DOLLAR GENERAL CORP

FORM 10-Q
(Quarterly Report)

Filed 05/26/05 for the Period Ending 04/29/05

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

DOLLAR GENERAL CORP

FORM 10-Q
(Quarterly Report)

Filed 5/26/2005 For Period Ending 4/29/2005

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

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

FORM 10-Q

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

For the quarterly period ended April 29, 2005

Commission file number: 001-11421

DOLLAR GENERAL CORPORATION
(Exact name of Registrant as Specified in Its Charter)

TENNESSEE	**61-0502302**
(State or Other Jurisdiction of Incorporation or Organization)	*(I.R.S. Employer Identification 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 [X] No [ ]

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

The number of shares of common stock outstanding on May 24, 2005, was 327,977,070.

PART I—FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	April 29, 2005	January 28, 2005
ASSETS	(Unaudited)	
Current assets:		
Cash and cash equivalents	$ 236,523	$ 232,830
Short-term investments	-	42,925
Merchandise inventories	1,465,981	1,376,537
Deferred income taxes	21,525	24,908
Prepaid expenses and other current assets	59,166	53,702
Total current assets	1,783,195	1,730,902
Net property and equipment	1,091,997	1,080,838
Other assets, net	29,346	29,264
Total assets	$ 2,904,538	$ 2,841,004
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term obligations	$ 10,737	$ 12,860
Accounts payable	459,742	409,327
Accrued expenses and other	322,742	333,889
Income taxes payable	54,557	69,616
Total current liabilities	847,778	825,692
Long-term obligations	256,452	258,462
Deferred income taxes	72,342	72,385
Shareholders' equity:		
Preferred stock	-	-
Common stock	164,071	164,086
Additional paid-in capital	441,119	421,600
Retained earnings	1,129,626	1,102,457
Accumulated other comprehensive loss	(928)	(973)
	1,733,888	1,687,170
Other shareholders' equity	(5,922)	(2,705)
Total shareholders' equity	1,727,966	1,684,465
Total liabilities and shareholders' equity	$ 2,904,538	$ 2,841,004

See notes to condensed consolidated financial statements.

DOLLAR GENERAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)
(Dollars in thousands except per share amounts)

	For the 13 weeks ended	
	April 29, 2005	April 30, 2004
Net sales	$ 1,977,829	$ 1,747,959
Cost of goods sold	1,414,480	1,235,709
Gross profit	563,349	512,250
Selling, general and administrative	456,428	397,700
Operating profit	106,921	114,550
Interest income	(2,616)	(2,002)
Interest expense	5,968	8,444
Income before income taxes	103,569	108,108
Income taxes	38,669	40,259
Net income	$ 64,900	$ 67,849
Earnings per share:		
Basic	$ 0.20	$ 0.20
Diluted	$ 0.20	$ 0.20
Weighted average shares outstanding:		
Basic	328,208	334,109
Diluted	331,218	337,257
Dividends per share	$ 0.04	$ 0.04

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	
	April 29, 2005	April 30, 2004
Cash flows from operating activities:		
Net income	$ 64,900	$ 67,849
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	44,006	39,636
Deferred income taxes	3,340	12,559
Tax benefit from stock option exercises	2,967	2,172
Change in operating assets and liabilities:		
Merchandise inventories	(89,444)	(120,044)
Prepaid expenses and other current assets	(5,464)	(2,235)
Accounts payable	60,526	100,549
Accrued expenses and other	(10,824)	(9,175)
Income taxes	(15,086)	(7,422)
Other	(170)	(15,512)
Net cash provided by operating activities	54,751	68,377
Cash flows from investing activities:		
Purchases of property and equipment	(65,061)	(60,703)
Purchases of short-term investments	(21,250)	(129,150)
Sales of short-term investments	64,175	126,225
Proceeds from sale of property and equipment	122	29
Net cash used in investing activities	(22,014)	(63,599)
Cash flows from financing activities:		
Repayments of long-term obligations	(4,722)	(4,063)
Payment of cash dividends	(13,145)	(13,319)
Proceeds from exercise of stock options	13,494	6,546
Repurchases of common stock	(25,062)	(133,589)
Other financing activities	391	447
Net cash used in financing activities	(29,044)	(143,978)
Net increase (decrease) in cash and cash equivalents	3,693	(139,200)
Cash and cash equivalents, beginning of period	232,830	345,899
Cash and cash equivalents, end of period	$ 236,523	$ 206,699
Supplemental schedule of noncash investing and financing activities:		
Repurchases of common stock awaiting settlement, included in Accounts payable	$ -	$ 18,996
Purchases of property and equipment awaiting processing for payment, included in Accounts payable	$ 2,810	$ 16,494
Purchases of property and equipment under capital lease obligations	$ 578	$ 550

