DOLLAR GENERAL CORP

FORM 10-Q
(Quarterly Report)

Filed 01/14/02 for the Period Ending 08/03/01

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 1/14/2002 For Period Ending 8/3/2001

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 August 3, 2001

Commission file number 1-11421

Dollar General Corporation
(Exact name of registrant as specified in its charter)

Tennessee	610502302
(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 [ ] No [X]. Note: The Company did not timely file its Annual Report on Form 10-K for fiscal 2000 and its quarterly reports on Form 10-Q for the first three quarters of fiscal 2001 as a result of the restatement of the Company's financial statements described herein and therein. Such quarterly report for the second quarter of fiscal 2001 is filed herewith, and such other quarterly reports on Form 10-Q and Annual Report on Form 10-K are being filed on the date hereof.

The number of shares of common stock outstanding as of December 14, 2001 was 332,577,284.

Dollar General Corporation

Form 10-Q

For the Quarter Ended August 3, 2001

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Part I - Financial Information

Item 1. Financial Statements

Dollar General Corporation and Subsidiaries
Condensed Consolidated Balance Sheets
(In thousands)

	August 3, 2001 (Unaudited)	February 2, 2001
Assets		
Current assets:		
Cash and cash equivalents	$ 81,630	$ 162,310
Merchandise inventories	980,856	896,235
Deferred income taxes	24,962	21,514
Other current assets	53,231	44,868
Total current assets	1,140,679	1,124,927
Property and equipment, at cost	1,429,373	1,339,554
Less: accumulated depreciation and amortization	426,149	366,460
	1,003,224	973,094
Merchandise inventories	116,000	116,000
Other assets	70,421	68,441
Total assets	$ 2,330,324	$ 2,282,462
Liabilities and Shareholders' Equity		
Current liabilities:		
Current portion of long-term obligations	$ 7,942	$ 9,035
Accounts payable	294,784	297,262
Accrued expenses and other	214,133	214,192
Income taxes	--	17,446
Total current liabilities	516,859	537,935
Long-term obligations	735,435	720,764
Litigation settlement payable	162,000	162,000
Shareholders' equity:		
Preferred stock	--	--
Common stock	166,232	165,646
Additional paid-in capital	299,149	283,925
Accumulated other comprehensive loss	(3,044)	--
Retained earnings	456,383	414,318
	918,720	863,889
Less: common stock purchased by employee deferred compensation trust	2,690	2,126
Total shareholders' equity	916,030	861,763
Total liabilities and shareholders' equity	$ 2,330,324	$ 2,282,462

See notes to condensed consolidated financial statements.

Dollar General Corporation and Subsidiaries
Condensed Consolidated Statements of Income (Unaudited)
(Dollars in thousands except share and per share amounts)

	Thirteen Weeks Ended			
	August 3, 2001	% of Net Sales	July 28, 2000 (Restated)	% of Net Sales
Net sales	$ 1,225,254	100.0%	$ 1,017,418	100.0%
Cost of goods sold	893,971	73.0	733,368	72.1
Gross profit	331,283	27.0	284,050	27.9
Selling, general and administrative	276,069	22.5	226,988	22.3
Operating profit	55,214	4.5	57,062	5.6
Interest expense	11,957	1.0	12,732	1.3
Income before income taxes	43,257	3.5	44,330	4.3
Income taxes	16,157	1.3	16,544	1.6
Net income	$ 27,100	2.2%	$ 27,786	2.7%
Earnings per share:				
Basic	$ 0.08		$ 0.08	
Diluted	$ 0.08		$ 0.08	
Weighted average shares:				
Basic	332,330		328,578	
Diluted	335,402		333,038	
Dividends per share	$ .032		$ .032	

	Twenty-Six Weeks Ended			
	August 3, 2001	% of Net Sales	July 28, 2000 (Restated)	% of Net Sales
Net sales	$ 2,427,758	100.0%	$ 2,014,497	100.0%
Cost of goods sold	1,775,050	73.1	1,461,040	72.5
Gross profit	652,708	26.9	553,457	27.5
Selling, general and administrative	528,059	21.8	440,329	21.9
Operating profit	124,649	5.1	113,128	5.6
Interest expense	23,557	0.9	21,995	1.1
Income before income taxes	101,092	4.2	91,133	4.5
Income taxes	37,759	1.6	34,012	1.7
Net income	$ 63,333	2.6%	$ 57,121	2.8%
Earnings per share:				
Basic	$ 0.19		$ 0.17	
Diluted	$ 0.19		$ 0.17	
Weighted average shares:				

Basic	331,959	329,027
Diluted	335,293	333,666
Dividends per share	$ .065	$ .058

See notes to condensed consolidated financial statements.

Dollar General Corporation and Subsidiaries
Condensed Consolidated Statements of Cash Flows (Unaudited)
(In thousands)

	26 Weeks Ended	
	August 3, 2001	July 28, 2000 (Restated)
Cash flows from operating activities:		
Net income	$ 63,333	$ 57,121
Adjustments to reconcile net income to net cash provided by / (used in) operating activities:		
Depreciation and amortization	60,980	55,601
Deferred income taxes	(2,627)	(9,849)
Tax benefit from stock option exercises	4,656	7,642
Change in operating assets and liabilities:		
Merchandise inventories	(84,621)	(68,845)
Other current assets	(607)	5,333
Accounts payable	(2,478)	(60,067)
Accrued expenses and other	(1,740)	3,771
Income taxes	(17,446)	(19,364)
Other	(9,631)	946
Net cash provided by / (used in) operating activities	9,819	(27,711)
Cash flows from investing activities:		
Purchase of property and equipment	(73,942)	(153,195)
Proceeds from sale of property and equipment	144	97,492
Net cash used in investing activities	(73,798)	(55,703)
Cash flows from financing activities:		
Issuance of short-term borrowings	--	181,992
Repayments of short-term borrowings	--	(160,000)
Issuance of long-term obligations	--	199,573
Repayments of long-term obligations	(6,023)	(104,303)
Payments of cash dividend	(21,268)	(18,984)
Proceeds from exercise of stock options	10,623	17,024
Repurchase of common stock, net	--	(65,549)
Purchase of common stock for employee deferred compensation trust	(33)	--
Net cash (used in) / provided by financing activities	(16,701)	49,753
Net increase (decrease) in cash and cash equivalents	(80,680)	(33,661)
Cash and cash equivalents at beginning of period	162,310	54,742
Cash and cash equivalents at end of period	$ 81,630	$ 21,081
Supplemental schedule of noncash investing and financing activities:		
Purchase of property and equipment under capital lease obligations	$ 17,393	$ 82,104

See notes to condensed consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of presentation and accounting policies

Basis of presentation

The accompanying unaudited condensed consolidated financial statements 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 2, 2001 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 results of operations for the 13-week and 26-week periods ended August 3, 2001 and July 28, 2000 have been made.

Interim cost of goods sold is determined using ongoing estimates of inventory shrinkage, inflation, and markdowns. 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

Effective February 3, 2001, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS Nos. 137 and 138. These statements require the Company to recognize all derivative instruments on the balance sheet at fair value. These statements also establish new accounting rules for hedging instruments, which depend on the nature of the hedge relationship. A fair value hedge requires that the effective portion of the change in the fair value of a derivative instrument be offset against the change in the fair value of the underlying asset, liability, or firm commitment being hedged through earnings. A cash flow hedge requires that the effective portion of the change in the fair value of a derivative instrument be recognized in Other Comprehensive Income ("OCI"), a component of Shareholders' Equity, and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Any ineffective portion of a derivative instrument's change in fair value is immediately recognized in earnings. The 2001 unaudited condensed consolidated financial statements include the provisions required by SFAS No. 133, while the 2000 unaudited condensed consolidated financial statements were prepared in accordance with the applicable professional literature for derivatives and hedging instruments in effect at that time.

Upon adoption of SFAS No. 133 on February 3, 2001, the Company recorded a cumulative after-tax decrease to OCI of approximately $2.0 million. This transition adjustment was recorded to recognize the Company's only outstanding derivative instrument, which is designated and effective as a cash flow hedge, at fair value (approximately $0.2 million) and to reclassify from asset accounts deferred losses realized on the settlement of interest rate derivatives which were designated and effective as hedges during fiscal year 2000 (approximately $1.8 million).

2. Restatement of financial statements

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 revise the unaudited financial information for the fiscal year 2000 that had been previously released by the Company. As disclosed in further detail in the Company's Form 10-K for fiscal year 2000, the Company has restated its audited financial statements for fiscal years 1999 and 1998, as well as the unaudited financial information for the fiscal year 2000 that had been previously released by the Company.

As a result, the comparative information contained in this quarterly report on Form 10-Q with respect to the 13 and 26 weeks ended July 28, 2000 has been restated. Restated net income, diluted earnings per share and retained earnings for the quarter ended July 28, 2000 are $27.8 million, $0.08 and $422.0 million, respectively, as compared to the previously reported amounts of $39.3 million, $0.12 and $536.5 million. Restated net income, diluted earnings per share and retained earnings for the 26 weeks ended July 28, 2000 are $57.1 million, $0.17 and $422.0 million, respectively, as compared to the previously reported amounts of $83.7 million, $0.25 and $536.5 million.

3. Comprehensive income

Comprehensive income consists of the following (in thousands):

	13 weeks ended		26 weeks ended	
	August 3, 2001	July 28, 2000	August 3, 2001	July 28, 2000
Net income	$ 27,100	$ 27,786	$ 63,333	$ 57,121
Accumulated net losses on derivative financial instruments	(205)	--	(3,044)	--
	$ 26,895	$ 27,786	$ 60,289	$ 57,121

4. Inventory

In the fourth quarter of 2000, the Company determined that it had certain excess inventory that would require a markdown to assist with its disposition. While the Company believes that this markdown will be adequate to ensure the sale of the excess inventory during fiscal years 2001 and 2002, there can be no assurance that the Company will be able to sell all of this inventory by the end of 2002 without a further markdown. The Company reclassified $116.0 million of inventory out of current assets at February 2, 2001 that it does not expect to sell before February 1, 2002. Because the Company believes that such inventory may not be sold prior to August 2, 2002, this amount has continued to be excluded from current assets at August 3, 2001.

5. Segment reporting

The Company manages its business on the basis of one reportable segment. As of August 3, 2001 and July 28, 2000, all of the Company's operations were located within the United States. The following data is presented in accordance with Statement of Financial Accounting Standards No. 131 "Disclosures about Segments of an Enterprise and Related Information." The following amounts are in thousands:

	13 Weeks Ended		26 Weeks Ended	
	August 3, 2001	July 28, 2000	August 3, 2001	July 28, 2000
Sales by Category:				
Highly Consumable	$ 737,778	$ 583,003	$ 1,459,070	$ 1,128,636
Hardware and Seasonal	185,082	143,120	353,885	280,815
Basic Clothing	131,200	120,320	261,832	241,230
Home Products	171,194	170,975	352,971	363,816
	$ 1,225,254	$ 1,017,418	$ 2,427,758	$ 2,014,497

6. Guarantor subsidiaries

All of the Company's subsidiaries (the "Guarantors") have fully and unconditionally guaranteed on a joint and several basis the Company's obligations under the Notes. Each of the Guarantors is a wholly-owned subsidiary of the Company. The Guarantors comprise all of the direct and indirect subsidiaries of the Company.

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

	August 3, 2001			
	DOLLAR GENERAL CORPORATION	GUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTAL
BALANCE SHEET DATA:				
ASSETS				
Current assets				
Cash and cash equivalents	$ 38,875	$ 42,755	$ --	$ 81,630
Merchandise inventories	-	980,856	--	980,856
Deferred income taxes	6,473	18,489	--	24,962
Other current assets	22,019	626,562	(595,350)	53,231
Total current assets	67,367	1,668,662	(595,350)	1,140,679
Property and equipment, at cost	154,784	1,274,589	--	1,429,373
Less: accumulated depreciation and amortization	44,551	381,598	--	426,149
Net property and equipment	110,233	892,991	--	1,003,224
Merchandise inventories	-	116,000	--	116,000
Deferred income taxes	-	-	--	--
Other assets	1,897,732	4,689	(1,832,000)	70,421
Total assets	$ 2,075,332	$ 2,682,342	$ (2,427,350)	$ 2,330,324
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities:				
Current portion of long-term obligations	$ 539	$ 7,403	$ --	$ 7,942
Accounts payable	660,300	223,489	(589,005)	294,784
Accrued expenses and other	61,887	152,246	--	214,133
Income taxes	6,345	-	(6,345)	--
Total current liabilities	729,071	383,138	(595,350)	516,859
Long-term obligations	268,231	1,062,871	(595,667)	735,435
Litigation settlement payable	162,000	--	--	162,000
Shareholders' equity:				
Preferred Stock	--	--	--	--
Common Stock	166,232	23,853	(23,853)	166,232
Additional paid-in capital	299,149	927,629	(927,629)	299,149
Accumulated other comprehensive loss	(3,044)	--	--	(3,044)
Retained earnings	456,383	284,851	(284,851)	456,383
	918,720	1,236,333	(1,236,333)	918,720
Less: common stock purchased by employee deferred compensation trust	2,690	--	--	2,690
Total shareholders' equity	916,030	1,236,333	(1,236,333)	916,030
Total liabilities and shareholders' equity	$ 2,075,332	$ 2,682,342	$ (2,427,350)	$ 2,330,324

	February 2, 2001			
	DOLLAR GENERAL CORPORATION	GUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTAL
BALANCE SHEET DATA:				
ASSETS				
Current assets:				
Cash and cash equivalents	$ 120,643	$ 41,667	$ --	$ 162,310
Merchandise inventories	--	896,235	--	896,235
Deferred income taxes	6,380	15,134	--	21,514
Other current assets	15,372	606,000	(576,504)	44,868
Total current assets	142,395	1,559,036	(576,504)	1,124,927
Property and equipment, at cost	145,294	1,194,260	--	1,339,554
Less accumulated depreciation and amortization	37,876	328,584	--	366,460

Net property and equipment	107,418	865,676	--	973,094
Merchandise inventories	--	116,000	--	116,000
Deferred income taxes	57,946	--	(5,238)	52,708
Other assets, net	1,707,740	578	(1,692,585)	15,733
Total assets	$ 2,015,499	$ 2,541,290	$(2,274,327)	$ 2,282,462
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities:				
Current portion of long-term obligations	$ 856	$ 8,179	$ --	$ 9,035
Accounts payable	663,373	210,393	(576,504)	297,262
Accrued expenses and other	54,289	159,903	--	214,192
Income taxes	6,875	10,571	--	17,446
Total current liabilities	725,393	389,046	(576,504)	537,935
Long-term obligations	266,343	972,401	(517,980)	720,764
Litigation settlement payable	162,000	--	--	162,000
Deferred income taxes	--	5,238	(5,238)	--
Shareholders' equity:				
Preferred stock	--	--	--	--
Common stock	165,646	23,853	(23,853)	165,646
Additional paid-in capital	283,925	929,677	(929,677)	283,925
Retained earnings	414,318	221,075	(221,075)	414,318
	863,889	1,174,605	(1,174,605)	863,889
Less common stock purchased by employee deferred compensation trust	2,126	--	--	2,126
Total shareholders' equity	861,763	1,174,605	(1,174,605)	861,763
Total liabilities and shareholders' equity	$ 2,015,499	$ 2,541,290	$(2,274,327)	$ 2,282,462

Quarter to Date August 3, 2001	DOLLAR GENERAL CORPORATION	GUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTAL
STATEMENTS OF INCOME DATA:				
Net sales	$ 41,844	$ 1,225,254	$ (41,844)	$ 1,225,254
Cost of goods sold	--	893,971	--	893,971
Gross profit	41,844	331,283	(41,844)	331,283
Selling, general and administrative	38,396	279,517	(41,844)	276,069
Operating profit	3,448	51,766	--	55,214
Interest expense	5,297	6,660	--	11,957
Income before taxes on income	(1,849)	45,106	--	43,257
Provisions for taxes on income	(690)	16,847	--	16,157
Equity in subsidiaries' earnings, net	28,259	--	(28,259)	--
Net income	$ 27,100	$ 28,259	$ (28,259)	$ 27,100

Year to Date August 3, 2001	DOLLAR GENERAL CORPORATION	GUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTAL
STATEMENTS OF INCOME DATA:				
Net sales	$ 77,687	$ 2,427,758	$ (77,687)	$ 2,427,758
Cost of goods sold	--	1,775,050	--	1,775,050
Gross profit	77,687	652,708	(77,687)	652,708
Selling, general and administrative	68,476	537,271	(77,687)	528,060
Operating profit	9,211	115,437	--	124,648
Interest expense	9,920	13,636	--	23,556
Income before taxes on income	(709)	101,801	--	101,092
Provisions for taxes on income	(264)	38,023	--	37,759
Equity in subsidiaries' earnings, net	63,778	--	(63,778)	--
Net income	$ 63,333	$ 63,778	$ (63,778)	$ 63,333

Quarter to Date July 28, 2000	DOLLAR GENERAL CORPORATION	GUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTAL
STATEMENTS OF INCOME DATA:				
Net sales	$ 32,951	$ 1,017,418	$ (32,951)	$ 1,017,418
Cost of goods sold	--	733,368	--	733,368
Gross profit	32,951	284,050	(32,951)	284,050
Selling, general and administrative	25,372	234,567	(32,951)	226,988
Operating profit	7,579	49,483	--	57,062
Interest expense	6,358	6,374	--	12,732
Income before taxes on income	1,221	43,109	--	44,330
Provisions for taxes on income	456	16,088	--	16,544
Equity in subsidiaries' earnings, net	27,021	--	(27,021)	--
Net income	$ 27,786	$ 27,021	$ (27,021)	$ 27,786

Year to Date July 28, 2000	DOLLAR GENERAL CORPORATION	GUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTAL
STATEMENTS OF INCOME DATA:				
Net sales	$ 74,772	$ 2,014,497	$ (74,772)	$ 2,014,497
Cost of goods sold	--	1,461,040	--	1,461,040

Gross profit	74,772	553,457	(74,772)	553,457
Selling, general and administrative	53,388	461,713	(74,772)	440,329
Operating profit	21,384	91,744	--	113,128
Interest expense	9,200	12,795	--	21,995
Income before taxes on income	12,184	78,949	--	91,133
Provisions for taxes on income	4,547	29,465	--	34,012
Equity in subsidiaries' earnings, net	49,484	--	(49,484)	--
Net income	$ 57,121	$ 49,484	$ (49,484)	$ 57,121

	For the 26 weeks ended August 3, 2001			
	DOLLAR GENERAL CORPORATION	GUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTAL
STATEMENTS OF CASH FLOWS DATA:				
Cash flows from operating activities:				
Net income	$ 63,333	$ 63,777	$ (63,777)	$ 63,333
Adjustments to reconcile net income to net cash provided by / (used in) operating activities:				
Depreciation and amortization	7,040	53,940	--	60,980
Deferred income taxes	(93)	(2,534)	--	(2,627)
Tax benefits from stock options exercises	4,657	(1)	--	4,656
Change in operating assets and liabilities:				
Merchandise inventories	--	(84,621)	--	(84,621)
Other current assets	(6,777)	18,671	(12,501)	(607)
Accounts payable	(3,073)	(11,906)	12,501	(2,478)
Accrued expenses and other	7,598	(9,338)	--	(1,740)
Income taxes	467	(17,913)	--	(17,446)
Other	(58,110)	(15,298)	63,777	(9,631)
Net cash provided by / (used in) operating activities	15,042	(5,223)	--	9,819
Cash flows from investing activities:				
Purchases of property and equipment	(9,893)	(64,049)	--	(73,942)
Proceeds from sale of property and equipment	15	129	--	144
Issuance of long-term notes receivable	(77,687)	--	77,687	--
Other	2,049	--	(2,049)	--
Net cash used in investing activities	(85,516)	(63,920)	75,638	(73,798)
Cash flows from financing activities:				
Issuance of long-term obligations	--	77,687	(77,687)	--
Repayments of long-term obligations	(616)	(5,407)	--	(6,023)
Payment of cash dividends	(21,268)	--	--	(21,268)
Proceeds from exercise of stock options	10,623	--	--	10,623
Other	(33)	(2,049)	2,049	(33)
Net cash provided by / (used in) financing activities	(11,294)	70,231	(75,638)	(16,701)
Net increase / (decrease) in cash and cash equivalents	(81,768)	1,088	--	(80,680)
Cash and cash equivalents, beginning of year	120,643	41,667		162,310
Cash and cash equivalents, end of period	$ 38,875	$ 42,755	$ --	$ 81,630

	For the 26 weeks ended July 28, 2000			
	DOLLAR GENERAL CORPORATION	GUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTAL
STATEMENTS OF CASH FLOWS DATA:				
Cash flows from operating activities:				
Net income	$ 57,121	$ 49,484	$ (49,484)	$ 57,121
Adjustments to reconcile net income to net cash provided by / (used in) operating activities:				
Depreciation and amortization	6,577	49,024	--	55,601
Deferred income taxes	(94)	(9,755)	--	(9,849)
Tax benefits from stock options exercises	7,642	--	--	7,642
Change in operating assets and liabilities:				
Merchandise inventories	--	(68,845)	--	(68,845)
Other current assets	11,475	98,223	(104,365)	5,333
Accounts payable	(151,927)	(11,146)	103,006	(60,067)
Accrued expenses and other	4,764	(993)	--	3,771
Income taxes	256	(19,620)	--	(19,364)
Other	(53,202)	4,664	49,484	946
Net cash provided by / (used in) operating activities	(117,388)	91,036	(1,359)	(27,711)
Cash flows from investing activities:				
Purchases of property and equipment	(12,456)	(142,098)	1,359	(153,195)
Proceeds from sale of property and equipment	75	97,417	--	97,492
Issuance of long-term notes receivable	(74,772)	--	74,772	--
Contribution of capital	(482)	--	482	--
Net cash used in investing activities	(87,635)	(44,681)	76,613	(55,703)
Cash flows from financing activities:				
Issuance of short-term borrowings	181,992	--	--	181,992
Repayments of short-term borrowings	(160,000)	--	--	(160,000)
Issuance of long-term obligations	199,573	74,772	(74,772)	199,573
Repayments of long-term obligations	(612)	(103,691)	--	(104,303)
Payment of cash dividends	(18,984)	0	--	(18,984)
Proceeds from exercise of stock options	17,024	0	--	17,024
Repurchase of common stock, net	(65,549)	0	--	(65,549)
Issuance of common stock, net	-	482	(482)	--
Net cash provided by / (used in) financing activities	153,444	(28,437)	(75,254)	49,753
Net increase / (decrease) in cash and cash equivalents	(51,579)	17,918	--	(33,661)
Cash and cash equivalents, beginning of year	42,688	12,054	--	54,742
Cash and cash equivalents, end of period	$ (8,891)	$ 29,972	$ --	$ 21,081

7. Commitments and Contingencies

As disclosed in further detail in the Company's Form 10-K for fiscal year 2000, more than 20 purported class action lawsuits have been filed against the Company and certain current and former officers and directors of the Company, asserting claims under the federal securities laws relating to the restatement of the Company's financial statements. The Company has reached a settlement agreement with the purported class action plaintiffs, which is subject to confirmatory discovery, to approval of the Company's Board and to court approval, and the Company has recognized an expense of $162 million in the fourth quarter of 2000 in connection with such settlement. The Company expects to receive from its insurers approximately $4.5 million in respect of the class action settlement, which amount has not been accrued in the Company's financial statements.

In addition, six purported shareholder derivative lawsuits have been filed in Tennessee state court against certain current and former Company directors and officers and Deloitte & Touche LLP, the Company's former independent accountant, and two purported shareholder derivative lawsuits have been filed in the United States District Court for the Middle District of Tennessee, which lawsuits seek damages and other relief. The Company and the individual defendants have reached a settlement agreement with counsel to the lead plaintiffs in the lead Tennessee state shareholder derivative action, and the Company anticipates that pursuant to such agreement the other shareholder derivative actions, which have been stayed, will be dismissed with prejudice. Such agreement is subject to confirmatory discovery, to the final approval of the Company's Board of Directors, and to court approval. If the settlement agreement is approved, the Company expects that it will result in a net payment to the Company, after attorneys' fees payable to the plaintiffs' counsel, of approximately $24.8 million, which has not been accrued in the Company's financial statements.

These cases are at an early stage and the amount of potential loss, if any, should the settlement agreements not become effective cannot be reasonably estimated. An unfavorable outcome for the Company in these actions could have a material adverse impact on the Company's financial position and results of operations.

The Company has been notified that the Securities and Exchange Commission ("SEC") 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 SEC.

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

The following text contains references to years 2002, 2001, 2000 and 1999, which represent fiscal years ending or ended January 31, 2003, February 1, 2002, February 2, 2001 and January 28, 2000, respectively. This discussion and analysis should be read in conjunction with, and is qualified in its entirety by, the consolidated financial statements and the notes thereto.

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. The Company defines same stores as those opened before the beginning of the previous fiscal year which have remained open throughout the current period.

26 Weeks Ended August 3, 2001 and July 28, 2000

Net Sales. Net sales for the 26 weeks ended August 3, 2001 were $2.43 billion as compared against $2.01 billion during the comparable period in the prior year, an increase of 20.5%. The increase resulted primarily from 606 net new stores and a same store sales increase of 7.3%. The same store sales increase is calculated based on the comparable calendar weeks in the prior year. The Company attributes the increase in same store sales to a number of factors, including a stronger in-stock position versus the prior year, the continued acceptance by the consumer of the Company's consumable basics strategy, and increased seasonal sales due to a stronger presentation of seasonal products as a result of the store reset program undertaken in 2000. Net sales increases by division were as follows: highly consumables 29.3%, hardware and seasonal 26.0%, basic clothing 8.5%, and basic home products (3.0%).

Gross Profit. Gross profit during the current year period was $652.7 million, or 26.9% of sales, versus $553.5 million, or 27.5% of sales, during the comparable period in the prior year, an increase of 17.9%. The reduction in the margin rate as a percentage of sales was due principally to a 14 basis point increase in the shrink provision, an increase in store initiated markdowns, and the continued shift in the Company's sales to lower margin consumable basic items.

Selling, General and Administrative Expenses ("SG&A"). SG&A expenses during the current year period were $528.1 million, or 21.8% of sales, versus $440.3 million, or 21.9% of sales, during the comparable period in the prior year, an increase of 19.9%. The increase is attributable to a 12.8% increase in store count as compared to the prior year and to increases in store labor and utilities that were greater than the percentage increase in store count.

The Company recorded $9.0 million in expenses, primarily professional fees, in the current year period related to the restatement of certain previously released financial data. Excluding those expenses, SG&A would have been $519.1 million, or 21.4% of sales, an increase of 17.9% over the prior year.

Interest Expense. Interest expense was $23.6 million, or 0.9% of sales, in the current year period as compared to $22.0 million, or 1.1% of sales, in the prior year period.

Provision for Taxes on Income. The Company's effective tax rate was 37.4% in the current year period and 37.3% in the prior year period.

Net Income. Net income during the period was $63.3 million, or 2.6% of sales, versus $57.1 million, or 2.8% of sales, during the same period in the prior year, an increase of 10.9%. Diluted earnings per share in the period were $0.19 versus $0.17 in the prior year. Excluding $9.0 million in restatement-related expenses, current year earnings per share were $0.21.

Thirteen Weeks Ended August 3, 2001 and July 28, 2000

Net Sales. Net sales for the 13 weeks ended August 3, 2001 were $1.23 billion as compared against $1.02 billion during the 13 weeks ended July 28, 2000, an increase of 20.4%. The increase resulted primarily from 606 net new stores and a same store sales increase of 7.8%. The same store sales increase is calculated based on the comparable calendar weeks in the prior year. The Company attributes the increase in same store sales to a number of factors, including a stronger in-stock position versus the prior year, the continued acceptance by the consumer of the Company's consumable basics strategy, and increased seasonal sales due to a stronger presentation of seasonal products as a result of the store reset program undertaken in 2000. Net sales increases by division were as follows: highly consumables 26.5%; hardware and seasonal 29.3%; basic clothing 9.0%; and basic home products 0.1%.

Gross Profit. Gross profit during the current year period was $331.3 million, or 27.0% of sales, versus $284.1 million, or 27.9% of sales, during the comparable period in the prior year, an increase of 16.6%. The reduction in the margin rate as a percentage of sales was due to a number of factors, including an increase in store initiated markdowns, an increase in transportation expenses due in part to higher fuel costs, a 14 basis point increase in the shrink provision, and the continued shift in the Company's sales to lower margin consumable basic items.

Selling, General and Administrative Expenses. SG&A expenses during the current year period were $276.1 million, or 22.5% of sales, versus $227.0 million, or 22.3% of sales, during the comparable period in the prior year, an increase of 21.6%. The increase in SG&A is due principally to the increase in the number of open stores as compared to the prior year, and to $8.7 million in expenses, primarily professional fees, recorded in the current year period related to the restatement of certain previously released financial data. Excluding the restatement related expenses, SG&A would have been $267.4 million or 21.8% of sales, an increase of 17.8% over the comparable period during the prior year.

Interest Expense. Interest expense during the current year period was $12.0 million, or 1.0% of sales, versus $12.7 million, or 1.3% of sales, during the comparable period in the prior year, a decrease of 6.1%. The decrease in interest expense is due to lower interest rates and reduced capital spending in the current year period.

Provision for Taxes on Income. The Company's effective tax rate was 37.4% in the current year period and 37.3% in the prior year period.

Net Income. Net income during the current year period was $27.1 million, or 2.2% of sales, versus $27.8 million, or 2.7% of sales, during the comparable period in the prior year, a decrease of 2.5%. Earnings per share were $0.08 in the current year period and $0.08 in the prior year period. During the current year period, the Company recorded $8.7 million in restatement-related expenses. Excluding those expenses, earnings per share in the current year period were $0.10.

Liquidity and Capital Resources

Cash flows provided by or used in operating activities. Net cash provided by operating activities totaled $9.8 million during the first 26 weeks of 2001, as compared to a $27.7 million use of cash during the comparable period in the prior year. The primary source of cash in 2001 was the combination of net income and depreciation and amortization expenses, which together totaled $124.3 million during the current year period. The primary uses of cash in 2001 were an increase in inventories of $84.6 million and a decrease in the income tax payable of $17.4 million. The increase in inventories reflects the net addition of 328 stores and an increase in seasonal inventories. The decrease in the income tax payable reflects the payment of taxes in excess of amounts accrued in the same period.

The use of cash during the first 26 weeks of 2000 was due in part to an increase in merchandise inventories of $68.8 million reflecting the net addition of 428 stores. Additionally, the Company experienced a reduction in payables of $60.1 million resulting from the payment in 2000 of bills from the fourth quarter of 1999 on which the company took extended terms.

Cash flows provided by or used in investing activities. Net cash used in investing activities during the first 26 weeks of 2001 totaled $73.8 million, as compared to a $55.7 million use of cash during the comparable period in the prior year. The $73.8 million spent in the current year consisted primarily of $26.6 million for new stores and relocations and $34.9 million for various store-related fixtures. The $55.7 million spent in the prior year is a net number that includes $97.5 million in proceeds from sale-leaseback transactions on two of the Company's distribution centers. Significant capital expenditure activity in 2000 consisted in part of $28.9 million for new stores and relocations subject to lease agreements, $22.6 million in construction costs relating to company owned stores and $37.7 million for distribution center-related projects including construction costs associated with the Company's new distribution centers in Zanesville, Ohio and Alachua, Florida.

Cash flows provided by or used in financing activities. Net cash used in financing activities during the first 26 weeks of 2001 was $16.7 million. Financing activities during the comparable period in the prior year were a source of funds of $49.8 million. Cash provided by financing activities in the prior year reflected the $200 million of notes described below offset by the payment of cash dividends, the repurchase of common stock, and the repayment of long-term obligations related primarily to two of the Company's distribution centers. The Company believes that seasonal working capital requirements will continue to be met through cash flow provided by operations supplemented by various short-term borrowing arrangements.

Total debt (including current maturities and short-term borrowings) was $743.4 million at August 3, 2001 and $729.8 million at February 2, 2001.

The Company has $200 million (principal amount) of 8 5/8% unsecured notes due June 15, 2010. The notes pay interest 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.

Forward-Looking Statements

This discussion and analysis contains historical and forward-looking information. The forward-looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. 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 as a result of certain risks and uncertainties. These risks include, but are not limited to, those set forth under Item 7 in the Company's Annual Report on Form 10-K for the fiscal year ended February 2, 2001.

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 2, 2001.

Part II - Other Information

Item 1. Legal Proceedings

Restatement-Related Proceedings

Following the April 30, 2001 announcement discussed above, more than 20 purported class action lawsuits were filed against the Company and certain current and former officers and directors of the Company, asserting claims under the federal securities laws. These lawsuits have been consolidated into a single action pending in the United States District Court for the Middle District of Tennessee. On July 17, 2001, the court entered an order appointing the Florida State Board of Administration and the Teachers' Retirement System of Louisiana as lead plaintiffs and the law firms of Entwistle & Cappucci LLP, Milberg Weiss Bershad Hynes & Lerach LLP and Grant & Eisenhofer, P.A. as co-lead counsel. On January 3, 2002, the lead plaintiffs filed an amended consolidated class action complaint purporting to name as plaintiffs a class of persons who held or purchased the Company's securities and related derivative securities between May 12, 1998 and September 21, 2001. Among other things, plaintiffs have alleged that the Company and certain of its current and former officers and directors made misrepresentations concerning the Company's financial results in the Company's filings with the Securities and Exchange Commission and in various press releases and other public statements. The plaintiffs seek damages with interest, costs and such other relief as the court deems proper.

The Company has reached a settlement agreement with the purported class action plaintiffs, pursuant to which the Company has agreed to pay $140 million to such plaintiffs in settlement for their claims, and to implement certain enhancements to its corporate governance and internal control procedures. Such agreement is subject to confirmatory discovery, to the final approval of the Company's Board of Directors, and to court approval. Following the completion of confirmatory discovery, plaintiffs have the right under the settlement agreement to amend their complaint further to increase the size of the class, and to negotiate with the Company for additional damages, the aggregate amount of all damages to be paid in settlement of plaintiffs' claims not to exceed $162 million. The Company expects that following the completion of such confirmatory discovery, the plaintiffs will amend their complaint and seek aggregate damages of $162 million, and the Company has accordingly recognized an expense of $162 million in the fourth quarter of 2000. The Company expects to receive from its insurers approximately $4.5 million in respect of the class action settlement, which amount has not been accrued in the Company's financial statements.

In addition, six purported shareholder derivative lawsuits have been 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 is named as a nominal defendant in the actions, which seek restitution and/or compensatory and punitive damages with interest, equitable and/or injunctive relief, costs and such further relief as the court deems 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 and the law firms of Branstetter, Kilgore Stranch & Jennings and Stanley, Mandel & Iola as lead counsel. In the same order, the court stayed the remaining cases pending completion of the lead case. Among other things, the plaintiffs allege 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. During August and September 2001, the Company moved to dismiss all six cases for failure to make a pre-suit demand on the Board of Directors and, in the alternative, requested that the court stay the actions pending the completion of an investigation into the allegations in the complaints by the Shareholder Derivative Claim Review Committee of the Company's Board of Directors. The lead plaintiffs filed an opposition to this motion on October 2, 2001. A hearing on the motion has not yet been scheduled.

Two purported shareholder derivative lawsuits also have been filed 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 is named as a nominal defendant in these actions, which seek declaratory relief, compensatory and punitive damages, costs and such further relief as the court deems proper. By motion filed on September 28, 2001, the Company requested that the federal court abstain from exercising jurisdiction over the purported shareholder derivative actions in deference to the pending state court actions. By agreement of the parties and court order dated December 3, 2001, the case has been stayed until June 3, 2002.

The Company and the individual defendants have reached a settlement agreement with lead counsel to the plaintiffs in the lead Tennessee state shareholder derivative action. The agreement includes 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. Pursuant to the terms of such agreement, the Company anticipates that all of the stayed cases, including the federal derivative cases described above, will be dismissed with prejudice by the courts in which they are pending. Such agreement is subject to confirmatory discovery, to the final approval of the Company's Board of Directors, and to court approval. If the settlement agreement is approved, the Company expects that it will result in a net payment to the Company, after attorneys' fees payable to the plaintiffs' counsel, of approximately $24.8 million, which has not been accrued in the Company's financial statements.

The Company believes that it has substantial defenses to the purported class action and the derivative lawsuits and intends to assert these defenses in the courts in which the actions are pending in the event the settlement agreements referred to above do not successfully resolve these matters. These cases are at an early stage and the amount of potential loss, if any, should the settlement agreements not become effective cannot be reasonably estimated. An unfavorable outcome for the Company in these actions could have a material adverse impact on the Company's financial position and results of operations.

The Company has been notified that the Securities and Exchange Commission ("SEC") 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 SEC.

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) Not Applicable

(b) Reports on Form 8-K:

(1) A Current Report on Form 8-K, dated May 11, 2001, was filed with the SEC in connection with the announcement of April sales results and sales results for the first quarter ending May 4, 2001.

(2) A Current Report on Form 8-K, dated June 8, 2001, was filed with the SEC in connection with the announcement of May sales results.

(3) A Current Report on Form 8-K, dated July 13, 2001, was filed with the SEC in connection with the announcement of June sales results.

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

January 14, 2002