connection with his employment by the Company, or the termination thereof, and to avoid the expense and burden of any litigation related thereto.

6. The parties acknowledge and agree that in the event Executive materially breaches any provisions of this Agreement, (a) Executive will indemnify and hold the Company harmless from and against any and all resulting damages, expense, or loss incurred by the Company (including, without limitation, attorneys' fees and expenses), (b) Executive will immediately repay to the Company in full any payments made to him under the provisions (including, without limitation, paragraph 4) of this Agreement, and (c) the Company will be entitled to file counterclaims against Executive for breach of the covenant not to sue and may recover from Executive any payment not repaid to the Company, as required by clause (b) of this paragraph 6, as well as any and all other resulting actual or consequential damages.

7. One or more waivers of a breach of any covenant, term, or provision of this Agreement by either party shall not be construed as a waiver of a subsequent breach of the same covenant, term, or provision, nor shall it be considered a waiver of any other then existing or subsequent breach of a different covenant, term, or provision.

8. If any provision or term of this Agreement is held to be illegal, invalid, or unenforceable, (a) such provision or term shall be fully severable, (b) this Agreement shall be construed and enforced as if such illegal, invalid, or unenforceable provision had never

constituted part of this Agreement, and (c) the remaining provisions of this Agreement shall remain in full force and effect and shall not be affected by the illegal, invalid, or unenforceable provision or by its severance from this Agreement. Furthermore, in lieu of each such illegal, invalid, or unenforceable provision or term there shall be added automatically as a part of this Agreement another provision or term as similar to the illegal, invalid, or unenforceable provision as may be possible and that is legal, valid, and enforceable.

9. The parties agree that any dispute arising from or attributable to this Agreement shall be subject to the arbitration provisions (and to the same extent and with the same limitations) set forth in the Employment Agreement; provided, however, notwithstanding anything set forth herein or set forth in the Employment Agreement to the contrary, the Company shall have the right to sue for specific performance of this Agreement and for declaratory and injunctive relief.

10. Either party may revoke this Agreement, within seven (7) days of the date of its execution by Executive (the "Revocation Period"), by written notice to the other party. Executive agrees that if he revokes this Agreement, he shall receive none of the benefits provided for under its terms or the surviving terms of the Employment Agreement. Executive further understands and agrees that, unless the Company receives from Executive, prior to the expiration of the Revocation Period, written notice of his revocation of this Agreement, this Agreement and all of its terms shall have full force and effect, and Executive shall have forever waived his right to revoke this Agreement.

11. This Agreement and the terms of the Employment Agreement that survive the cessation or termination of Executive's employment thereunder constitute the entire agreement of the parties, and supersede all prior and contemporaneous negotiations and agreements, oral or written, between the parties. All prior and contemporaneous negotiations and agreements are deemed incorporated and merged into this Agreement and are deemed to have been abandoned if not so incorporated. No representations, oral or written, are being relied upon by either party in executing this Agreement other than the express representations of this Agreement and the terms of the Employment Agreement that survive the cessation or termination of Executive's employment thereunder. This Agreement cannot be changed or terminated without the express written consent of the parties.

12. This Agreement shall be governed by and construed in accordance with the laws of the State of Tennessee, except where preempted by federal law.

13. By executing this Agreement, Executive acknowledges that (a) this Agreement has been reviewed with him by a representative of the Company, (b) he has had at least twenty-one (21) days to consider the terms of the Agreement and has considered its terms for that period of time or has knowingly and voluntarily waived his right to do so, (c) he has been advised by the Company in writing to consult with an attorney regarding the terms of the Agreement, (d) he has consulted with, or has had sufficient opportunity to consult with, an attorney of his or her own choosing regarding the terms of this Agreement, (e) any and all questions regarding the terms of this Agreement have been asked and answered to his or her complete satisfaction, (f) he has read this Agreement and fully understands its terms and their import, (g) except as provided by this Agreement, he has no contractual right or claim to the benefits described herein, (h) the

consideration provided for herein is good and valuable, and (i) he is entering into this Agreement voluntarily, of his own free will, and without any coercion, undue influence, threat, or intimidation of any kind or type whatsoever.

(Signature Page Follows)

EXECUTED in Nashville, Tennessee, this ___day of _________, 2002.

EXECUTIVE:

EXECUTED in Nashville, Tennessee, this ____day of _________, 2002.

DOLLAR GENERAL CORPORATION

By:

Name:
Title: