

DOLLAR GENERAL CORP

FORM 10-Q (Quarterly Report)

Filed 06/04/12 for the Period Ending 05/04/12

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

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended May 4, 2012

Commission File Number: 001-11421

DOLLAR GENERAL CORPORATION

(Exact name of Registrant as specified in its charter)

TENNESSEE

(State or other jurisdiction of
incorporation or organization)

61-0502302

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

**100 MISSION RIDGE
GOODLETTSVILLE, TN 37072**

(Address of principal executive offices, zip code)

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

The registrant had 332,326,972 shares of common stock outstanding on May 31, 2012.

PART I—FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

DOLLAR GENERAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands)

	May 4, 2012	February 3, 2012
	(Unaudited)	(see Note 1)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 132,530	\$ 126,126
Merchandise inventories	2,000,864	2,009,206
Income taxes receivable	5,210	—
Prepaid expenses and other current assets	135,131	139,742
Total current assets	<u>2,273,735</u>	<u>2,275,074</u>
Net property and equipment	1,878,172	1,794,960
Goodwill	4,338,589	4,338,589
Other intangible assets, net	1,231,866	1,235,954
Other assets, net	47,846	43,943
Total assets	<u>\$ 9,770,208</u>	<u>\$ 9,688,520</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term obligations	\$ 459	\$ 590
Accounts payable	985,924	1,064,087
Accrued expenses and other	360,349	397,075
Income taxes payable	50,355	44,428
Deferred income taxes	14,166	3,722
Total current liabilities	<u>1,411,253</u>	<u>1,509,902</u>
Long-term obligations	2,880,920	2,617,891
Deferred income taxes	649,532	656,996
Other liabilities	231,427	229,149
Commitments and contingencies		
Redeemable common stock	<u>5,644</u>	<u>6,087</u>
Shareholders' equity:		
Preferred stock	—	—
Common stock	290,782	295,828
Additional paid-in capital	2,967,014	2,960,940
Retained earnings	1,336,298	1,416,918
Accumulated other comprehensive loss	(2,662)	(5,191)
Total shareholders' equity	<u>4,591,432</u>	<u>4,668,495</u>
Total liabilities and shareholders' equity	<u>\$ 9,770,208</u>	<u>\$ 9,688,520</u>

See notes to condensed consolidated financial statements.

DOLLAR GENERAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(In thousands, except per share amounts)

	For the 13 weeks ended	
	May 4, 2012	April 29, 2011
Net sales	\$ 3,901,205	\$ 3,451,697
Cost of goods sold	2,672,949	2,364,300
Gross profit	1,228,256	1,087,397
Selling, general and administrative expenses	843,932	765,779
Operating profit	384,324	321,618
Interest expense	37,074	65,572
Other (income) expense	1,671	2,272
Income before income taxes	345,579	253,774
Income tax expense	132,164	96,805
Net income	<u>\$ 213,415</u>	<u>\$ 156,969</u>
Earnings per share:		
Basic	\$ 0.64	\$ 0.46
Diluted	\$ 0.63	\$ 0.45
Weighted average shares:		
Basic	336,080	341,522
Diluted	339,490	345,393

See notes to condensed consolidated financial statements.

DOLLAR GENERAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)
(In thousands)

	<u>For the 13 weeks ended</u>	
	<u>May 4, 2012</u>	<u>April 29, 2011</u>
Comprehensive income	\$ 215,944	\$ 161,669

See notes to condensed consolidated financial statements.

DOLLAR GENERAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)
(In thousands)

	For the 13 weeks ended	
	May 4, 2012	April 29, 2011
<i>Cash flows from operating activities:</i>		
Net income	\$ 213,415	\$ 156,969
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	72,271	67,486
Deferred income taxes	(1,119)	7,393
Tax benefit of stock options	(18,589)	(434)
Loss on debt retirement, net	1,629	2,167
Noncash share-based compensation	4,759	3,519
Other noncash gains and losses	2,828	4,574
Change in operating assets and liabilities:		
Merchandise inventories	6,499	(5,275)
Prepaid expenses and other current assets	5,370	(32,369)
Accounts payable	(82,227)	(25,922)
Accrued expenses and other liabilities	(30,218)	38,810
Income taxes	19,306	6,671
Other	(1,285)	(17)
Net cash provided by operating activities	192,639	223,572
<i>Cash flows from investing activities:</i>		
Purchases of property and equipment	(145,857)	(91,958)
Proceeds from sales of property and equipment	119	367
Net cash used in investing activities	(145,738)	(91,591)
<i>Cash flows from financing activities:</i>		
Repayments of long-term obligations	(202)	(27,151)
Borrowings under revolving credit facility	584,900	—
Repayments of borrowings under revolving credit facility	(321,800)	—
Debt issue costs	(7,663)	—
Repurchase of common stock from principal shareholder	(300,000)	—
Equity transactions with employees, net of taxes paid	(14,321)	(247)
Tax benefit of stock options	18,589	434
Net cash used in financing activities	(40,497)	(26,964)
Net increase in cash and cash equivalents	6,404	105,017
Cash and cash equivalents, beginning of period	126,126	497,446
Cash and cash equivalents, end of period	\$ 132,530	\$ 602,463
<i>Supplemental schedule of non-cash investing and financing activities:</i>		
Purchases of property and equipment awaiting processing for payment, included in Accounts payable	\$ 39,726	\$ 35,649

See notes to condensed consolidated financial statements.

DOLLAR GENERAL CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(Unaudited)

1. Basis of presentation

The accompanying unaudited condensed consolidated financial statements of Dollar General Corporation and its subsidiaries (the "Company") have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information and are presented in accordance with the requirements of Form 10-Q and Rule 10-01 of Regulation S-X. Such financial statements consequently do not include all of the disclosures normally required by U.S. GAAP or those normally made in the Company's Annual Report on Form 10-K, including the condensed consolidated balance sheet as of February 3, 2012 which has been derived from the audited consolidated financial statements at that date. Accordingly, readers of this Quarterly Report on Form 10-Q should refer to the Company's Annual Report on Form 10-K for the fiscal year ended February 3, 2012 for additional information.

The Company's fiscal year ends on the Friday closest to January 31. Unless the context requires otherwise, references to years contained herein pertain to the Company's fiscal year. The Company's 2012 fiscal year will be a 52-week accounting period ending on February 1, 2013 and the 2011 fiscal year was a 53-week accounting period that ended on February 3, 2012.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the Company's customary accounting practices. In management's opinion, all adjustments (which are of a normal recurring nature) necessary for a fair presentation of the consolidated financial position as of May 4, 2012 and results of operations for the 13-week accounting periods ended May 4, 2012 and April 29, 2011 have been made.

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

The Company uses the last-in, first-out (LIFO) method of valuing inventory. An actual valuation of inventory under the LIFO method is made at the end of each year based on the inventory levels and costs at that time. Accordingly, interim LIFO calculations are based on management's estimates of expected year-end inventory levels, sales for the year and the expected rate of inflation/deflation for the year. The interim LIFO calculations are subject to adjustment in the final year-end LIFO inventory valuation. The Company recorded LIFO provisions of \$1.6 million and \$3.6 million in the 13-week periods ended May 4, 2012 and April 29, 2011, respectively. In addition, ongoing estimates of inventory shrinkage and initial markups and markdowns are included in the interim cost of goods sold calculation. Because the Company's business is moderately seasonal, the results for interim periods are not necessarily indicative of the results to be expected for the entire year.

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

2. Common stock transactions

On November 30, 2011, the Company's Board of Directors authorized a \$500 million common stock repurchase program. Under the program, shares of the Company's common stock may be repurchased from time to time in open market transactions or in privately negotiated purchases, which could include repurchases from Buck Holdings, L.P. (which is controlled by affiliates of Kohlberg Kravis Roberts & Co., L.P. ("KKR")) and Goldman Sachs & Co.) or other related parties if appropriate. The timing and actual number of shares purchased will depend on a variety of factors, such as price, market conditions and other factors. Repurchases under the program may be funded from available cash or borrowings under the Company's revolving credit facility. The repurchase authorization has no expiration date. In connection with the repurchase program, on April 2, 2012, the Company repurchased 6,817,311 shares from Buck Holdings, L.P. for \$300 million. As of May 4, 2012, the remaining authorization under the repurchase program is \$15 million.

3. Earnings per share

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

	13 Weeks Ended May 4, 2012			13 Weeks Ended April 29, 2011		
	Net Income	Shares	Per Share Amount	Net Income	Shares	Per Share Amount
Basic earnings per share	\$ 213,415	336,080	\$ 0.64	\$ 156,969	341,522	\$ 0.46
Effect of dilutive share-based awards		3,410			3,871	
Diluted earnings per share	\$ 213,415	339,490	\$ 0.63	\$ 156,969	345,393	\$ 0.45

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

Options to purchase shares of common stock that were outstanding at the end of the respective periods, but were not included in the computation of diluted earnings per share because the effect of exercising such options would be antidilutive, were 0.5 million and 0.4 million in the 2012 and 2011 periods, respectively.

4. Income taxes

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

Income tax reserves are determined using the methodology established by accounting standards for income taxes which require companies to assess each income tax position taken

using a two-step approach. A determination is first made as to whether it is more likely than not that the position will be sustained, based upon the technical merits, upon examination by the taxing authorities. If the tax position is expected to meet the more likely than not criteria, the benefit recorded for the tax position equals the largest amount that is greater than 50% likely to be realized upon ultimate settlement of the respective tax position.

The Internal Revenue Service (“IRS”) is examining the Company’s federal income tax returns for fiscal years 2006, 2007, and 2008. The 2005 and earlier years are not open for examination. The 2009, 2010, and 2011 fiscal years, while not currently under examination, are subject to examination at the discretion of the IRS. The Company has various state income tax examinations that are currently in progress. Generally, the Company’s tax years ended in 2007 and later remain open for examination by the various state taxing authorities.

As of May 4, 2012, the total reserves for uncertain tax benefits, interest expense related to income taxes and potential income tax penalties were \$37.9 million, \$1.5 million and \$0.3 million, respectively, for a total of \$39.7 million. Of this amount, \$0.3 million and \$38.1 million are reflected in current liabilities as Accrued expenses and other and in noncurrent Other liabilities, respectively, in the condensed consolidated balance sheet with the remaining \$1.3 million reducing deferred tax assets related to net operating loss carry forwards.

The Company believes it is reasonably possible that the reserve for uncertain tax positions may be reduced by approximately \$26.2 million in the coming twelve months principally as a result of the settlement of currently ongoing income tax examinations. As of May 4, 2012, approximately \$37.9 million of the reserve for uncertain tax positions would impact the Company’s effective income tax rate if the Company were to recognize the tax benefit for these positions.

The effective income tax rate for the 13-week period ended May 4, 2012 was 38.2% compared to a rate of 38.1% for the 13-week period ended April 29, 2011. Increases in the effective tax rate associated with the expiration of various federal jobs credits for workers hired after December 31, 2011 (primarily the Work Opportunity Tax Credit) as well as the expiration of the Hire Act’s Retention Credit were offset by decreases associated with the adjustment of accruals related to the IRS examination of the Company’s federal income tax returns for fiscal years 2006 through 2008 and the reversal of state income tax reserves due to an audit settlement.

5. Current and long-term obligations

On March 15, 2012, the Company’s senior secured asset based revolving credit facility was amended and restated (the “ABL Facility”). The maturity date was extended to July 6, 2014 and the total commitment was increased to \$1.2 billion (of which up to \$350.0 million is available for letters of credit), subject to borrowing base availability. At May 4, 2012, the applicable margin for borrowings under the ABL Facility was 1.50% for LIBOR borrowings and 0.50% for base-rate borrowings, and the commitment fee for any unutilized commitments was 0.375%. The applicable margins for borrowings and the

commitment fees under the ABL Facility are subject to adjustment each quarter, based on average daily excess availability under the ABL Facility. The Company also must pay customary letter of credit fees. The Company capitalized \$2.6 million of debt issue costs, and incurred a pretax loss of \$1.6 million for the write off of a portion of existing debt issue costs associated with the amendment, which is reflected in Other (income) expense in the Company's condensed consolidated statement of income for the 13-week period ended May 4, 2012.

On March 30, 2012, the Company's \$1.964 billion senior secured term loan facility was amended and restated (the "Term Loan Facility"). Pursuant to the amendment, the maturity date for \$879.7 million of the Term Loan Facility was extended from July 6, 2014 to July 6, 2017. The applicable margin for borrowings under the Term Loan Facility remains unchanged. The Company capitalized \$5.2 million of debt issue costs associated with the amendment.

On April 29, 2011, the Company repurchased in the open market \$25.0 million aggregate principal amount of Senior Notes at a price of 107.0% plus accrued and unpaid interest, funded with cash on hand. The pretax loss on this transaction of \$2.2 million is reflected in Other (income) expense in the Company's condensed consolidated statement of income for the 13-week period ended April 29, 2011.

6. Assets and liabilities measured at fair value

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

In connection with accounting standards for fair value measurement, the Company has made an accounting policy election to measure the credit risk of its derivative financial instruments that are subject to master netting agreements on a net basis by counterparty portfolio. The Company has determined that the majority of the inputs used to value its derivative financial instruments using the income approach fall within Level 2 of the fair value hierarchy. However, the credit valuation adjustments associated with the Company's derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by itself and its counterparties. As of May 4, 2012, the Company has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and has determined that the credit valuation adjustments are not significant to the overall valuation of its derivatives. As a result, the Company has classified its derivative valuations, as discussed in detail in Note 7, in Level 2 of the fair value hierarchy. The Company's long-term obligations classified in Level 2 of the fair value hierarchy are valued at cost. The Company does not have any fair value measurements categorized within Level 3 as of May 4, 2012.

(in thousands)	Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at May 4, 2012
Assets:				
Trading securities (a)	\$ 6,675	\$ —	\$ —	\$ 6,675
Liabilities:				
Long-term obligations (b)	2,904,606	19,382	—	2,923,988
Derivative financial instruments (c)	—	6,764	—	6,764
Deferred compensation (d)	20,919	—	—	20,919

- (a) Reflected at fair value in the condensed consolidated balance sheet as Prepaid expenses and other current assets of \$1,637 and Other assets, net of \$5,038.
- (b) Reflected at book value in the condensed consolidated balance sheet as Current portion of long-term obligations of \$459 and Long-term obligations of \$2,880,920.
- (c) Reflected in the condensed consolidated balance sheet as Accrued expenses and other current liabilities.
- (d) Reflected at fair value in the condensed consolidated balance sheet as Accrued expenses and other current liabilities of \$1,679 and non-current Other liabilities of \$19,240.

7. Derivatives and hedging activities

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

Risk management objective of using derivatives

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

derivative financial instruments are used to manage differences in the amount, timing, and duration of the Company's known or expected cash receipts and its known or expected cash payments principally related to the Company's borrowings.

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

Cash flow hedges of interest rate risk

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

The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in Accumulated other comprehensive income (loss) (also referred to as "OCI") and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. During the 13-week periods ended May 4, 2012 and April 29, 2011, such derivatives were used to hedge the variable cash flows associated with existing variable-rate debt. The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings.

As of May 4, 2012, the Company had three interest rate swaps with a combined notional value of \$506.7 million that were designated as cash flow hedges of interest rate risk. Amounts reported in Accumulated other comprehensive loss related to derivatives will be reclassified to interest expense as interest payments are made on the Company's variable-rate debt. During the next 52-week period, the Company estimates that an additional \$4.4 million will be reclassified as an increase to interest expense for all of its interest rate swaps.

Non-designated hedges of commodity risk

Derivatives not designated as hedges are not speculative and are used to manage the Company's exposure to commodity price risk but do not meet strict hedge accounting requirements. Changes in the fair value of derivatives not designated in hedging relationships are recorded directly in earnings. As of May 4, 2012, and April 29, 2011, the Company had no such non-designated hedges.

The tables below present the fair value of the Company's derivative financial instruments as well as their classification on the condensed consolidated balance sheets as of May 4, 2012 and February 3, 2012:

(in thousands)	May 4, 2012	February 3, 2012
Derivatives Designated as Hedging Instruments		
Interest rate swaps classified in current liabilities as Accrued expenses and other	\$ 6,764	\$ 10,820

The tables below present the pre-tax effect of the Company's derivative financial instruments on the condensed consolidated statements of comprehensive income for the 13-week periods ended May 4, 2012 and April 29, 2011:

(in thousands)	13 Weeks Ended	
	May 4, 2012	April 29, 2011
Derivatives in Cash Flow Hedging Relationships		
Loss related to effective portion of derivative recognized in OCI	\$ 36	\$ 1,603
Loss related to effective portion of derivative reclassified from Accumulated OCI to Interest expense	\$ 4,185	\$ 9,319
Loss related to ineffective portion of derivative recognized in Other (income) expense	\$ 42	\$ 106

Credit-risk-related contingent features

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

As of May 4, 2012, the fair value of interest rate swaps in a net liability position, which includes accrued interest but excludes any adjustment for nonperformance risk related to these agreements, was \$7.0 million. If the Company had breached any of these provisions at May 4, 2012, it could have been required to post full collateral or settle its obligations under the agreements at an estimated termination value of \$7.0 million. As of May 4, 2012, the Company had not breached any of these provisions or posted any collateral related to these agreements.

8. Commitments and contingencies

Legal proceedings

On August 7, 2006, a lawsuit entitled *Cynthia Richter, et al. v. Dolgenercorp, Inc., et al.* was filed in the United States District Court for the Northern District of Alabama (Case No. 7:06-cv-01537-LSC) ("Richter") in which the plaintiff alleges that she and other current and former Dollar General store managers were improperly classified as exempt executive employees under the Fair Labor Standards Act ("FLSA") and seeks to recover overtime pay, liquidated damages, and attorneys' fees and costs. On August 15, 2006, the *Richter* plaintiff filed a motion in which she asked the court to certify a nationwide class of current and former store

managers. The Company opposed the plaintiff's motion. On March 23, 2007, the court conditionally certified a nationwide class. On December 2, 2009, notice was mailed to over 28,000 current or former Dollar General store managers. Approximately 3,950 individuals have opted into the lawsuit, approximately 800 of whom have been dismissed for various reasons, including failure to cooperate in discovery.

Except as to certain limited fact discovery, the discovery period has closed. On April 2, 2012, the Company filed its decertification motion. Plaintiff's response to that motion was filed on May 9, 2012. No deadline currently exists for potentially dispositive motions, and the Court has not set a trial date.

The Company believes that its store managers are and have been properly classified as exempt employees under the FLSA and that the *Richter* action is not appropriate for collective action treatment. The Company has obtained summary judgment in some, although not all, of its pending individual or single-plaintiff store manager exemption cases in which it has filed such a motion.

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

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

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

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

The parties agreed to mediate this action, and the court stayed the action pending the results of the mediation. The mediation occurred in March and April, 2011, at which time the Company reached an agreement in principle to settle the matter on behalf of the entire putative class. The proposed settlement, which has received preliminary approval from the court, provides for both monetary and equitable relief. Under the preliminarily approved terms, \$15.5 million will be paid into a fund for the class members that will be apportioned and paid out to individual members (less any additional attorneys' fees or litigation costs approved by the court), upon submission of a valid claim. An additional \$3.25 million will be paid for plaintiffs' legal fees and costs. Of the total \$18.75 million, the Company's Employment Practices Liability Insurance ("EPLI") carrier paid approximately \$15.9 million in the first quarter of 2012 to a third party claims administrator to disburse the funds, per the settlement terms, to claimants and counsel pending final approval from the court, which represented the balance remaining of the \$20 million EPLI policy covering the claims. The Company paid approximately \$2.8 million to the third party claims administrator. In addition, the Company agreed to make, and, effective April 1, 2012, has made, certain adjustments to its pay setting policies and procedures for new store managers. A hearing regarding final approval of the settlement is scheduled for July 23, 2012. Because it deemed settlement probable and estimable, the Company accrued for the net settlement as well as for certain additional anticipated fees related thereto during the first quarter of 2011, and concurrently recorded a receivable of approximately \$15.9 million from its EPLI carrier. Due to the payments described above, the accrual and receivable were each relieved during the first quarter of 2012.

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

On April 9, 2012, the Company was served with a lawsuit filed in the United States District Court for the Eastern District of Virginia entitled *Jonathan Marcum v. DolgenCorp. Inc.* (Civil Action No. 3:12-cv-00108-JRS) in which the plaintiff, whose conditional offer of employment was rescinded, alleges defamation and that certain of the Company's background check procedures violate the Fair Credit Reporting Act ("FCRA"). According to the complaint, the plaintiff seeks to represent a putative class of applicants in connection with his FCRA claims. The Company's response to the complaint is due to be filed on June 15, 2012.

At this time, it is not possible to predict whether the court ultimately will permit the action to proceed as a class under the FCRA. Although the Company intends to vigorously defend the action, no assurances can be given that it will be successful in the defense on the merits or otherwise. At this stage in the proceedings, the Company cannot estimate either the size of any potential class or the value of the claims raised by the plaintiff. For these reasons, the Company is unable to estimate any potential loss or range of loss in such a scenario; however, if the Company is not successful in defending this action, its resolution could have a material adverse effect on the Company's financial statements as a whole.

In September 2011, the Chicago Regional Office of the United States Equal Employment Opportunity Commission ("EEOC" or "Commission") notified the Company of a cause finding related to the Company's criminal background check policy. The cause finding alleges that Dollar General's criminal background check policy, which excludes from employment individuals with certain criminal convictions for specified periods, has a disparate impact on African-American candidates and employees in violation of Title VII of the Civil Rights Act of 1964, as amended.

The Company and the EEOC have been engaged in the statutorily required conciliation process. Although the Company will continue to conciliate in good faith, it believes that its criminal background check process is both lawful and necessary to a safe environment for its employees and customers and the protection of its assets and shareholders' investments.

Based on the Commission's recent conciliation demands, the Company is not optimistic regarding the likelihood that the conciliation process will be successful. If it is not, litigation may ensue. The Company does not believe that this matter would be amenable to class or similar treatment; however, because at this time the Company cannot estimate or determine the form that any ultimate litigation would take, the size of any putative class or the damages or other recoveries that would be sought, it cannot estimate the potential exposure. If the matter were to proceed successfully as a class or similar action, it could have a material impact on the Company's financial statements as a whole.

On May 20, 2011, a lawsuit entitled *Winn-Dixie Stores, Inc., et al. v. Dolgencorp, LLC* was filed in the United States District Court for the Southern District of Florida (Case No. 9:11-cv-80601-DMM) ("Winn-Dixie") in which the plaintiffs allege that the sale of food and other items in approximately 55 of the Company's stores, each of which allegedly is or was at some time co-located in a shopping center with one of plaintiffs' stores, violates restrictive covenants that plaintiffs contend are binding on the occupants of the shopping centers. Plaintiffs seek damages and an injunction limiting the sale of food and other items in those stores. Although plaintiffs have not made a demand for any specific amount of damages at this point in the proceeding, documents prepared and produced by plaintiffs during discovery suggest that plaintiffs seek as much as \$47 million although the court limited their ability to prove such damages. The Company has vigorously defended the *Winn-Dixie* matter and views that sum as wholly without basis and unsupported by the law and the facts. The various leases involved in the matter are unique in their terms and/or the factual circumstances surrounding them, and, in some cases, the stores named by plaintiffs are not now and have never been co-located with plaintiffs' stores. The court granted the Company's motion challenging the admissibility of plaintiffs' damages expert, precluding the expert from testifying. The case was consolidated with similar cases against Big Lots and Dollar Tree, and a non-jury trial commenced on May 14, 2012 and presentation of evidence concluded on May 22, 2012. To date, no judgment has been issued. At this time, no assurances can be given that the Company will be successful in its defense of the action on the merits or otherwise. If the Company is not successful in defending the *Winn-Dixie* matter, the outcome could have a material adverse effect on the Company's financial statements as a whole.

In 2008, the Company terminated an interest rate swap as a result of the counterparty's declaration of bankruptcy and made a cash payment of \$7.6 million to settle the swap. On May 14, 2010, the Company received a demand from the counterparty for an additional payment of approximately \$19 million plus interest. In April 2011, the Company reached a settlement with the counterparty under which the Company paid an additional \$9.85 million in exchange for a full release. The Company accrued the settlement amount along with additional expected fees and costs related thereto in the first quarter of 2011. The settlement was finalized and the payment was made in May 2011.

From time to time, the Company is a party to various other legal actions involving claims incidental to the conduct of its business, including actions by employees, consumers, suppliers, government agencies, or others through private actions, class actions, administrative proceedings, regulatory actions or other litigation, including without limitation under federal and state employment laws and wage and hour laws. The Company believes, based upon information currently available, that such other litigation and claims, both individually and in the aggregate,

will be resolved without a material adverse effect on the Company's financial statements as a whole. However, litigation involves an element of uncertainty. Future developments could cause these actions or claims to have a material adverse effect on the Company's results of operations, cash flows, or financial position. In addition, certain of these lawsuits, if decided adversely to the Company or settled by the Company, may result in liability material to the Company's financial position or may negatively affect operating results if changes to the Company's business operation are required.

9. Related party transactions

Affiliates of KKR and Goldman, Sachs & Co. indirectly own a substantial portion of the Company's common stock. Two of KKR's members and a Managing Director of Goldman, Sachs & Co. serve on the Company's Board of Directors.

Affiliates of KKR and Goldman, Sachs & Co. (among other entities) are or may be lenders under the Company's Term Loan Facility and ABL Facility discussed in further detail in Note 5. The Company made interest payments of approximately \$16.1 million and \$21.9 million on the Term Loan Facility and \$1.0 million and zero on the ABL Facility during the 13-week periods ended May 4, 2012 and April 29, 2011, respectively.

Goldman, Sachs & Co. is a counterparty to an amortizing interest rate swap with a \$103.3 million notional amount as of May 4, 2012, entered into in connection with the Term Loan Facility. The Company paid Goldman, Sachs & Co. approximately \$1.3 million and \$7.3 million in the 13-week periods ended May 4, 2012 and April 29, 2011, respectively, pursuant to this swap.

Affiliates of KKR and Goldman, Sachs & Co. served as underwriters in connection with the secondary offering of the Company's common stock held by certain existing shareholders that was completed in April 2012. The Company did not sell shares of common stock, receive proceeds from such shareholders' sales of shares of common stock or pay any underwriting fees in connection with the secondary offering. Certain members of the Company's management exercised registration rights in connection with such offering.

The Company repurchased common stock held by Buck Holdings, L.P. (which is controlled by affiliates of KKR and Goldman Sachs & Co) during the first quarter of 2012 as further discussed in Note 2.

10. Segment reporting

The Company manages its business on the basis of one reportable segment. As of May 4, 2012, all of the Company's operations were located within the United States, with the exception of a Hong Kong subsidiary and a liaison office in India, the collective assets and revenues of which are not material. Net sales grouped by classes of similar products are presented below.

(in thousands)	13 Weeks Ended	
	May 4, 2012	April 29, 2011
Classes of similar products:		
Consumables	\$ 2,877,282	\$ 2,529,070
Seasonal	524,493	457,057
Home products	258,998	234,208
Apparel	240,432	231,362
Net sales	<u>\$ 3,901,205</u>	<u>\$ 3,451,697</u>

11. Subsequent event

In May 2012, the Company entered into interest rate swaps with a total notional amount of \$875.0 million in order to mitigate a portion of the variable rate interest exposure under the Term Loan Facility. These swaps have an effective date of May 31, 2012 and are scheduled to mature on May 29, 2015. The terms of the agreements resulted in the swap of one month LIBOR rates for a fixed interest rate, which is expected to result in the payment of an all-in fixed rate of 3.34% on the notional amount through the date of maturity.

12. Guarantor subsidiaries

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

May 4, 2012

	DOLLAR GENERAL CORPORATION	GUARANTOR SUBSIDIARIES	OTHER SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTAL
BALANCE SHEET:					
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 1,156	\$ 108,118	\$ 23,256	\$ —	\$ 132,530
Merchandise inventories	—	2,000,864	—	—	2,000,864
Income taxes receivable	—	5,210	—	—	5,210
Deferred income taxes	415	—	21,848	(22,263)	—
Prepaid expenses and other current assets	579,120	4,881,080	10,058	(5,335,127)	135,131
Total current assets	580,691	6,995,272	55,162	(5,357,390)	2,273,735
Net property and equipment	113,770	1,764,235	167	—	1,878,172
Goodwill	4,338,589	—	—	—	4,338,589
Other intangible assets, net	1,199,700	32,166	—	—	1,231,866
Deferred income taxes	—	—	50,136	(50,136)	—
Other assets, net	6,904,676	13,656	324,593	(7,195,079)	47,846
Total assets	\$ 13,137,426	\$ 8,805,329	\$ 430,058	\$ (12,602,605)	\$ 9,770,208
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities:					
Current portion of long-term obligations	\$ —	\$ 459	\$ —	\$ —	\$ 459
Accounts payable	4,831,858	1,423,354	51,904	(5,321,192)	985,924
Accrued expenses and other	56,163	255,641	62,480	(13,935)	360,349
Income taxes payable	21,425	—	28,930	—	50,355
Deferred income taxes	—	36,429	—	(22,263)	14,166
Total current liabilities	4,909,446	1,715,883	143,314	(5,357,390)	1,411,253
Long-term obligations	3,142,575	3,431,603	—	(3,693,258)	2,880,920
Deferred income taxes	435,666	264,002	—	(50,136)	649,532
Other liabilities	52,663	35,310	143,454	—	231,427
Redeemable common stock	5,644	—	—	—	5,644
Shareholders' equity:					
Preferred stock	—	—	—	—	—
Common stock	290,782	23,855	100	(23,955)	290,782
Additional paid-in capital	2,967,014	431,253	19,900	(451,153)	2,967,014
Retained earnings	1,336,298	2,903,423	123,290	(3,026,713)	1,336,298
Accumulated other comprehensive loss	(2,662)	—	—	—	(2,662)
Total shareholders' equity	4,591,432	3,358,531	143,290	(3,501,821)	4,591,432
Total liabilities and shareholders' equity	\$ 13,137,426	\$ 8,805,329	\$ 430,058	\$ (12,602,605)	\$ 9,770,208

February 3, 2012

	DOLLAR GENERAL CORPORATION	GUARANTOR SUBSIDIARIES	OTHER SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTAL
BALANCE SHEET:					
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 1,844	\$ 102,627	\$ 21,655	\$ —	\$ 126,126
Merchandise inventories	—	2,009,206	—	—	2,009,206
Deferred income taxes	10,078	—	21,729	(31,807)	—
Prepaid expenses and other current assets	551,457	4,685,263	5,768	(5,102,746)	139,742
Total current assets	563,379	6,797,096	49,152	(5,134,553)	2,275,074
Net property and equipment	113,661	1,681,072	227	—	1,794,960
Goodwill	4,338,589	—	—	—	4,338,589
Other intangible assets, net	1,199,200	36,754	—	—	1,235,954
Deferred income taxes	—	—	49,531	(49,531)	—
Other assets, net	6,575,574	13,260	323,736	(6,868,627)	43,943
Total assets	<u>\$ 12,790,403</u>	<u>\$ 8,528,182</u>	<u>\$ 422,646</u>	<u>\$ (12,052,711)</u>	<u>\$ 9,688,520</u>
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities:					
Current portion of long-term obligations	\$ —	\$ 590	\$ —	\$ —	\$ 590
Accounts payable	4,654,237	1,451,277	52,362	(5,093,789)	1,064,087
Accrued expenses and other	79,010	264,575	62,447	(8,957)	397,075
Income taxes payable	12,972	5,013	26,443	—	44,428
Deferred income taxes	—	35,529	—	(31,807)	3,722
Total current liabilities	4,746,219	1,756,984	141,252	(5,134,553)	1,509,902
Long-term obligations	2,879,475	3,340,075	—	(3,601,659)	2,617,891
Deferred income taxes	435,791	270,736	—	(49,531)	656,996
Other liabilities	54,336	33,156	141,657	—	229,149
Redeemable common stock	6,087	—	—	—	6,087
Shareholders' equity:					
Preferred stock	—	—	—	—	—
Common stock	295,828	23,855	100	(23,955)	295,828
Additional paid-in capital	2,960,940	431,253	19,900	(451,153)	2,960,940
Retained earnings	1,416,918	2,672,123	119,737	(2,791,860)	1,416,918
Accumulated other comprehensive loss	(5,191)	—	—	—	(5,191)
Total shareholders' equity	4,668,495	3,127,231	139,737	(3,266,968)	4,668,495
Total liabilities and shareholders' equity	<u>\$ 12,790,403</u>	<u>\$ 8,528,182</u>	<u>\$ 422,646</u>	<u>\$ (12,052,711)</u>	<u>\$ 9,688,520</u>

For the 13-weeks ended May 4, 2012

	DOLLAR GENERAL CORPORATION	GUARANTOR SUBSIDIARIES	OTHER SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTAL
STATEMENTS OF COMPREHENSIVE INCOME:					
Net sales	\$ 83,250	\$ 3,901,205	\$ 23,331	\$ (106,581)	\$ 3,901,205
Cost of goods sold	—	2,672,949	—	—	2,672,949
Gross profit	83,250	1,228,256	23,331	(106,581)	1,228,256
Selling, general and administrative expenses	75,682	851,948	22,883	(106,581)	843,932
Operating profit	7,568	376,308	448	—	384,324
Interest income	(9,951)	(8,576)	(5,002)	23,529	—
Interest expense	51,106	9,489	8	(23,529)	37,074
Other (income) expense	1,671	—	—	—	1,671
Income (loss) before income taxes	(35,258)	375,395	5,442	—	345,579
Income tax expense (benefit)	(13,820)	144,095	1,889	—	132,164
Equity in subsidiaries' earnings, net of taxes	234,853	—	—	(234,853)	—
Net income	\$ 213,415	\$ 231,300	\$ 3,553	\$ (234,853)	\$ 213,415
Comprehensive income	\$ 215,944	\$ 231,300	\$ 3,553	\$ (234,853)	\$ 215,944

For the 13-weeks ended April 29, 2011

	DOLLAR GENERAL CORPORATION	GUARANTOR SUBSIDIARIES	OTHER SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTAL
STATEMENTS OF COMPREHENSIVE INCOME:					
Net sales	\$ 87,517	\$ 3,451,697	\$ 18,814	\$ (106,331)	\$ 3,451,697
Cost of goods sold	—	2,364,300	—	—	2,364,300
Gross profit	87,517	1,087,397	18,814	(106,331)	1,087,397
Selling, general and administrative expenses	79,561	774,568	17,981	(106,331)	765,779
Operating profit	7,956	312,829	833	—	321,618
Interest income	(12,422)	(3,981)	(5,228)	21,631	—
Interest expense	74,746	12,451	6	(21,631)	65,572
Other (income) expense	2,272	—	—	—	2,272
Income (loss) before income taxes	(56,640)	304,359	6,055	—	253,774
Income tax expense (benefit)	(20,444)	115,046	2,203	—	96,805
Equity in subsidiaries' earnings, net of taxes	193,165	—	—	(193,165)	—
Net income	\$ 156,969	\$ 189,313	\$ 3,852	\$ (193,165)	\$ 156,969
Comprehensive income	\$ 161,669	\$ 189,313	\$ 3,852	\$ (193,165)	\$ 161,669

For the 13 weeks ended May 4, 2012

	DOLLAR GENERAL CORPORATION	GUARANTOR SUBSIDIARIES	OTHER SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTAL
STATEMENTS OF CASH FLOWS:					
<i>Cash flows from operating activities:</i>					
Net income	\$ 213,415	\$ 231,300	\$ 3,553	\$ (234,853)	\$ 213,415
Adjustments to reconcile net income to net cash provided by (used in) operating activities:					
Depreciation and amortization	7,520	64,685	66	—	72,271
Deferred income taxes	5,439	(5,834)	(724)	—	(1,119)
Tax benefit of stock options	(18,589)	—	—	—	(18,589)
Loss on debt retirement, net	1,629	—	—	—	1,629
Noncash share-based compensation	4,759	—	—	—	4,759
Other noncash gains and losses	109	2,719	—	—	2,828
Equity in subsidiaries' earnings, net	(234,853)	—	—	234,853	—
Change in operating assets and liabilities:					
Merchandise inventories	—	6,499	—	—	6,499
Prepaid expenses and other current assets	17,405	(13,025)	990	—	5,370
Accounts payable	(6,888)	(75,139)	(200)	—	(82,227)
Accrued expenses and other liabilities	(25,442)	(6,606)	1,830	—	(30,218)
Income taxes	27,042	(10,223)	2,487	—	19,306
Other	(645)	(569)	(71)	—	(1,285)
Net cash provided by (used in) operating activities	(9,099)	193,807	7,931	—	192,639
<i>Cash flows from investing activities:</i>					
Purchases of property and equipment	(3,831)	(142,020)	(6)	—	(145,857)
Proceeds from sales of property and equipment	12	107	—	—	119
Net cash used in investing activities	(3,819)	(141,913)	(6)	—	(145,738)
<i>Cash flows from financing activities:</i>					
Repayments of long-term obligations	—	(202)	—	—	(202)
Borrowings under revolving credit facility	584,900	—	—	—	584,900
Repayments of borrowings under revolving credit facility	(321,800)	—	—	—	(321,800)
Debt issue costs	(7,663)	—	—	—	(7,663)
Repurchase of common stock from principal shareholder	(300,000)	—	—	—	(300,000)
Equity transactions with employees, net of taxes paid	(14,321)	—	—	—	(14,321)
Tax benefit of stock options	18,589	—	—	—	18,589
Changes in intercompany note balances, net	52,525	(46,201)	(6,324)	—	—
Net cash provided by (used in) financing activities	12,230	(46,403)	(6,324)	—	(40,497)
Net increase (decrease) in cash and cash equivalents	(688)	5,491	1,601	—	6,404
Cash and cash equivalents, beginning of period	1,844	102,627	21,655	—	126,126
Cash and cash equivalents, end of period	\$ 1,156	\$ 108,118	\$ 23,256	\$ —	\$ 132,530

For the 13 weeks ended April 29, 2011

	DOLLAR GENERAL CORPORATION	GUARANTOR SUBSIDIARIES	OTHER SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTAL
STATEMENTS OF CASH FLOWS:					
<i>Cash flows from operating activities:</i>					
Net income	\$ 156,969	\$ 189,313	\$ 3,852	\$ (193,165)	\$ 156,969
Adjustments to reconcile net income to net cash provided by (used in) operating activities:					
Depreciation and amortization	8,162	59,289	35	—	67,486
Deferred income taxes	3,719	7,910	(4,236)	—	7,393
Tax benefit of stock options	(434)	—	—	—	(434)
Loss on debt retirement, net	2,167	—	—	—	2,167
Noncash share-based compensation	3,519	—	—	—	3,519
Other noncash gains and losses	251	4,323	—	—	4,574
Equity in subsidiaries' earnings, net	(193,165)	—	—	193,165	—
Change in operating assets and liabilities:					
Merchandise inventories	—	(5,275)	—	—	(5,275)
Prepaid expenses and other current assets	(16,331)	(16,741)	703	—	(32,369)
Accounts payable	14,019	(39,326)	(615)	—	(25,922)
Accrued expenses and other liabilities	31,836	5,680	1,294	—	38,810
Income taxes	12,960	(12,470)	6,181	—	6,671
Other	(328)	308	3	—	(17)
Net cash provided by (used in) operating activities	23,344	193,011	7,217	—	223,572
<i>Cash flows from investing activities:</i>					
Purchases of property and equipment	(9,973)	(81,966)	(19)	—	(91,958)
Proceeds from sales of property and equipment	—	367	—	—	367
Net cash used in investing activities	(9,973)	(81,599)	(19)	—	(91,591)
<i>Cash flows from financing activities:</i>					
Repayments of long-term obligations	(26,750)	(401)	—	—	(27,151)
Equity transactions with employees, net of taxes paid	(247)	—	—	—	(247)
Tax benefit of stock options	434	—	—	—	434
Changes in intercompany note balances, net	29,981	(29,832)	(149)	—	—
Net cash provided by (used in) financing activities	3,418	(30,233)	(149)	—	(26,964)
Net increase (decrease) in cash and cash equivalents	16,789	81,179	7,049	—	105,017
Cash and cash equivalents, beginning of period	111,545	364,404	21,497	—	497,446
Cash and cash equivalents, end of period	\$ 128,334	\$ 445,583	\$ 28,546	\$ —	\$ 602,463

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of
Dollar General Corporation:

We have reviewed the condensed consolidated balance sheet of Dollar General Corporation and subsidiaries (the Company) as of May 4, 2012, and the related condensed consolidated statements of income and comprehensive income for the thirteen-week periods ended May 4, 2012 and April 29, 2011, and the condensed consolidated statements of cash flows for the thirteen-week periods ended May 4, 2012 and April 29, 2011. These financial statements are the responsibility of the Company's management.

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

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

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Dollar General Corporation as of February 3, 2012 and the related consolidated statements of income, shareholders' equity, and cash flows for the fiscal year then ended (not presented herein) and in our report dated March 22, 2012, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of February 3, 2012, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ Ernst & Young LLP

June 4, 2012
Nashville, Tennessee

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

General

This discussion and analysis is based on, should be read with, and is qualified in its entirety by, the accompanying unaudited condensed consolidated financial statements and related notes, as well as our consolidated financial statements and the related Management's Discussion and Analysis of Financial Condition and Results of Operations as contained in our Annual Report on Form 10-K for the year ended February 3, 2012. It also should be read in conjunction with the disclosure under "Cautionary Disclosure Regarding Forward-Looking Statements" in this report.

Executive Overview

We are the largest discount retailer in the United States by number of stores, with 10,052 stores located in 40 states as of May 4, 2012, primarily in the southern, southwestern, midwestern and eastern United States. We offer a broad selection of merchandise, including consumable products such as food, paper and cleaning products, health and beauty products and pet supplies, and non-consumable products such as seasonal merchandise, home decor and domestics, and apparel. Our merchandise includes high quality national brands from leading manufacturers, as well as comparable quality private brand selections with prices at substantial discounts to national brands. We offer our customers these national brand and private brand products at everyday low prices (typically \$10 or less) in our convenient small-box (small store) locations.

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

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

Our first priority is driving productive sales growth by increasing shopper frequency and transaction amount and maximizing sales per square foot. In addition to our ongoing category management processes which help us determine the most productive merchandise offerings for

our customers, sales growth initiatives for 2012 include: improvement in merchandise in-stock levels; further emphasis on the \$1.00 price point; expansion of the number of coolers in approximately 1,200 existing stores; and the initial implementation of a merchandise allocation strategy based on store demographics. In addition, we expect our remodeled and relocated stores to enhance same-store sales growth. New store expansion is an important element of our overall growth strategy and currently includes expansion in several new markets, including portions of California, and the testing of larger store formats with expanded perishable foods. We opened a total of 625 new stores in 2011 and plan to open an additional 625 stores in 2012, of which 128 were opened in the 2012 first quarter.

Our second priority is to increase gross profit through effective category management, the expansion of private brand offerings, increased foreign sourcing, shrink reduction, distribution efficiencies and improvements to our pricing and markdown model, while remaining committed to our everyday low price strategy. Within our consumables category, we strive to offer the optimal balance of the most popular nationally advertised brands and our own private brands, which generally have higher gross profit rates than national brands. In recent years, sales growth in consumables, which generally have lower gross profit rates than non-consumables, has outpaced the growth in non-consumables, due to economic challenges faced by our customers which have impacted discretionary spending as well as our focus on expanding the consumables offerings in our stores. To some extent, the increased commodities costs we experienced in 2011 moderated in the 2012 first quarter, although we continued to see elevated costs of diesel fuel through the first quarter and we expect higher costs to remain. We opened two new distribution centers in the 2012 first quarter to help reduce the number of miles driven in connection with delivering merchandise to our stores.

Our third priority is leveraging process improvements and information technology to reduce costs. We are committed as an organization to extract costs that do not affect the customer experience. In 2012, we have additional opportunities to utilize the capabilities of our workforce management system, implemented in 2011, which assists us in improving our store standards and overall customer experience by utilizing store workforce hours more effectively. Also in 2011, we installed faster data transmission technology in our stores which we expect to create greater efficiencies in our retail store operations in 2012. In addition, we are in the early stages of implementing a comprehensive supply chain solution which we believe will help us improve our allocation of merchandise and reduce our overall costs of purchasing and delivering merchandise to our stores. This is a multi-year project which impacts the entire supply chain.

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

Focus on these priorities has resulted in improved performance in the first quarter of 2012 over the comparable 2011 period in many of our key financial metrics. Basis points amounts referred to below are equal to 0.01% as a percentage of sales.

- Total sales increased 13.0% to \$3.90 billion. Sales in same-stores increased 6.7% driven by increases in customer traffic and average transaction amount. Average sales per square foot for all stores over the 53-week period ended May 4, 2012 were \$216, up from \$203 for the 52-week period ended April 29, 2011.
- Gross profit, as a percentage of sales, was 31.5% in both the 2012 and 2011 periods. The positive factors affecting the 2012 gross profit rate were effectively offset by several negative factors. The most significant factors positively affecting the gross profit rate were higher inventory markups, distribution and transportation efficiencies, inventory shrink reduction and a lower LIFO charge. The most significant factors negatively affecting the gross profit rate included increased apparel and other markdowns and a heavier consumables weighting within the sales mix.
- Selling, general and administrative expenses, or SG&A, as a percentage of sales, was 21.6% compared to 22.2% in the 2011 quarter, a decrease of 56 basis points. The 2011 quarter included expenses of \$13.1 million, or 38 basis points, for the expected settlement of two legal matters. The remaining improvement in SG&A, as a percentage of sales, is primarily due to our increased sales, which combined with the impact of our new workforce management system, resulted in improved effectiveness of our store labor costs.
- Interest expense decreased by \$28.5 million to \$37.1 million in the 2012 first quarter. Total long-term obligations as of May 4, 2012 were \$2.88 billion, a reduction of \$382 million from the prior year.
- Net income was \$213.4 million, or \$0.63 per diluted share, compared to net income of \$157.0 million, or \$0.45 per diluted share, in the 2011 quarter. Diluted shares outstanding decreased by 5.9 million shares, reflecting the impact of repurchases of 11.7 million shares during the most recent two quarters.
- Cash generated from operating activities was \$192.6 million. At May 4, 2012, we had a cash balance of \$132.5 million.
- Inventory turnover was 5.3 times on a rolling four-quarter basis. Inventories increased 7% on a per store basis over the 2011 first quarter. Improving our in-stock levels, while improving our inventory turns, remains a high priority.
- During the 2012 first quarter, we opened 128 new stores, remodeled or relocated 224 stores, and closed 13 stores, resulting in a store count of 10,052 as of May 4, 2012.

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

Results of Operations

Accounting Periods . We follow the concept of a 52-53 week fiscal year that ends on the Friday nearest to January 31. The following text contains references to years 2012 and 2011, which represent the 52-week fiscal year ending February 1, 2013 and the 53-week fiscal year ended February 3, 2012, respectively. References to the first quarter accounting periods for 2012 and 2011 contained herein refer to the 13-week accounting periods ended May 4, 2012 and April 29, 2011, respectively.

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

The following table contains results of operations data for the first 13 weeks of each of 2012 and 2011, and the dollar and percentage variances among those periods:

(dollars in millions, except per share amounts)	13 Weeks Ended		2012 vs. 2011	
	May 4, 2012	April 29, 2011	Amount change	% change
Net sales by category:				
Consumables	\$ 2,877.3	\$ 2,529.1	\$ 348.2	13.8 %
% of net sales	73.75 %	73.27 %		
Seasonal	524.5	457.1	67.4	14.8
% of net sales	13.44 %	13.24 %		
Home products	259.0	234.2	24.8	10.6
% of net sales	6.64 %	6.79 %		
Apparel	240.4	231.4	9.1	3.9
% of net sales	6.16 %	6.70 %		
Net sales	3,901.2	3,451.7	449.5	13.0
Cost of goods sold	2,672.9	2,364.3	308.6	13.1
% of net sales	68.52 %	68.50 %		
Gross profit	1,228.3	1,087.4	140.9	13.0
% of net sales	31.48 %	31.50 %		
Selling, general and administrative expenses	843.9	765.8	78.2	10.2
% of net sales	21.63 %	22.19 %		
Operating profit	384.3	321.6	62.7	19.5
% of net sales	9.85 %	9.32 %		
Interest expense	37.1	65.6	(28.5)	(43.5)
% of net sales	0.95 %	1.90 %		
Other (income) expense	1.7	2.3	(0.6)	(26.5)
% of net sales	0.04 %	0.07 %		
Income before income taxes	345.6	253.8	91.8	36.2
% of net sales	8.86 %	7.35 %		
Income tax expense	132.2	96.8	35.4	36.5
% of net sales	3.39 %	2.80 %		
Net income	\$ 213.4	\$ 157.0	\$ 56.4	36.0 %
% of net sales	5.47 %	4.55 %		
Diluted earnings per share	\$ 0.63	\$ 0.45	\$ 0.18	40.0 %

13 WEEKS ENDED MAY 4, 2012 AND APRIL 29, 2011

Net Sales . The net sales increase in the 2012 first quarter reflects a same-store sales increase of 6.7% compared to the 2011 quarter. Same-stores include stores that have been open for at least 13 months and remain open at the end of the reporting period. For the 2012 quarter, there were 9,346 same-stores which accounted for sales of \$3.67 billion. Increases in customer traffic and average transaction amount contributed to the increase in same-store sales. The remainder of the sales increase was attributable to new stores, partially offset by sales from closed stores.

We believe that the increase in sales reflects the impact of various operating and merchandising initiatives discussed in the Executive Overview, including the impact of improved store standards, the expansion of our merchandise offerings, improved utilization of store square footage and enhanced marketing efforts.

Gross Profit. The gross profit rate as a percentage of sales was 31.5% in the first quarter of both 2012 and 2011. Factors positively affecting our gross profit include higher inventory markups, improved transportation and distribution efficiencies and lower inventory shrinkage, as a percentage of sales. The primary factor negatively affecting gross profit in the 2012 period was higher markdowns for apparel and other products. In addition, consumables, which generally have lower markups than non-consumables, represented a greater percentage of sales in the 2012 quarter than in the 2011 quarter. We recorded a \$1.6 million LIFO provision in the 2012 quarter compared to a \$3.6 million provision in the 2011 quarter.

Selling, General and Administrative (“SG&A”) Expense. SG&A expense was 21.6% as a percentage of sales in the 2012 period compared to 22.2% in the 2011 period, an improvement of 56 basis points reflecting the favorable impact of the 13.0% increase in sales as well as the effect of \$13.1 million of expenses in the 2011 period related to the settlement of two legal matters which did not recur in the 2012 period. In addition, retail labor expense increased at a rate lower than our increase in sales, partially due to ongoing benefits of our workforce management system. Various cost reduction efforts affecting store rental and other expenses also contributed to the overall decrease in SG&A as a percentage of sales. Costs that increased at a rate higher than our increase in sales include fees associated with the increased use of debit cards, costs associated with the opening of our new distribution centers in Alabama and California, workers’ compensation and general liability expenses, and advertising costs.

Interest Expense . The decrease in interest expense in the 2012 period from the 2011 period is due to lower outstanding borrowings resulting from repurchases of indebtedness in 2011 and lower all-in interest rates.

Other (Income) Expense. In the 2012 period, we recorded pretax losses of \$1.6 million resulting from the amendment of our senior secured revolving credit facility. In the 2011 period, we recorded pretax losses of \$2.2 million resulting from the repurchase in the open market of \$25.0 million aggregate principal amount of our Senior Notes described below.

Income Taxes. The effective income tax rate for the 2012 period was 38.2% compared to a rate of 38.1% for the 2011 period which represents a net increase of 0.1%. Increases in the effective tax rate associated with the expiration of various federal jobs credits for workers hired after December 31, 2011 (primarily the Work Opportunity Tax Credit) as well as the expiration of the Hire Act's Retention Credit were offset by decreases associated with the adjustment of accruals related to the IRS examination of the Company's federal income tax returns for fiscal years 2006 through 2008 and the reversal of state income tax reserves due to an audit settlement.

Liquidity and Capital Resources

Credit Facilities

We have two senior secured credit facilities (the "Credit Facilities") which provide financing of up to \$3.16 billion as of May 4, 2012. The Credit Facilities consist of a \$1.964 billion senior secured term loan facility (the "Term Loan Facility") and a senior secured asset-based revolving credit facility (the "ABL Facility"). Total commitments under the ABL Facility are equal to \$1.2 billion (of which up to \$350.0 million is available for letters of credit), subject to borrowing base availability. The ABL Facility also includes borrowing capacity available for short-term borrowings referred to as swingline loans.

Borrowings under the Credit Facilities bear interest at a rate equal to an applicable margin plus, at our option, either (a) LIBOR or (b) a base rate (which is usually equal to the prime rate). As of May 4, 2012, the applicable margin for borrowings under the Term Loan Facility is 2.75% for LIBOR borrowings and 1.75% for base-rate borrowings, and the applicable margin for borrowings under the ABL Facility is 1.50% for LIBOR borrowings and 0.50% for base-rate borrowings. We are also required to pay a commitment fee to the lenders under the ABL Facility for any unutilized commitments, at a rate of 0.375% per annum as of May 4, 2012. The applicable margins for borrowings and the commitment fees under the ABL Facility are subject to adjustment each quarter based on average daily excess availability under the ABL Facility. We also must pay customary letter of credit fees.

Under the Term Loan Facility we would be required to prepay outstanding term loans, subject to certain exceptions, with: up to 50% of our annual excess cash flow (as defined in the credit agreement) which would be reduced to 25% and 0% if we were to achieve and maintain a total net leverage ratio of 6.0 to 1.0 and 5.0 to 1.0, respectively; the net cash proceeds of certain non-ordinary course asset sales or other dispositions of property; and the net cash proceeds of any incurrence of debt other than proceeds from debt permitted under the senior secured credit agreement. Through May 4, 2012, no prepayments have been required under the prepayment provisions listed above. The Term Loan Facility can be prepaid in whole or in part at any time.

We amended the Term Loan Facility in March 2012 which resulted in the extension of the maturity on \$879.7 million of the Term Loan Facility to July 6, 2017. The remaining \$1.08 billion of the Term Loan Facility will mature on July 6, 2014. The applicable margin for borrowings under the Term Loan Facility remains unchanged.

We also amended the ABL Facility in March 2012. The primary effects of the amendment were to extend the maturity of the ABL Facility to July 6, 2014, and to increase the

total commitment from \$1.031 billion to \$1.2 billion. The amendment resulted in the write-off of a portion (\$1.6 million) of existing debt issue costs related to the ABL Facility. There is no amortization under the ABL Facility.

In addition, we are required to prepay the ABL Facility, subject to certain exceptions, with the net cash proceeds of all non-ordinary course asset sales or other dispositions of revolving facility collateral (as defined in the senior secured credit agreement); and to the extent such extensions of credit exceed the then current borrowing base. Through May 4, 2012, no prepayments have been required under any prepayment provisions.

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

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

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

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

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

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

At May 4, 2012, we had borrowings of \$447.8 million, commercial letters of credit of \$21.7 million, and standby letters of credit of \$23.7 million outstanding under the ABL Facility. We anticipate potential borrowings under the ABL Facility in fiscal 2012 up to a maximum of approximately \$500 million outstanding at any one time.

Senior Subordinated Toggle Notes due 2017

As of May 4, 2012, we have \$450.7 million aggregate principal amount of 11.875%/12.625% senior subordinated toggle notes due 2017 (the "Senior Subordinated Notes" or "Notes") outstanding, which mature on July 15, 2017, pursuant to an indenture dated as of July 6, 2007 (the "senior subordinated indenture" or "indenture").

Interest on the Senior Subordinated Notes is payable on January 15 and July 15 of each year. Cash interest on the Senior Subordinated Notes accrues at a rate of 11.875% per annum. An option to pay interest by increasing the principal amount of the Senior Subordinated Notes or issuing new Senior Subordinated Notes ("PIK interest") instead of paying cash interest expired in 2011. As a result, all interest on the Senior Subordinated Notes has been paid or will be payable in cash.

We intend to redeem or otherwise repurchase all of the Senior Subordinated Notes on or following the first scheduled call date in July 2012 at the redemption price set forth in the senior subordinated indenture. We also may seek, from time to time, to retire some or all of the Notes through cash purchases on the open market, in privately negotiated transactions or otherwise. Such redemptions and repurchases, if any, will depend on prevailing market conditions, our liquidity requirements, contractual restrictions and other factors. The amounts involved may be material.

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

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

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

Senior Notes due 2015

On April 29, 2011, we repurchased in the open market \$25.0 million outstanding aggregate principal amount of our 10.625% senior notes due 2015 (the "Senior Notes"), resulting

in a pretax loss of \$2.2 million. In July 2011, we redeemed the remaining \$839.3 million outstanding balance of Senior Notes utilizing cash on hand and borrowings under the ABL Facility.

Adjusted EBITDA

Under the agreements governing the Credit Facilities and the senior subordinated indenture, certain limitations and restrictions could arise if we are not able to satisfy and remain in compliance with specified financial ratios. Management believes the most significant of such ratios is the senior secured incurrence test under the Credit Facilities. This test measures the ratio of the senior secured debt to Adjusted EBITDA. This ratio would need to be no greater than 4.25 to 1 to avoid such limitations and restrictions. As of May 4, 2012, this ratio was 1.2 to 1. Senior secured debt is defined as our total debt secured by liens or similar encumbrances less cash and cash equivalents. EBITDA is defined as income (loss) from continuing operations before cumulative effect of change in accounting principles plus interest and other financing costs, net, provision for income taxes, and depreciation and amortization. Adjusted EBITDA is defined as EBITDA, further adjusted to give effect to adjustments required in calculating this covenant ratio under our Credit Facilities. EBITDA and Adjusted EBITDA are not presentations made in accordance with U.S. GAAP, are not measures of financial performance or condition, liquidity or profitability, and should not be considered as an alternative to (1) net income, operating income or any other performance measures determined in accordance with U.S. GAAP or (2) operating cash flows determined in accordance with U.S. GAAP. Additionally, EBITDA and Adjusted EBITDA are not intended to be measures of free cash flow for management's discretionary use, as they do not consider certain cash requirements such as interest payments, tax payments and debt service requirements and replacements of fixed assets.

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

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

(in millions)	13-weeks ended		52-weeks ended	
	May 4, 2012	April 29, 2011	May 4, 2012	February 3, 2012
Net income	\$ 213.4	\$ 157.0	\$ 823.1	\$ 766.7
Add (subtract):				
Interest income	0.0	(0.0)	(0.1)	(0.1)
Interest expense	37.1	65.6	176.5	205.0
Depreciation and amortization	69.9	64.3	269.7	264.1
Income taxes	132.2	96.8	494.0	458.6
EBITDA	452.6	383.7	1,763.2	1,694.3
Adjustments:				
Loss on debt retirements	1.6	2.2	59.7	60.3
Loss on hedging instruments	—	0.1	0.3	0.4
Non-cash expense for share-based awards	4.8	3.5	16.6	15.3
Litigation settlement and related costs, net	—	13.1	—	13.1
Indirect costs related to merger and stock offering	0.4	—	1.3	0.9
Other non-cash charges (including LIFO)	3.2	5.5	51.0	53.3
Other	0.6	—	0.6	—
Total Adjustments	10.6	24.4	129.5	143.3
Adjusted EBITDA	\$ 463.2	\$ 408.1	\$ 1,892.7	\$ 1,837.6

Contractual Obligations

The amendments to the Credit Facilities discussed above resulted in changes to the contractual obligations reported in our Annual Report on Form 10-K for the fiscal year ended February 3, 2012. The following table summarizes our significant contractual obligations for long-term debt obligations and related interest as of May 4, 2012 (in thousands):

Contractual obligations	Payments Due by Period				
	Total	1 year	1-3 years	3-5 years	5+ years
Long-term debt obligations	\$ 2,876,492	\$ —	\$ 1,531,600	\$ 305	\$ 1,344,587
Interest (a)	527,143	132,373	215,919	161,683	17,168

(a) Represents obligations for interest payments on long-term debt and capital lease obligations, and includes projected interest on variable rate long-term debt, using rates as of May 4, 2012. Variable rate long-term debt includes the balance of the senior secured asset-based revolving credit facility of \$447.8 million, the balance of our tax increment financing of \$14.5 million, and the senior secured term loan facility of \$1.964 billion (net of the effect of interest rate swaps).

Current Financial Condition / Recent Developments

At May 4, 2012, we had total outstanding debt (including the current portion of long-term obligations) of approximately \$2.88 billion. We had \$706.9 million available for borrowing under our ABL Facility at that date. Our liquidity needs are significant, primarily due to our debt

service and other obligations. However, we believe our cash flow from operations and existing cash balances, combined with availability under the Credit Facilities, will provide sufficient liquidity to fund our current obligations, projected working capital requirements and capital spending for a period that includes the next twelve months as well as the next several years.

Our inventory balance represented approximately 48% of our total assets exclusive of goodwill and other intangible assets as of May 4, 2012. Our proficiency in managing our inventory balances can have a significant impact on our cash flows from operations during a given fiscal year. Inventory purchases are often somewhat seasonal in nature, such as the purchase of warm-weather or Christmas-related merchandise. Efficient management of our inventory has been and continues to be an area of focus for us.

As described in Note 8 to the condensed consolidated financial statements, we are involved in a number of legal actions and claims, some of which could potentially result in material cash payments. Adverse developments in those actions could materially and adversely affect our liquidity. We also have certain income tax-related contingencies as more fully described below under “Critical Accounting Policies and Estimates” and in Note 4 to the condensed consolidated financial statements. Future negative developments could have a material adverse effect on our liquidity.

In April 2012, Standard & Poor’s upgraded our corporate rating to BBB- from BB+ with a stable outlook, and Moody’s upgraded our corporate rating to Ba1 from Ba2 with a positive outlook. Our current credit ratings, as well as future rating agency actions, could (i) impact our ability to obtain financings to finance our operations on satisfactory terms; (ii) affect our financing costs; and (iii) affect our insurance premiums and collateral requirements necessary for our self-insured programs. There can be no assurance that we will be able to maintain or improve our current credit ratings.

Cash flows from operating activities . Cash flows from operating activities were \$192.6 million in the 2012 period, a decline of \$30.9 million compared to the 2011 period. Significant components of the decrease in cash flows from operating activities in the 2012 period as compared to the 2011 period were higher payments for income taxes and the timing of sales tax payments. Our 53-week fiscal year in 2011 has caused our accounting periods in 2012 to end approximately one week later in the calendar year than in 2011, affecting certain accounts. Accounts payable was affected by the timing and mix of merchandise purchases. We also completed a secondary stock offering in the 2012 period, causing the reclassification of the tax benefit of stock options to cash flows from financing activities to be higher than in the 2011 period. Reduced bonus and interest payments in the 2012 period compared to the 2011 period partially offset the items noted above. Additionally, we had higher net income as described in more detail above under “Results of Operations.”

On an ongoing basis, we closely monitor and manage our inventory balances, and they may fluctuate from period to period based on new store openings, the timing of purchases, and other factors. Merchandise inventories were virtually unchanged during the first quarters of both 2012 and 2011. Inventory levels in our four inventory categories in the 2012 period compared to the respective 2011 period were as follows: the consumables category increased 3% compared to a 4% increase; the seasonal category declined by 2% compared to a 6% decline; the home products category declined by 1% compared to a 12% decline; and apparel declined by 10%

compared to a 3% increase.

Cash flows from investing activities . Significant components of property and equipment purchases in the 2012 period included the following approximate amounts: \$41 million for improvements, upgrades, remodels and relocations of existing stores; \$36 million for stores purchased or built by us; \$33 million related to new leased stores, primarily for leasehold improvements, fixtures and equipment; \$31 million for distribution and transportation-related capital expenditures; and \$4 million for information systems upgrades and technology-related projects. The timing of new, remodeled and relocated store openings along with other factors may affect the relationship between such openings and the related property and equipment purchases in any given period. During the 2012 period, we opened 128 new stores and remodeled or relocated 224 stores.

Significant components of property and equipment purchases in the 2011 period included the following approximate amounts: \$40 million for improvements, upgrades, remodels and relocations of existing stores; \$22 million related to new leased stores, primarily for leasehold improvements, fixtures and equipment; \$17 million for stores purchased or built by us; \$7 million for distribution and transportation-related capital expenditures; and \$6 million for information systems upgrades and technology-related projects. During the 2011 period, we opened 139 new stores and remodeled or relocated 184 stores.

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

Cash flows from financing activities . Net borrowings under the ABL Facility were \$263.1 million during the 2012 period. In April 2012, we repurchased 6.8 million outstanding shares of our common stock from our principal shareholder at a total cost of \$300.0 million. During the 2011 period, we repurchased \$25.0 million outstanding principal amount of our outstanding Senior Notes in the open market at a total cost of \$26.8 million including associated premiums. We had no borrowings or repayments under the ABL Facility in the 2011 period.

Share Repurchase Program

At May 4, 2012, we had \$15 million remaining on a \$500 million share repurchase authorization for our common stock which was approved by our Board of Directors on November 30, 2011. Under the authorization, purchases may be made in the open market or in privately negotiated transactions from time to time subject to market conditions. This repurchase

authorization has no expiration date. As part of this repurchase program, pursuant to a Share Repurchase Agreement between us and Buck Holdings L.P., dated March 25, 2012, concurrent with the closing of a secondary offering in April 2012, we purchased 6,817,311 shares of common stock from Buck Holdings, L.P. for an aggregate purchase price of \$300 million.

Critical Accounting Policies and Estimates

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

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

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

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

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

Factors that reduce potential distortion include the use of historical experience in estimating the shrink provision (see discussion below) and an annual LIFO analysis whereby all SKUs are considered in the index formulation. An actual valuation of inventory under the LIFO method is made at the end of each year based on the inventory levels and costs at that time. Accordingly, interim LIFO calculations are based on management's estimates of expected year-end inventory levels, sales for the year and the expected rate of inflation/deflation for the year and are thus subject to adjustment in the final year-end LIFO inventory valuation. We also perform interim inventory analysis for determining obsolete inventory. Our policy is to write down inventory to an LCM value based on various management assumptions including estimated markdowns and sales required to liquidate such inventory in future periods. Inventory is reviewed on a quarterly basis and adjusted to reflect write-downs as appropriate.

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

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

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

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

determination of fair value or impairment. Future indicators of impairment could result in an asset impairment charge.

Under accounting standards for goodwill and other intangible assets, we are required to test such assets with indefinite lives for impairment annually, or more frequently if impairment indicators occur. The goodwill impairment test is a two-step process that requires management to make judgments in determining what assumptions to use in the calculation. The first step of the process consists of estimating the fair value of our reporting unit based on valuation techniques (including a discounted cash flow model using revenue and profit forecasts) and comparing that estimated fair value with the recorded carrying value, which includes goodwill. If the estimated fair value is less than the carrying value, a second step is performed to compute the amount of the impairment, if any, by determining an “implied fair value” of goodwill. The determination of the implied fair value of goodwill would require us to allocate the estimated fair value of our reporting unit to its assets and liabilities. Any unallocated fair value represents the implied fair value of goodwill, which would be compared to its corresponding carrying value.

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

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

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

Impairment of Long-lived Assets. We review the carrying value of long-lived assets for impairment at least annually, and whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. In accordance with accounting standards for impairment or disposal of long-lived assets, we review for impairment stores open for approximately two years or more for which recent cash flows from operations are negative. Impairment results when the carrying value of the assets exceeds the estimated undiscounted future cash flows over the life of the lease. Our estimate of undiscounted future cash flows over the lease term is based upon historical operations of the stores and estimates of future store profitability which encompasses many factors that are subject to variability and are difficult to predict. If a long-lived asset is found to be impaired, the amount recognized for impairment is

equal to the difference between the carrying value and the asset's estimated fair value. The fair value is estimated based primarily upon projected future cash flows (discounted at our credit adjusted risk-free rate) or other reasonable estimates of fair market value in accordance with U.S. GAAP.

Insurance Liabilities . We retain a significant portion of the risk for our workers' compensation, employee health, property loss, automobile and general liability. These represent significant costs primarily due to the large employee base and number of stores. Provisions are made to these liabilities on an undiscounted basis based on actual claim data and estimates of incurred but not reported claims developed using actuarial methodologies based on historical claim trends, which have been and are anticipated to continue to be materially accurate. If future claim trends deviate from recent historical patterns, we may be required to record additional expenses or expense reductions, which could be material to our future financial results.

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

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

Lease Accounting and Excess Facilities . Many of our stores are subject to build-to-suit arrangements with landlords, which typically carry a primary lease term of 10-15 years with multiple renewal options. We also have stores subject to shorter-term leases and many of these leases have renewal options. As of February 3, 2012, approximately 26% of our stores had provisions for contingent rentals based upon a percentage of defined sales volume. We recognize contingent rental expense when the achievement of specified sales targets is considered probable. We recognize rent expense over the term of the lease. We record minimum rental expense on a

straight-line basis over the base, non-cancelable lease term commencing on the date that we take physical possession of the property from the landlord, which normally includes a period prior to store opening to make necessary leasehold improvements and install store fixtures. When a lease contains a predetermined fixed escalation of the minimum rent, we recognize the related rent expense on a straight-line basis and record the difference between the recognized rental expense and the amounts payable under the lease as deferred rent. Tenant allowances, to the extent received, are recorded as deferred incentive rent and amortized as a reduction to rent expense over the term of the lease. We reflect as a liability any difference between the calculated expense and the amounts actually paid. Improvements of leased properties are amortized over the shorter of the life of the applicable lease term or the estimated useful life of the asset.

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

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

Fair Value Measurements. We measure fair value of assets and liabilities in accordance with applicable accounting standards, which require that fair values be determined based on the assumptions that market participants would use in pricing the asset or liability. These standards establish a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy). Therefore, Level 3 inputs are typically based on an entity's own assumptions, as there is little, if any, related market activity, and thus require the use of significant judgment and

estimates. Currently, we have no assets or liabilities that are valued based solely on Level 3 inputs.

Our fair value measurements are primarily associated with our derivative financial instruments, intangible assets, property and equipment, and to a lesser degree our investments. The values of our derivative financial instruments are determined using widely accepted valuation techniques, including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves. The fair values of interest rate swaps are determined using the market standard methodology of netting the discounted future fixed cash payments (or receipts) and the discounted expected variable cash receipts (or payments). The variable cash receipts (or payments) are based on an expectation of future interest rates (forward curves) derived from observable market interest rate curves. In recent years, these methodologies have produced materially accurate valuations.

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

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

On May 9, 2012, we entered into interest rate swaps effective May 31, 2012, in order to mitigate an additional portion of the variable rate interest exposure under the Credit Facilities. These swaps are scheduled to mature on May 29, 2015. Under the terms of these agreements, we swapped one month LIBOR rates for fixed interest rates, resulting in the payment of an all-in fixed rate of 3.34% on a notional amount of \$875.0 million through the maturity date.

ITEM 4. CONTROLS AND PROCEDURES.

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

(b) *Changes in Internal Control Over Financial Reporting* . There have been no changes in our internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f)) during the quarter ended May 4, 2012 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

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

ITEM 1A. RISK FACTORS.

There have been no material changes to the disclosures relating to this item from those set forth in our Annual Report on Form 10-K for the fiscal year ended February 3, 2012.

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

The following table contains information regarding purchases of our common stock made during the quarter ended May 4, 2012 by or on behalf of Dollar General or any “affiliated purchaser,” as defined by Rule 10b-18(a)(3) of the Securities Exchange Act of 1934:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(a)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs(a)
02/04/12-02/29/12	—	\$ —	—	\$ 315,000,000
03/01/12-03/31/12	—	\$ —	—	\$ 315,000,000
04/01/12-05/04/12	6,817,311	\$ 44.01	6,817,311	\$ 15,000,000
Total	6,817,311	\$ 44.01	6,817,311	\$ 15,000,000

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

ITEM 6. EXHIBITS.

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

CAUTIONARY DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

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

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

- failure to successfully execute our growth strategy, including delays in store growth, difficulties executing sales and operating profit margin initiatives and inventory shrinkage reduction;
- the failure of our new store base to achieve sales and operating levels consistent with our expectations;
- risks and challenges in connection with sourcing merchandise from domestic and foreign vendors, as well as trade restrictions;
- our level of success in gaining and maintaining broad market acceptance of our private brands and in achieving our other initiatives;
- unfavorable publicity or consumer perception of our products;
- our debt levels and restrictions in our debt agreements;
- economic conditions, including their effect on the financial and capital markets, our suppliers and business partners, employment levels, consumer demand, disposable income, credit availability and spending patterns, inflation, and the cost of goods;
- increases in commodity prices (including, without limitation, cotton, wheat, corn, sugar, oil, paper, nuts and resin);
- levels of inventory shrinkage;
- seasonality of our business;
- increases in costs of fuel or other energy, transportation or utilities costs and in the costs of labor, employment and health care;

- the impact of changes in or noncompliance with governmental laws and regulations (including, but not limited to, product safety, healthcare and unionization) and developments in or outcomes of legal proceedings, investigations or audits;
- disruptions, unanticipated expenses or operational failures in our supply chain including, without limitation, a decrease in transportation capacity for overseas shipments or work stoppages or other labor disruptions that could impede the receipt of merchandise;
- delays or unanticipated expenses in constructing or opening new distribution centers;
- damage or interruption to our information systems;
- changes in our competitive environment and the markets where we operate;
- natural disasters, unusual weather conditions, pandemic outbreaks, boycotts, war and geo-political events;
- incurrence of material uninsured losses, excessive insurance costs, or accident costs;
- our failure to protect our brand name;
- our loss of key personnel or our inability to hire additional qualified personnel;
- interest rate and currency exchange fluctuations;
- a data security breach;
- our failure to maintain effective internal controls;
- changes to income tax expense due to changes in or interpretation of tax laws or as a result of federal or state income tax examinations;
- changes to or new accounting guidance, such as changes to lease accounting guidance or a requirement to convert to international financial reporting standards;
- factors disclosed under “Risk Factors” in Part I, Item 1A of our Form 10-K for the fiscal year ended February 3, 2012; and
- factors disclosed elsewhere in this document (including, without limitation, in conjunction with the forward-looking statements themselves and under the heading “Critical Accounting Policies and Estimates”) and other factors.

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

SIGNATURES

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

DOLLAR GENERAL CORPORATION

Date: June 4, 2012

By: /s/ David M. Tehle
David M. Tehle
Executive Vice President and Chief Financial Officer

EXHIBIT INDEX

- 4.1 Amended and Restated Credit Agreement, dated as of March 30, 2012, among Dollar General Corporation, as Borrower, CitiCorp North America, N.A. as Administrative Agent, and the other financial institutions from time to time party thereto (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K dated March 27, 2012 and filed with the SEC on April 2, 2012 (file no. 001-11421))
- 4.2 Amended and Restated ABL Credit Agreement, dated as of March 15, 2012, among Dollar General Corporation, as Parent Borrower, certain domestic subsidiaries of Dollar General Corporation, as Subsidiary Borrowers, Wells Fargo Bank, N.A. as ABL Administrative Agent, and the other lending institutions from time to time party thereto (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K dated March 15, 2012 and filed with the SEC on March 19, 2012 (file no. 001-11421))
- 10.1 Dollar General Corporation 2012 Teamshare Bonus Program
- 10.2 Employment Agreement effective April 1, 2012, by and between Dollar General Corporation and David M. Tehle (incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K dated April 16, 2012 and filed with the SEC on April 19, 2012 (file no. 001-11421))
- 10.3 Employment Agreement effective April 1, 2012, by and between Dollar General Corporation and Susan S. Lanigan (incorporated by reference to Exhibit 99.2 to the Company's Current Report on Form 8-K dated April 16, 2012 and filed with the SEC on April 19, 2012 (file no. 001-11421))
- 10.4 Employment Agreement effective March 19, 2012, by and between Dollar General Corporation and Greg Sparks
- 10.5 Share Repurchase Agreement, dated as of March 25, 2012, by and among Buck Holdings L.P. and Dollar General Corporation (incorporated by reference to Exhibit 1.1 to the Company's Current Report on Form 8-K dated March 25, 2012 and filed with the SEC on March 26, 2012 (file no. 001-11421))
- 10.6 Form of Stock Option Award Agreement in connection with grants made to certain employees of Dollar General Corporation pursuant to the Amended and Restated 2007 Stock Incentive Plan (approved March 20, 2012) (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated March 20, 2012 and filed with the SEC on March 26, 2012 (file no. 001-11421))

- 10.7 Form of Performance Share Unit Award Agreement in connection with grants made to certain employees of Dollar General Corporation pursuant to the Amended and Restated 2007 Stock Incentive Plan (approved March 20, 2012) (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K dated March 20, 2012 and filed with the SEC on March 26, 2012 (file no. 001-11421))
- 10.8 Form of Restricted Stock Unit Award Agreement in connection with grants made to certain employees of Dollar General Corporation pursuant to the Amended and Restated 2007 Stock Incentive Plan (approved March 20, 2012) (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K dated March 20, 2012 and filed with the SEC on March 26, 2012 (file no. 001-11421))
- 10.9 Restricted Stock Award Agreement, dated March 20, 2012, between Dollar General Corporation and Richard Dreiling (incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K dated March 20, 2012 and filed with the SEC on March 26, 2012 (file no. 001-11421))
- 10.10 Summary of Non-Employee Director Compensation effective February 4, 2012 (incorporated by reference to Exhibit 10.23 to the Company's Annual Report on Form 10-K filed with the SEC on March 22, 2012 (file no. 001-11421))
- 15 Letter re unaudited interim financial information
- 31 Certifications of CEO and CFO under Exchange Act Rule 13a-14(a)
- 32 Certifications of CEO and CFO under 18 U.S.C. 1350
- 101.INS XBRL Instance Document
- 101.SCH XBRL Taxonomy Extension Schema Document
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document
- 101.LAB XBRL Taxonomy Extension Labels Linkbase Document
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document



2012 Teamshare Incentive Program

I. Definitions

As used in this document:

“*AIP*” shall mean the Amended and Restated Dollar General Corporation Annual Incentive Plan, as amended from time to time.

“*Applicable Base Pay*” shall mean the eligible employee’s annual salary (or day of pay if hourly) plus shift differential, subject to adjustment based on all other eligibility requirements and administrative rules.

“*Committee*” shall mean the Compensation Committee of the Board or any subcommittee thereof which meets the requirements of Section 162(m).

“*Covered Employees*” shall mean those officers who could, in respect of the Company’s 2012 fiscal year, be “covered employees” under Section 162(m).

“*Dollar General*” or “*the Company*” means Dollar General Corporation.

“*Eligible Employee*” shall have the meaning set forth in Section V below.

“*Management*” refers to an individual Teamshare participant’s direct supervisor and/or the Company’s executive officers up to and including the Chief Executive Officer.

“*Merit Effective Date*” shall mean April 1 of the applicable performance period or, if later, the applicable date of the annual merit increase (e.g., for the 2012 Teamshare program, the Merit Effective Date for salaried employees is April 1, 2012).

“*Section 162(m)*” refers to Section 162(m)(4)(C) of the Internal Revenue Code of 1986, as amended, and the regulations and guidance issued thereunder from time to time.

“*Teamshare*” shall mean this 2012 Teamshare Incentive Program.

II. Teamshare Overview

The Committee has established the terms of Teamshare, which provides each Eligible Employee with an opportunity to receive a cash bonus payment equal to a certain percentage of his or her Applicable Base Pay based upon Dollar General’s achievement of one or more pre-established financial performance measures for a specified performance period (typically, our fiscal year). When more than one financial performance measure is selected, the Committee determines the applicable weight to be assigned to each of the selected measures.

Threshold and target performance levels are established for each of the selected performance measures. No Teamshare payout may be made unless the threshold performance level is achieved. The amount payable to each Eligible Employee if the Company reaches the target performance level(s) is equal to a specified percentage of the Eligible Employee's Applicable Base Pay, subject to adjustment for performance discussed under Section IV below (except in the case of officers). Teamshare payments for financial performance below or above the applicable target levels are prorated on a graduated scale commensurate with performance.

III. 2012 Teamshare Program

For the 2012 Teamshare program, the Committee selected financial performance measures based upon earnings before interest, taxes, depreciation and amortization, as adjusted for certain items ("Adjusted EBITDA") and return on invested capital ("Adjusted ROIC"). The Adjusted EBITDA measure and the Adjusted ROIC measure are weighted 90% and 10%, respectively, of the total Teamshare pool. If, for example, the Company achieves the target Adjusted EBITDA performance level but does not achieve the threshold Adjusted ROIC performance level, the Teamshare pool will fund at 90%. In determining the level of performance the Company has achieved for each performance measure at year end, certain categories of items previously identified by the Committee may be excluded from the calculation. Threshold performance results for both Adjusted EBITDA and Adjusted ROIC coincide with potential Teamshare payout levels equal to 50% of individual payout targets (as a percentage of the Eligible Employee's Applicable Base Pay).

For purposes of the 2012 Teamshare program, Adjusted EBITDA is computed in accordance with the Company's credit agreements, and Adjusted ROIC is calculated as total return (calculated as the sum of operating income, depreciation and amortization and minimum rentals, less taxes) divided by the result of (x) the sum of the averages of total assets and accumulated depreciation and amortization, less (y) cash, goodwill, accounts payable, other payables, accrued liabilities, plus 8x minimum rentals), all of the foregoing as determined under the Company's financial statements. Each of Adjusted EBITDA and Adjusted ROIC calculations shall exclude:

- (1) the impact of (a) certain costs, fees and expenses related to our acquisition and related financing by Kohlberg Kravis Roberts & Co., any refinancings, any related litigation or settlements of such litigation, and the filing and maintenance of a market maker registration statement; (b) any costs, fees and expenses directly related to any transaction that results in a Change in Control (within the meaning of the Company's Amended and Restated 2007 Stock Incentive Plan) or related to any primary or secondary offering of the Company's common stock or other security; (c) share-based compensation charges (for Adjusted EBITDA only); (d) any gain or loss recognized as a result of derivative instrument transactions or other hedging activities; (e) any gains or losses associated with the early retirement of debt obligations; (f) charges resulting from significant natural disasters; and (g) any significant gains or losses associated with our LIFO computation; and

- (2) unless the Committee disallows any such item, (a) non-cash asset impairments; (b) any significant loss as a result of an individual litigation, judgment or lawsuit settlement (including a collective or class action lawsuit and security holder lawsuit, among others); (c) charges for business restructurings; (d) losses due to new or modified tax or other legislation or accounting changes enacted after the beginning of the 2012 fiscal year; (e) significant tax settlements; and (f) any significant unplanned items of a non-recurring or extraordinary nature.

IV. Determination of Bonuses

- (a) If the Company achieves at least the threshold financial performance levels, each Eligible Employee who participates in Teamshare will become eligible to receive a Teamshare payout if he or she receives at least a satisfactory individual performance review.
- (b) In the case of officers (including Covered Employees), the Committee, and in the case of all other employees, Management, will determine whether a participant in Teamshare has received at least a satisfactory individual performance review.
- (c) Bonuses for executive officers of the Company and hourly employees are paid 100% based on Company financial performance. Bonuses for all other employees are calculated 100% on Company financial performance, with 20% subject to reduction based on individual performance; provided, however, that Management may adjust upward or downward, or entirely eliminate, the Teamshare payout otherwise due to any Eligible Employee (excluding officers which are addressed in (d) below) based upon personal performance of any such Eligible Employee, provided the total funded amount of the Teamshare pool is not exceeded.
- (d) In the case of officers (excluding executive officers and Covered Employees), the Committee may adjust upward or downward, or entirely eliminate, the Teamshare payout otherwise due to any eligible officer, provided the total funded amount of the Teamshare pool is not exceeded.
- (e) Bonus payouts to Covered Employees may be subject to reduction or elimination, but not upward adjustment, pursuant to the terms of the AIP.
- (f) Bonuses that are not allocated out of the Teamshare pool are subject to distribution at the discretion of the Chief Executive Officer of the Company, except that no such unallocated bonus amounts may be allocated to any Covered Employee.

V. Individual Eligibility

- (a) To be eligible for a Teamshare payout, an employee must be an "Eligible Employee", which for purposes of Teamshare means an employee must:

1. Be an active regular, full-time or part-time store support center (SSC) or distribution center (DC) employee during the performance period (for Teamshare program, the Company's 2012 fiscal year).
 2. Be hired by January 15 of the performance period.
 3. Be employed with the Company through the end of the performance period and on the date on which the Teamshare payment is made (unless otherwise required by law).
 4. Have received a year-end performance rating of "Needs Improvement" or better (for officers, any Teamshare payment is in the Committee's discretion if the officer receives a "Needs Improvement" performance rating). Employees rated "Unsatisfactory" are ineligible for a bonus under Teamshare.
- (b) Bonuses for the estates of Eligible Employees will be eligible to receive the Teamshare payment if the employee's death occurs on or after the end of the performance period.

VI. Administrative Rules

- (a) Except as provided in (c) below, bonuses for Eligible Employees classified as exempt or salaried non-exempt are calculated based on the Company financial performance and subject to adjustment by Management based on individual performance. At year-end, Management will use the following guidelines in determining an adjustment:

<u>Performance Rating</u>	<u>Total Bonus Opportunity</u>
O	105% - 115%
VG	100% - 110%
G	90% - 100%
NI	40% - 80%
U	0%

- (b) At year-end, the guidelines above will also be provided to Management for adjusting any Teamshare payouts for eligible hourly employees rated "Needs Improvement".
- (c) Any adjustments to Teamshare payouts for officers are determined by the Committee within the parameters of Section IV. Notwithstanding anything in this Teamshare plan document to the contrary, the determination of the Adjusted EBITDA and Adjusted ROIC performance measures and all other relevant actions applicable to the determination of bonus payout amounts to Covered Employees under Teamshare shall be pursuant to the terms of the AIP.
- (d) Each Eligible Employee's Teamshare payout is computed as a percentage of the Applicable Base Pay plus any shift differential.

- (e) Teamshare payouts will be prorated for changes to an Eligible Employee's position, pay, individual target, shift differential or, status that occur during the performance period based on the number of days the applicable element applies. The Applicable Base Pay used for Teamshare from the beginning of the performance period to the Merit Effective Date will be based on the eligible employee's pay as of the Merit Effective Date.
- (f) Teamshare payouts are prorated to exclude leaves of absence during the performance period (unless otherwise required by law).
- (g) Teamshare payouts will be made no later than April 15 of the year following the fiscal year in which financial performance is measured (e.g., for the 2012 Teamshare program, payouts, if any, will be made no later than April 15, 2013).
- (h) Teamshare information is proprietary and confidential. Employees are reminded that they may not disclose Teamshare information relating to the Company's financial goals or performance. Such disclosure may result in disciplinary action, up to and including termination. The Company reserves the right to adjust, amend or suspend Teamshare at any time for any reason, including, but not limited to, unforeseen events.
- (i) Solely for purposes of Covered Employees, the provisions and payouts under this 2012 Teamshare program shall be pursuant to and subject to the terms of the AIP, and in the event of any conflict between the provisions of this Teamshare program and the AIP, the terms of the AIP shall govern.

VII. Tax and Other Withholding Information

The IRS considers incentive payments as supplemental wages. In accordance with IRS guidelines, Dollar General will withhold federal income taxes at the supplemental rate (currently established at 25%). In addition, this payment will be subject to applicable social security, Medicare, state and local taxes. Voluntary deductions (e.g. health insurance, 401k, etc.) will not be deducted from this amount. Where required by law, specific garnishments (e.g., child support) may be deducted, as appropriate, from this amount. Certain state laws require incentive payments be held for up to 30 days after the check date pending review of applicable child support garnishments. After the Company receives notification from the state child support agencies regarding whether part or all of the impacted employee's incentive payment should be paid toward child support, the Company will pay any remaining incentive funds with the next regular payroll.

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (“Agreement”), effective March 19, 2012 (“Effective Date”), is made and entered into by and between **DOLLAR GENERAL CORPORATION** (the “Company”), and Gregory A. Sparks (“Employee”).

WITNESSETH:

WHEREAS, Company desires to employ Employee upon the terms and subject to the conditions hereinafter set forth, and Employee desires to accept such employment;

NOW, THEREFORE, for and in consideration of the premises, the mutual promises, covenants and agreements contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

- 1. Employment**. Subject to the terms and conditions of this Agreement, the Company agrees to employ Employee as Executive Vice President, Store Operations of the Company.
 - 2. Term**. The term of this Agreement shall end March 31, 2015) (“Term”), unless otherwise terminated pursuant to Sections 7, 8, 9, 10 or 11 hereof. The Term shall be automatically extended from month to month, for up to six (6) months, unless the Company gives written notice to Employee at least one month prior to the expiration of the original or any extended Term that no extension or further extension, as applicable, will occur or unless the Company replaces this Agreement with a new agreement or, in writing, extends or renews the Term of this Agreement for a period that is longer than six months from the expiration of the original Term. Unless otherwise noted, all references to the “Term” shall be deemed to refer to the original Term and any extension or renewal thereof.
 - 3. Position, Duties and Administrative Support**.
 - a. Position. Employee shall perform the duties of the position noted in Section 1 above and shall perform such other duties and responsibilities as Employee’s supervisor or the Company’s CEO may reasonably direct.
 - b. Full-Time Efforts. Employee shall perform and discharge faithfully and diligently such duties and responsibilities and shall devote Employee’s full-time efforts to the business and affairs of Company. Employee agrees to promote the best interests of the Company and to take no action that is likely to damage the public image or reputation of the Company, its subsidiaries or its affiliates.
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c. Administrative Support. Employee shall be provided with office space and administrative support.

d. No Interference With Duties. Employee shall not devote time to other activities which would inhibit or otherwise interfere with the proper performance of Employee's duties and shall not be directly or indirectly concerned or interested in any other business occupation, activity or interest other than by reason of holding a non-controlling interest as a shareholder, securities holder or debenture holder in a corporation quoted on a nationally recognized exchange (subject to any limitations in the Company's Code of Business Conduct and Ethics). Employee may not serve as a member of a board of directors of a for-profit company, other than the Company or any of its subsidiaries or affiliates, without the express approval of the CEO and the Board (or an authorized Board committee). Under no circumstances may Employee serve on more than one other board of a for-profit company.

4. Work Standard. Employee agrees to comply with all terms and conditions set forth in this Agreement, as well as all applicable Company work policies, procedures and rules. Employee also agrees to comply with all federal, state and local statutes, regulations and public ordinances governing Employee's performance hereunder.

5. Compensation.

a. Base Salary. Subject to the terms and conditions set forth in this Agreement, the Company shall pay Employee, and Employee shall accept, an annual base salary ("Base Salary") of no less than Six Hundred Thousand Dollars (\$600,000). The Base Salary shall be paid in accordance with Company's normal payroll practices (but no less frequently than monthly) and may be increased from time to time at the sole discretion of the Company.

b. Incentive Bonus. Employee's incentive compensation for the Term of this Agreement shall be determined under the Company's annual bonus program for officers at Employee's grade level, as it may be amended from time to time. The actual bonus paid pursuant to this Section 5(b), if any, shall be based on criteria established by the Board, its Compensation Committee and/or the CEO, as applicable, in accordance with the terms and conditions of the annual bonus program for officers. Any bonus payments due hereunder shall be payable to the Employee no later than 2 1/2 months after the end of the Company's taxable year or the calendar year, whichever is later, in which Employee is first vested in

such bonus payments for purposes of Section 409A of the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code").

c. Vacation . Employee shall be entitled to four weeks paid vacation time within the first year of employment. After five years of employment, Employee shall be entitled to five weeks paid vacation. Vacation time is granted on the anniversary of Employee's hire date each year. Any available but unused vacation as of the annual anniversary of employment date or at Employee's termination date shall be forfeited.

d. Business Expenses . Employee shall be reimbursed for all reasonable business expenses incurred in carrying out the work hereunder. Employee shall adhere to the Company's expense reimbursement policies and procedures. In no event will any such reimbursement be made later than the last day of Employee's taxable year following Employee's taxable year in which Employee incurs the reimbursable expense.

e. Perquisites . Employee shall be entitled to receive such other executive perquisites, fringe and other benefits as are provided to officers at the same grade level under any of the Company's plans and/or programs in effect from time to time.

6. Benefits . During the Term, Employee (and, where applicable, Employee's eligible dependents) shall be eligible to participate in those various Company welfare benefit plans, practices and policies in place during the Term (including, without limitation, medical, pharmacy, dental, vision, disability, employee life, accidental death and travel accident insurance plans and other programs, if any) to the extent allowed under and in accordance with the terms of those plans. In addition, Employee shall be eligible to participate, pursuant to their terms, in any other benefit plans offered by the Company to similarly-situated officers or other employees from time to time during the Term (excluding plans applicable solely to certain officers of the Company in accordance with the express terms of such plans). Collectively the plans and arrangements described in this Section 6, as they may be amended or modified in accordance with their terms, are hereinafter referred to as the "Benefits Plans." Notwithstanding the above, Employee understands and acknowledges that Employee is not eligible for benefits under any other severance plan, program, or policy maintained by the Company, if any exists, and that the only severance benefits Employee is entitled to are set forth in this Agreement.

7. Termination for Cause . This Agreement is not intended to change the at-will nature of Employee's employment with Company, and it may be terminated at any time by either party, with or without cause. If this Agreement and Employee's employment are terminated by Company

for "Cause" (Termination for Cause) as that term is defined below, it will be without any liability owing to Employee or Employee's dependents and beneficiaries under this Agreement, (recognizing, however, that benefits covered by or owed under any other plan or agreement covering Employee shall be governed by the terms of such plan or agreement). Any one of the following conditions or Employee conduct shall constitute "Cause":

- a. Any act involving fraud or dishonesty, or any material act of misconduct relating to Employee's performance of his or her duties hereunder;
- b. Any material breach of any SEC or other law or regulation or any Company policy governing trading or dealing with stocks, securities, public debt instruments, bonds, or investments and the like or with inappropriate disclosure or "tipping" relating to any stock, security, public debt instrument, bond or investment;
- c. Any material violation of the Company's Code of Business Conduct and Ethics (or the equivalent code in place at the time);
- d. Other than as required by law, the carrying out of any activity or the making of any public statement which prejudices or reduces the good name and standing of Company or any of its affiliates or would bring any one of these into public contempt or ridicule;
- e. Attendance at work in a state of intoxication or being found with any drug or substance possession of which would amount to a criminal offense;
- f. Assault or other act of violence;
- g. Conviction of or plea of guilty or nolo contendere to any felony whatsoever or any misdemeanor that would preclude employment under the Company's hiring policy; or
- h. Willful or repeated refusal or failure substantially to perform Employee's material obligations and duties hereunder or those reasonably directed by Employee's supervisor, the CEO and/or the Board (except in connection with a Disability).

A termination for Cause shall be effective when the Company has given Employee written notice of its intention to terminate for Cause, describing those acts or omissions that are believed to constitute Cause, and has given Employee ten days to respond.

8. Termination upon Death. Notwithstanding anything herein to the contrary, this Agreement shall terminate immediately upon Employee's death, and the Company shall have no further liability to Employee or Employee's dependents and beneficiaries under this Agreement,

except for those benefits owed under any other plan or agreement covering Employee which shall be governed by the terms of such plan or agreement.

9. Disability. If a Disability (as defined below) of Employee occurs during the Term, unless otherwise prohibited by law, the Company may notify Employee of the Company's intention to terminate Employee's employment. In that event, employment shall terminate effective on the termination date provided in such notice of termination (the "Disability Effective Date"), and this Agreement shall terminate without further liability to Employee, Employee's dependents and beneficiaries, except for those benefits owed under any other plan or agreement covering Employee which shall be governed by the terms of such plan or agreement. In this Agreement, "Disability" means:

a. A long-term disability, as defined in the Company's applicable long-term disability plan as then in effect, if any; or

b. Employee's inability to perform the duties under this Agreement in accordance with the Company's expectations because of a medically determinable physical or mental impairment that (i) can reasonably be expected to result in death or (ii) has lasted or can reasonably be expected to last longer than ninety (90) consecutive days. Under this Section 9(b), unless otherwise required by law, the existence of a Disability shall be determined by the Company, only upon receipt of a written medical opinion from a qualified physician selected by or acceptable to the Company. In this circumstance, to the extent permitted by law, Employee shall, if reasonably requested by the Company, submit to a physical examination by that qualified physician. Nothing in this Section 9 (b) is intended to nor shall it be deemed to broaden or modify the definition of "disability" in the Company's long-term disability plan.

10. Employee's Termination of Employment.

a. Notwithstanding anything herein to the contrary, Employee may terminate employment and this Agreement at any time, for no reason, with thirty (30) days written notice to Company (and in the event that Employee is providing notice of termination for Good Reason, Employee must provide such notice within 30 days after the event purported to give rise to Employee's claim for Good Reason first occurs). In such event, Employee shall not be entitled to those payments and benefits listed in Section 11 below unless Employee terminates employment for Good Reason, as defined below, or unless Section 11(a)(iii) applies.

b. Upon any termination of employment, Employee shall be entitled to any earned but unpaid Base Salary through the date of termination and such other vested benefits under any other plan or agreement covering Employee which shall be governed by the terms of such plan or agreement. Notwithstanding anything to the contrary herein, such unpaid Base Salary shall be paid to Employee as soon as practicable after the effective date of termination in accordance with the Company's usual payroll practices (not less frequently than monthly); provided, however, that if payment at such time would result in a prohibited acceleration under Section 409A of the Internal Revenue Code, then such amount shall be paid at the time the amount would otherwise have been paid absent such prohibited acceleration.

c. Good Reason shall mean any of the following actions taken by the Company:

(i) A reduction by the Company in Employee's Base Salary or target bonus level;

(ii) The Company shall fail to continue in effect any significant Company-sponsored compensation plan or benefit (without replacing it with a similar plan or with a compensation equivalent), unless such action is in connection with across-the-board plan changes or terminations similarly affecting at least 95 percent of all officers of the Company or 100 percent of officers at the same grade level;

(iii) The Company's principal executive offices shall be moved to a location outside the middle-Tennessee area, or Employee is required (absent mutual agreement) to be based anywhere other than the Company's principal executive offices;

(iv) Without Employee's written consent, the assignment to Employee by the Company of duties inconsistent with, or the significant reduction of the title, powers and functions associated with, Employee's position, title or office as described in Section 3 above, unless such action is the result of a restructuring or realignment of duties and responsibilities by the Company, for business reasons, that leaves Employee at the same rate of Base Salary, annual target bonus opportunity, and officer level (i.e., Executive Vice President, etc.) and with a similar level of responsibility, or unless such action is the result of Employee's failure to meet pre-established and objective performance criteria;

(v) Any material breach by the Company of this Agreement; or

(vi) The failure of any successor (whether direct or indirect, by purchase, merger, assignment, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to assume expressly 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.

Good Reason shall not include Employee's death, Disability or Termination for Cause or Employee's termination for *any* reason other than Good Reason as defined above.

d. Prior to Employee being entitled to the payments or benefits described in Section 11 below, the Company shall have the opportunity to cure any claimed event of Good Reason within thirty (30) days after receiving written notice from Employee specifying the same.

11. Termination without Cause or by Employee for Good Reason.

a. The continuation of Base Salary and other payments and benefits described in Section 11(b) shall be triggered *only* upon one or more of the following circumstances:

(i) The Company terminates Employee (as it may do at any time) without Cause; it being understood that termination by death or Disability does not constitute termination without Cause;

(ii) Employee terminates for Good Reason;

(iii) The Company fails to offer to renew, extend or replace this Agreement before, at, or within six (6) months after, the end of its original three-year Term (or any term provided for in a written renewal or extension of the original Term), and Employee resigns from employment with the Company within sixty (60) days after such failure, unless such failure is accompanied by a mutually agreeable severance arrangement between the Company and Employee or is the result of Employee's retirement or other termination from the Company other than for Good Reason notwithstanding the Company's offer to renew, extend or replace this Agreement.

b. In the event of one of the triggers referenced in Sections 11(a)(i) through (iii) above, then, on the sixtieth (60th) day after Employee's termination of employment, but contingent upon the execution and effectiveness of the Release attached hereto and made a part hereof, and subject to Section 22(n) below, Employee shall be entitled to the following:

(i) Continuation of Employee's Base Salary as of the date immediately preceding the termination (or, if the termination of employment is for Good Reason due to the reduction of Employee's Base Salary, then such rate of Base Salary as in effect immediately prior to such reduction) for 24 months, payable in accordance with the Company's normal payroll cycle and procedures (but not less frequently than monthly) with a lump sum payment on the sixtieth (60th) day after Employee's termination of the amounts Employee would otherwise have received during the sixty (60) days after Employee's termination had the payments begun immediately after Employee's termination of employment. Notwithstanding anything to the contrary in this Agreement, the amount of any payment or entitlement to payment of the aforesaid Base Salary continuation shall be forfeited or, if paid, subject to recovery by the Company in the event and to the extent of any base salary earned by the Employee as a result of subsequent employment during the 24 months after Employee's termination of employment. In no event shall Employee be obligated to seek other employment or take any other action by way of mitigation of such amounts payable to Employee and, except as provided in the preceding sentence, such amounts shall not be reduced whether or not the Employee obtains other employment.

(ii) A lump sum payment of two times the amount of the average percentage of target bonus paid or to be paid to employees at the same job grade level of Employee (if any) under the annual bonus programs for officers in respect of the Company's two fiscal years immediately preceding the fiscal year in which the termination date occurs.

(iii) A lump sum payment in an amount equal to two times the annual contribution that would have been made by the Company in respect of the plan year in which such termination of employment occurs for Employee's participation in the Company's medical, pharmacy, dental and vision benefits programs.

(iv) Reasonable outplacement services, as determined and provided by the Company, for one year or until other employment is secured, whichever comes first.

All payments and benefits otherwise provided to Employee pursuant to this Section 11 shall be forfeited if a copy of the Release attached hereto executed by Employee is not provided to the Company within twenty-one (21) days after Employee's termination date (unless

otherwise required by law) or if the Release is revoked; and no payment or benefit hereunder shall be provided to Employee prior to the Company's receipt of the Release and the expiration of the period of revocation provided in the Release. For the avoidance of doubt, this Section 11(b) shall not permit the Company to delay the provision of any payments or benefits beyond the 60th day after Employee's termination date, and consistent with applicable law, the only deferral thereof may be made pursuant to Section 22(n) below in a manner that is compliant with applicable law.

c. In the event that there is a material breach by Employee of any continuing obligations under this Agreement or the Release after termination of employment, any unpaid amounts under this Section 11 shall be forfeited and Company shall retain any other rights available to it under law or equity. Any payments or reimbursements under this Section 11 shall not be deemed the continuation of Employee's employment for any purpose. Except as specifically enumerated in the Release, the Company's payment obligations under this Section 11 will not negate or reduce (i) any amounts otherwise due but not yet paid to Employee by the Company, or (ii) any other amounts payable to Employee outside this Agreement, or (iii) those benefits owed under any other plan or agreement covering Employee which shall be governed by the terms of such plan or agreement. The Company may, at any time and in its sole discretion, make a lump-sum payment of any or all amounts, or any or all remaining amounts, due to Employee under this Section 11 if, or to the extent, the payment is not subject to Section 409A of the Internal Revenue Code.

12. Effect of 280G. Any payments and benefits due under Section 11 that constitute "parachute payments" within the meaning of Section 280G of the Internal Revenue Code ("Code Section 280G"), plus all other "parachute payments" as defined under Code Section 280G that might otherwise be due to the Employee (collectively, with payments and benefits due under Section 11, "Total Payments"), shall be limited to the Capped Amount. The "Capped Amount" shall be the amount otherwise payable, reduced in such amount and to such extent so that no amount of the payments and benefits under Section 11, plus all other "parachute payments" as defined under Code Section 280G that might otherwise be due to the Employee (collectively "Total Payments"), would constitute an "excess parachute payment" under Code Section 280G. Notwithstanding the preceding sentence but contingent upon Employee's timely execution and the effectiveness of the Release attached hereto and made a part hereof as provided in Section 11 hereof, the Employee's Total Payments shall not be limited to the Capped Amount if it is determined that Employee would receive at least \$50,000 in greater after-tax proceeds if no such reduction is made. The calculation of the

Capped Amount and all other determinations relating to the applicability of Code Section 280G (and the rules and regulations promulgated thereunder) to the payments contemplated by this Agreement shall be made by the tax department of an independent public accounting firm, or, at Company's discretion, by a compensation consulting firm, and such determinations shall be binding upon Employee and the Company. Unless Employee and the Company shall otherwise agree (provided such agreement does not cause any payment or benefit hereunder which is deferred compensation covered by Section 409A of the Internal Revenue Code to be in non-compliance with Section 409A of the Internal Revenue Code), in the event the Payments are to be reduced, the Company shall reduce or eliminate the payments or benefits to Employee by first reducing or eliminating those payments or benefits which are not payable in cash and then by reducing or eliminating cash payments, in each case in reverse order beginning with payments or benefits which are to be paid the farthest in time from the date of the "change in ownership or control" (within the meaning of Code Section 280G) (a "Change in Control"). Any reduction pursuant to the preceding sentence shall take precedence over the provisions of any other plan, arrangement or agreement governing Employee's rights and entitlements to any benefits or compensation.

13. Publicity; No Disparaging Statement. Except as otherwise provided in Section 14 hereof, Employee and the Company covenant and agree that they shall not engage in any communications to persons outside the Company which shall disparage one another or interfere with their existing or prospective business relationships.

14. Confidentiality and Legal Process. Employee agrees to keep the proprietary terms, of this Agreement confidential and to refrain from disclosing any information concerning this Agreement to anyone other than Employee's immediate family and personal agents or advisors. Notwithstanding the foregoing, nothing in this Agreement is intended to prohibit Employee or the Company from performing any duty or obligation that shall arise as a matter of law. Specifically, Employee and the Company shall continue to be under a duty to truthfully respond to any legal and valid subpoena or other legal process. This Agreement is not intended in any way to proscribe Employee's or the Company's right and ability to provide information to any federal, state or local agency in response or adherence to the lawful exercise of such agency's authority.

15. Business Protection Provision Definitions.

a. Preamble. As a material inducement to the Company to enter into this Agreement, and in recognition of the valuable experience, knowledge and proprietary

information Employee has gained or will gain while employed, Employee agrees to abide by and adhere to the business protection provisions in Sections 15, 16, 17, 18 and 19 herein.

b. Definitions . For purposes of Sections 15, 16, 17, 18, 19 and 20 herein:

(i) “Competitive Position” shall mean any employment, consulting, advisory, directorship, agency, promotional or independent contractor arrangement between Employee and (x) any person or Entity engaged wholly or in material part in the business in which the Company is engaged (i.e., the discount consumable basic or general merchandise retail business), including but not limited to such other similar businesses as Wal-Mart, Sam’s, Target, Costco, K-Mart, Big Lots, BJ’s Wholesale, Walgreen’s, Rite-Aid, CVS, Family Dollar Stores, Fred’s, the 99 Cents Stores, Casey’s General Stores, Inc., Circle K, 7-11 Stores, Pantry, Inc. and Dollar Tree Stores, or (y) any person or Entity then attempting or planning to enter the discount consumable basics retail business, whereby Employee is required to perform services on behalf of or for the benefit of such person or Entity which are substantially similar to the services Employee provided or directed at any time while employed by the Company or any of its affiliates.

(ii) “Confidential Information” shall mean the proprietary or confidential data, information, documents or materials (whether oral, written, electronic or otherwise) belonging to or pertaining to the Company, other than “Trade Secrets” (as defined below), which is of tangible or intangible value to the Company and the details of which are not generally known to the competitors of the Company. Confidential Information shall also include any items marked “CONFIDENTIAL” or some similar designation or which are otherwise identified as being confidential.

(iii) “Entity” or “Entities” shall mean any business, individual, partnership, joint venture, agency, governmental agency, body or subdivision, association, firm, corporation, limited liability company or other entity of any kind.

(iv) “Restricted Period” shall mean two (2) years following Employee’s termination date.

(v) “Territory” shall include individually and as a total area those states in the United States in which the Company maintains stores at Employee’s termination date or those states in which the Company has specific and demonstrable plans to open stores within six months of Employee’s termination date.

(vi) “Trade Secrets” shall mean information or data of or about the Company, including, but not limited to, technical or non-technical data, formulas, patterns, compilations, programs, devices, methods, techniques, drawings, processes, financial data, financial plans, product plans or lists of actual or potential customers or suppliers that: (A) derives economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use; (B) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy; and (C) any other information which is defined as a “trade secret” under applicable law.

(vii) “Work Product” shall mean all tangible work product, property, data, documentation, “know-how,” concepts or plans, inventions, improvements, techniques and processes relating to the Company that were conceived, discovered, created, written, revised or developed by Employee while employed by the Company.

16. Nondisclosure: Ownership of Proprietary Property.

a. In recognition of the Company’s need to protect its legitimate business interests, Employee hereby covenants and agrees that, for the Term and thereafter (as described below), Employee shall regard and treat Trade Secrets and Confidential Information as strictly confidential and wholly-owned by the Company and shall not, for any reason, in any fashion, either directly or indirectly, use, sell, lend, lease, distribute, license, give, transfer, assign, show, disclose, disseminate, reproduce, copy, misappropriate or otherwise communicate any Trade Secrets or Confidential Information to any person or Entity for any purpose other than in accordance with Employee’s duties under this Agreement or as required by applicable law. This provision shall apply to each item constituting a Trade Secret at all times it remains a “trade secret” under applicable law and shall apply to any Confidential Information, during employment and for the Restricted Period thereafter.

b. Employee shall exercise best efforts to ensure the continued confidentiality of all Trade Secrets and Confidential Information and shall immediately notify the Company of any unauthorized disclosure or use of any Trade Secrets or Confidential Information of which Employee becomes aware. Employee shall assist the Company, to the extent reasonably requested, in the protection or procurement of any intellectual property protection or other rights in any of the Trade Secrets or Confidential Information.

c. All Work Product shall be owned exclusively by the Company. To the greatest extent possible, any Work Product shall be deemed to be “work made for hire” (as defined in the Copyright Act, 17 U.S.C.A. § 101 et seq., as amended), and Employee hereby unconditionally and irrevocably transfers and assigns to the Company all right, title and interest Employee currently has or may have by operation of law or otherwise in or to any Work Product, including, without limitation, all patents, copyrights, trademarks (and the goodwill associated therewith), trade secrets, service marks (and the goodwill associated therewith) and other intellectual property rights. Employee agrees to execute and deliver to the Company any transfers, assignments, documents or other instruments which the Company may deem necessary or appropriate, from time to time, to protect the rights granted herein or to vest complete title and ownership of any and all Work Product, and all associated intellectual property and other rights therein, exclusively in the Company.

17. Non-Interference with Employees . Through employment and thereafter through the Restricted Period, Employee will not, either directly or indirectly, alone or in conjunction with any other person or Entity: actively recruit, solicit, attempt to solicit, induce or attempt to induce any person who is an exempt employee of the Company or any of its subsidiaries or affiliates (or has been within the last 6 months) to leave or cease such employment for any reason whatsoever;

18. Non-Interference with Business Relationships .

a. Employee acknowledges that, in the course of employment, Employee will learn about Company’s business, services, materials, programs and products and the manner in which they are developed, marketed, serviced and provided. Employee knows and acknowledges that the Company has invested considerable time and money in developing its product sales and real estate development programs and relationships, vendor and other service provider relationships and agreements, store layouts and fixtures, and marketing techniques and that those things are unique and original. Employee further acknowledges that the Company has a strong business reason to keep secret information relating to Company’s business concepts, ideas, programs, plans and processes, so as not to aid Company’s competitors. Accordingly, Employee acknowledges and agrees that the protection outlined in (b) below is necessary and reasonable.

b. During the Restricted Period, Employee will not, on Employee’s own behalf or on behalf of any other person or Entity, solicit, contact, call upon, or communicate with any person or entity or any representative of any person or entity who has a business

relationship with Company and with whom Employee had contact while employed, if such contact or communication would likely interfere with Company's business relationships or result in an unfair competitive advantage over Company.

19. Agreement Not to Work in Competitive Position . Employee covenants and agrees not to accept, obtain or work in a Competitive Position for a company or entity that operates anywhere within the Territory for the Restricted Period.

20. Acknowledgements Regarding Sections 15 – 19.

a. Employee and Company expressly covenant and agree that the scope, territorial, time and other restrictions contained in Sections 15 through 19 of this Agreement constitute the most reasonable and equitable restrictions possible to protect the business interests of the Company given: (i) the business of the Company; (ii) the competitive nature of the Company's industry; and (iii) that Employee's skills are such that Employee could easily find alternative, commensurate employment or consulting work in Employee's field which would not violate any of the provisions of this Agreement.

b. Employee acknowledges that the compensation and benefits described in Sections 5 and 11 are also in consideration of his/her covenants and agreements contained in Sections 15 through 19 hereof and that a breach by Employee of the obligations contained in Sections 15 through 19 hereof shall forfeit Employee's right to such compensation and benefits.

c. Employee acknowledges and agrees that a breach by Employee of the obligations set forth in Sections 15 through 19 will likely cause Company irreparable injury and that, in such event, the Company shall be entitled to injunctive relief in addition to such other and further relief as may be proper.

d. The parties agree that if, at any time, a court of competent jurisdiction determines that any of the provisions of Section 15 through 19 are unreasonable under Tennessee law as to time or area or both, the Company shall be entitled to enforce this Agreement for such period of time or within such area as may be determined reasonable by such court.

21. Return of Materials . Upon Employee's termination, Employee shall return to the Company all written, electronic, recorded or graphic materials of any kind belonging or relating to

the Company or its affiliates, including any originals, copies and abstracts in Employee's possession or control.

22. General Provisions .

- a. Amendment . This Agreement may be amended or modified only by a writing signed by both of the parties hereto.
- b. Binding Agreement . This Agreement shall inure to the benefit of and be binding upon Employee, his/her heirs and personal representatives, and the Company and its successors and assigns.
- c. Waiver Of Breach; Specific Performance . The waiver of a breach of any provision of this Agreement shall not operate or be construed as a waiver of any other breach. Each of the parties to this Agreement will be entitled to enforce this Agreement, specifically, to recover damages by reason of any breach of this Agreement, and to exercise all other rights existing in that party's favor. The parties hereto agree and acknowledge that money damages may not be an adequate remedy for any breach of the provisions of this Agreement and that any party may apply to any court of law or equity of competent jurisdiction for specific performance or injunctive relief to enforce or prevent any violations of the provisions of this Agreement.
- d. Unsecured General Creditor . The Company shall neither reserve nor specifically set aside funds for the payment of its obligations under this Agreement, and such obligations shall be paid solely from the general assets of the Company.
- e. No Effect On Other Arrangements . It is expressly understood and agreed that the payments made in accordance with this Agreement are in addition to any other benefits or compensation to which Employee may be entitled or for which Employee may be eligible.
- f. Tax Withholding . There shall be deducted from each payment under this Agreement the amount of any tax required by any governmental authority to be withheld and paid over by the Company to such governmental authority for the account of Employee.
- g. Notices .
 - (i) All notices and all other communications provided for herein shall be in writing and delivered personally to the other designated party, or mailed by certified or registered mail, return receipt requested, or delivered by a recognized national overnight courier service, or sent by facsimile, as follows:

If to Company to: Dollar General Corporation
Attn: General Counsel
100 Mission Ridge
Goodlettsville, TN 37072-2171
Facsimile: (615) 855-5517

If to Employee to: (Last address of Employee known to Company unless otherwise directed in writing by Employee)

(ii) All notices sent under this Agreement shall be deemed given twenty-four (24) hours after sent by facsimile or courier, seventy-two (72) hours after sent by certified or registered mail and when delivered if by personal delivery.

(iii) Either party hereto may change the address to which notice is to be sent hereunder by written notice to the other party in accordance with the provisions of this Section.

h. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Tennessee (without giving effect to conflict of laws).

i. Entire Agreement. This Agreement contains the full and complete understanding of the parties hereto with respect to the subject matter contained herein and, unless specifically provided herein, this Agreement supersedes and replaces any prior agreement, either oral or written, which Employee may have with Company that relates generally to the same subject matter.

j. Assignment. This Agreement may not be assigned by Employee, and any attempted assignment shall be null and void and of no force or effect.

k. Severability. If any one or more of the terms, provisions, covenants or restrictions of this Agreement shall be determined by a court of competent jurisdiction to be invalid, void or unenforceable, then the remainder of the terms, provisions, covenants and restrictions of this Agreement shall remain in full force and effect, and to that end the provisions hereof shall be deemed severable.

l. Section Headings. The Section headings set forth herein are for convenience of reference only and shall not affect the meaning or interpretation of this Agreement whatsoever.

m. Voluntary Agreement. Employee and Company represent and agree that each has reviewed all aspects of this Agreement, has carefully read and fully understands all

provisions of this Agreement, and is voluntarily entering into this Agreement. Each party represents and agrees that such party has had the opportunity to review any and all aspects of this Agreement with legal, tax or other adviser(s) of such party's choice before executing this Agreement.

n. Deferred Compensation Omnibus Provision. It is intended that any payment or benefit which is provided pursuant to or in connection with this Agreement which is considered to be deferred compensation subject to Section 409A of the Internal Revenue Code ("Code Section 409A") shall be paid and provided in a manner, and at such time, including without limitation payment and provision of benefits only in connection with the occurrence of a permissible payment event contained in Code Section 409A (e.g. death, disability, separation from service from the Company and its affiliates as defined for purposes of Code Section 409A), and in such form, as complies with the applicable requirements of Code Section 409A to avoid the unfavorable tax consequences provided therein for non-compliance. In connection with effecting such compliance with Code Section 409A, the following shall apply:

(i) Notwithstanding any other provision of this Agreement, the Company is authorized to amend this Agreement, to void or amend any election made by Employee under this Agreement and/or to delay the payment of any monies and/or provision of any benefits in such manner as may be determined by it to be necessary or appropriate to comply, or to evidence or further evidence required compliance, with Code Section 409A (including any transition or grandfather rules thereunder).

(ii) Neither Employee nor the Company shall take any action to accelerate or delay the payment of any monies and/or provision of any benefits in any manner which would not be in compliance with Code Section 409A (including any transition or grandfather rules thereunder).

(iii) If Employee is a specified employee for purposes of Code Section 409A(a)(2)(B)(i), any payment or provision of benefits in connection with a separation from service payment event (as determined for purposes of Code Section 409A) shall not be made until six months after Employee's separation from service (the "409A Deferral Period"). In the event such payments are otherwise due to be made in installments or periodically during the 409A Deferral Period, the payments which would otherwise have been made in the 409A Deferral Period shall be

accumulated and paid in a lump sum as soon as the 409A Deferral Period ends, and the balance of the payments shall be made as otherwise scheduled. In the event benefits are required to be deferred, any such benefit may be provided during the 409A Deferral Period at Employee's expense, with Employee having a right to reimbursement from the Company once the 409A Deferral Period ends, and the balance of the benefits shall be provided as otherwise scheduled.

(iv) If a Change in Control occurs but the Change in Control does not constitute a change in control event within the meaning of Code Section 409A (a "409A Change in Control"), then payment of any amount or provision of any benefit under this Agreement which is considered to be deferred compensation subject to Code Section 409A shall be deferred until another permissible payment event contained in Code Section 409A occurs (e.g., death, disability, separation from service from the Company and its affiliated companies as defined for purposes of Code Section 409A), including any deferral of payment or provision of benefits for the 409A Deferral Period as provided above.

(v) For purposes of this Agreement, all rights to payments and benefits hereunder shall be treated as rights to receive a series of separate payments and benefits to the fullest extent allowed by Code Section 409A. If under this Agreement, an amount is to be paid in two or more installments, for purposes of Code Section 409A, each installment shall be treated as a separate payment. In the event any payment payable upon termination of employment would be exempt from Code Section 409A under Treas. Reg. § 1.409A-1(b)(9)(iii) but for the amount of such payment, the determination of the payments to Employee that are exempt under such provision shall be made by applying the exemption to payments based on chronological order beginning with the payments paid closest in time on or after such termination of employment.

(vi) For purposes of determining time of (but not entitlement to) payment or provision of deferred compensation under this Agreement under Code Section 409A in connection with a termination of employment, termination of employment will be read to mean a "separation from service" within the meaning of Code Section 409A where it is reasonably anticipated that no further services would be performed after that date or that the level of bona fide services Employee would perform after that date (whether as an employee or independent contractor) would permanently decrease

to less than 50% of the average level of bona fide services performed over the immediately preceding thirty-six (36) month period.

(vii) For purposes of this Agreement, a key employee for purposes of Code Section 409A(a)(2)(B)(i) shall be determined on the basis of the applicable 12-month period ending on the specified employee identification date designated by the Company consistently for purposes of this Agreement and similar agreements or, if no such designation is made, based on the default rules and regulations under Code Section 409A(a)(2)(B)(i).

(viii) Notwithstanding any other provision of this Agreement, the Company shall not be liable to Employee if any payment or benefit which is to be provided pursuant to this Agreement and which is considered deferred compensation subject to Code Section 409A otherwise fails to comply with, or be exempt from, the requirements of Code Section 409A.

(ix) With regard to any provision herein that provides for reimbursement of expenses or in-kind benefits that are subject to Code Section 409A, except as permitted by Code Section 409A, (x) the right to reimbursement or in-kind benefits is not subject to liquidation or exchange for another benefit, and (y) the amount of expenses eligible for reimbursement, or in-kind benefits, provided during any taxable year of Employee shall not affect the expenses eligible for reimbursement, or in-kind benefits to be provided, in any other taxable year of Employee, provided that the foregoing clause (y) shall not be violated with regard to expenses reimbursed under any arrangement covered by Code Section 105(b) solely because such expenses are subject to a limit related to the period the arrangement is in effect. All reimbursements shall be reimbursed in accordance with the Company's reimbursement policies but in no event later than Employee's taxable year following Employee's taxable year in which the related expense is incurred.

(x) When, if ever, a payment under this Agreement specifies a payment period with reference to a number of days (e.g., "payment shall be made within ten (10) days following the date of termination"), the actual date of payment within the specified period shall be within the sole discretion of the Company.

IN WITNESS WHEREOF, the parties hereto have executed, or caused their duly authorized representative to execute this Agreement to be effective as of the Effective Date.

Date: March 29, 2012

DOLLAR GENERAL CORPORATION

By: /s/ Bob Ravener

Name: Bob Ravener

Title: EVP, Chief People Officer

“EMPLOYEE”

/s/ Gregory A. Sparks
Gregory A. Sparks

Date: March 29, 2012

Witnesses By:

/s/ L. LeBlanc
[Name of Witness]

Addendum to Employment Agreement with Gregory A. Sparks

RELEASE AGREEMENT

THIS RELEASE (“Release”) is made and entered into by and between Gregory A. Sparks (“Employee”) and **DOLLAR GENERAL CORPORATION**, and its successor or assigns (“Company”).

WHEREAS, Employee and Company have agreed that Employee’s employment with Dollar General Corporation shall terminate on _____;

WHEREAS, Employee and the Company have previously entered into that certain Employment Agreement, effective _____ (“Agreement”), in which the form of this Release is incorporated by reference;

WHEREAS, Employee and Company desire to delineate their respective rights, duties and obligations attendant to such termination and desire to reach an accord and satisfaction of all claims arising from Employee’s employment, and termination of employment, with appropriate releases, in accordance with the Agreement;

WHEREAS, the Company desires to compensate Employee in accordance with the Agreement for service Employee has provided and/or will provide for the Company;

NOW, THEREFORE, in consideration of the premises and the agreements of the parties set forth in this Release, and other good and valuable consideration the receipt and sufficiency of which are hereby acknowledged, the parties hereto, intending to be legally bound, hereby covenant and agree as follows:

1. Claims Released Under This Agreement.

In exchange for receiving the payments and benefits described in Section 11 of the Agreement, Employee hereby voluntarily and irrevocably waives, releases, dismisses with prejudice, and withdraws all claims, complaints, suits or demands of any kind whatsoever (whether known or unknown) which Employee ever had, may have, or now has against Company and other current or former subsidiaries or affiliates of the Company and their past, present and future officers, directors, employees, agents, insurers and attorneys (collectively, the “Releasees”), arising from or relating to (directly or indirectly) Employee’s employment or the termination of employment or other events that have occurred as of the date of execution of this Agreement, including but not limited to:

- a. claims for violations of Title VII of the Civil Rights Act of 1964, the Age Discrimination in Employment Act, the Fair Labor Standards Act, the Civil Rights Act of 1991, the Americans With Disabilities Act, the Equal Pay Act, the Family and Medical Leave Act, 42 U.S.C. § 1981, the Sarbanes Oxley Act of 2002, the National Labor Relations Act, the Labor Management Relations Act, the Genetic Information Nondiscrimination Act, the Uniformed Services Employment and Reemployment Rights Act, Executive Order 11246, Executive Order 11141, the Rehabilitation Act of 1973, or the Employee Retirement Income Security Act;
- b. claims for violations of any other federal or state statute or regulation or local ordinance;
- c. claims for lost or unpaid wages, compensation, or benefits, defamation, intentional or negligent infliction of emotional distress, assault, battery, wrongful or constructive discharge, negligent hiring, retention or supervision, fraud, misrepresentation, conversion, tortious interference, breach of contract, or breach of fiduciary duty;
- d. claims to benefits under any bonus, severance, workforce reduction, early retirement, outplacement, or any other similar type plan sponsored by the Company (except for those benefits owed under any other plan or agreement covering Employee which shall be governed by the terms of such plan or agreement); or
- e. any other claims under state law arising in tort or contract.

2. Claims Not Released Under This Agreement.

In signing this Release, Employee is not releasing any claims that may arise under the terms of this Release or which may arise out of events occurring after the date Employee executes this Release.

Employee also is not releasing claims to benefits that Employee is already entitled to receive under any other plan or agreement covering Employee which shall be governed by the terms of such plan or agreement. However, Employee understands and acknowledges that nothing herein is intended to or shall be construed to require the Company to institute or continue in effect any particular plan or benefit sponsored by the Company, and the Company hereby reserves the right to amend or terminate any of its benefit programs at any time in accordance with the procedures set forth in such plans. Employee further understands and acknowledges that any continuing obligation under a Company incentive-based plan, program or arrangement or pursuant to any Company policy

or provision regarding recoupment of compensation is not altered by this Release and nothing herein is intended to nor shall be construed otherwise.

Nothing in this Release shall prohibit Employee from engaging in activities required or protected under applicable law or from communicating, either voluntarily or otherwise, with any governmental agency concerning any potential violation of the law.

3. No Assignment of Claim. Employee represents that Employee has not assigned or transferred, or purported to assign or transfer, any claims or any portion thereof or interest therein to any party prior to the date of this Release.

4. Compensation. In accordance with the Agreement, the Company agrees to pay Employee or, if Employee becomes eligible for payments and benefits under Section 11 but dies before receipt thereof, Employee's spouse or estate, as the case may be, the amounts provided in Section 11 of the Agreement.

5. Publicity; No Disparaging Statement. Except as otherwise provided in Section 14 of the Agreement, Section 2 of this Release, and as privileged by law, Employee and the Company covenant and agree that they shall not engage in any communications with persons outside the Company which shall disparage one another or interfere with their existing or prospective business relationships.

6. No Admission Of Liability. This Release shall not in any way be construed as an admission by the Company or Employee of any improper actions or liability whatsoever as to one another, and each specifically disclaims any liability to or improper actions against the other or any other person.

7. Voluntary Execution. Employee warrants, represents and agrees that Employee has been encouraged in writing to seek advice regarding this Release from an attorney and tax advisor prior to signing it; that this Release represents written notice to do so; that Employee has been given the opportunity and sufficient time to seek such advice; and that Employee fully understands the meaning and contents of this Release. Employee further represents and warrants that Employee was not coerced, threatened or otherwise forced to sign this Release, and that Employee's signature appearing hereinafter is voluntary and genuine. EMPLOYEE UNDERSTANDS THAT EMPLOYEE MAY TAKE UP TO TWENTY-ONE (21) DAYS (OR, IN THE CASE OF AN EXIT INCENTIVE OR OTHER EMPLOYMENT TERMINATION PROGRAM OFFERED TO A GROUP OR CLASS OF EMPLOYEES, UP TO FORTY-FIVE (45) DAYS) TO CONSIDER WHETHER TO ENTER INTO THIS RELEASE.

8. Ability to Revoke Agreement . EMPLOYEE UNDERSTANDS THAT THIS RELEASE MAY BE REVOKED BY EMPLOYEE BY NOTIFYING THE COMPANY IN WRITING OF SUCH REVOCATION WITHIN SEVEN (7) DAYS OF EMPLOYEE'S EXECUTION OF THIS RELEASE AND THAT THIS RELEASE IS NOT EFFECTIVE UNTIL THE EXPIRATION OF SUCH SEVEN (7) DAY PERIOD. EMPLOYEE UNDERSTANDS THAT UPON THE EXPIRATION OF SUCH SEVEN (7) DAY PERIOD THIS RELEASE WILL BE BINDING UPON EMPLOYEE AND EMPLOYEE'S HEIRS, ADMINISTRATORS, REPRESENTATIVES, EXECUTORS, SUCCESSORS AND ASSIGNS AND WILL BE IRREVOCABLE.

Acknowledged and Agreed To:

"COMPANY"

DOLLAR GENERAL CORPORATION

By: _____

Its: _____

I UNDERSTAND THAT BY SIGNING THIS RELEASE, I AM GIVING UP RIGHTS I MAY HAVE. I UNDERSTAND THAT I DO NOT HAVE TO SIGN THIS RELEASE.

"EMPLOYEE"

Date _____

WITNESSED BY:

Date _____

June 4, 2012

The Board of Directors and Shareholders

Dollar General Corporation

We are aware of the incorporation by reference in the Registration Statements (Nos. 333-151047, 333-151049, 333-151655, 333-151661 and 333-163200 on Form S-8 and 333-165799 and 333-165800 on Form S-3) of Dollar General Corporation of our report dated June 4, 2012 relating to the unaudited condensed consolidated interim financial statements of Dollar General Corporation that are included in its Form 10-Q for the quarter ended May 4, 2012.

/s/ Ernst & Young LLP
Nashville, Tennessee

CERTIFICATIONS

I, Richard W. Dreiling, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Dollar General Corporation;
2. Based on my knowledge, this 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: June 4, 2012

/s/ Richard W. Dreiling
Richard W. Dreiling
Chief Executive Officer

I, David M. Tehle, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Dollar General Corporation;
2. Based on my knowledge, this 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: June 4, 2012

/s/ David M. Tehle
David M. Tehle
Chief Financial Officer

CERTIFICATIONS
Pursuant to 18 U.S.C. Section 1350

Each of the undersigned hereby certifies that to his knowledge the Quarterly Report on Form 10-Q for the fiscal quarter ended May 4, 2012 of Dollar General Corporation (the "Company") filed with the Securities and Exchange Commission on the date hereof fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in such report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Richard W. Dreiling

Name: Richard W. Dreiling
Title: Chief Executive Officer
Date: June 4, 2012

/s/ David M. Tehle

Name: David M. Tehle
Title: Chief Financial Officer
Date: June 4, 2012