See notes to condensed consolidated financial statements.

1. Basis of presentation and accounting policies

Basis of presentation

The accompanying unaudited condensed consolidated financial statements of Dollar General Corporation (the "Company") have been prepared in accordance with U.S. generally accepted accounting principles ("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 GAAP or those normally made in the Company's Annual Report on Form 10-K. Accordingly, the reader of this Quarterly Report on Form 10-Q should refer to the Company's Annual Report on Form 10-K for the year ended January 28, 2005 for additional information.

The accompanying condensed consolidated financial statements have been prepared in accordance with the Company's customary accounting practices and have not been audited. In management's opinion, all adjustments (which are of a normal recurring nature) necessary for a fair presentation of the consolidated financial position and results of operations for the 13-week periods ended April 29, 2005 and April 30, 2004 have been made.

Certain prior amounts have been reclassified to conform to the current period presentation. 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.

Accounting pronouncements

In December 2004, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 123R, "Share-Based Payment," which will require all companies to measure compensation cost for all share-based payments (including employee stock options) at fair value. This new standard will generally be effective for public companies no later than their first fiscal year that begins after June 15, 2005. Companies can adopt the new standard in one of two ways: (i) the modified prospective application, in which a company would recognize share-based employee compensation cost from the beginning of the fiscal period in which the recognition provisions are first applied as if the fair-value-based accounting method had been used to account for all employee awards granted, modified, or settled after the effective date and to any awards that were not fully vested as of the effective date; or (ii) the modified retrospective application, in which a company would recognize employee compensation cost for periods presented prior to the adoption of SFAS No. 123R in accordance with the original provisions of SFAS No. 123 "Accounting for Stock-Based Compensation," pursuant to which an entity would recognize employee compensation cost in the amounts reported in the pro forma disclosures provided in accordance with SFAS No. 123. The Company expects to adopt SFAS No. 123R during the first quarter of 2006 using the modified prospective application, and expects to incur incremental Selling, general and administrative expense associated with the adoption of approximately $8 million to $16 million in 2006. See Note 5 to the Condensed Consolidated Financial Statements for disclosure of the pro forma effects of stock option grants as determined using the methodology prescribed under SFAS No. 123.

2. Comprehensive income

Comprehensive income consists of the following (in thousands):

	13 Weeks Ended	
	April 29, 2005	April 30, 2004
Net income	$ 64,900	$ 67,849
Reclassification of net loss on derivatives	45	53
Comprehensive income	$ 64,945	$ 67,902

3. Earnings per share

The amounts reflected below are in thousands except per share data.

	13 Weeks Ended April 29, 2005		
	Net Income	Shares	Per Share Amount
Basic earnings per share	$ 64,900	328,208	$ 0.20
Effect of dilutive stock awards		3,010	
Diluted earnings per share	$ 64,900	331,218	$ 0.20

	13 Weeks Ended April 30, 2004		
	Net Income	Shares	Per Share Amount
Basic earnings per share	$ 67,849	334,109	$ 0.20
Effect of dilutive stock awards		3,148	
Diluted earnings per share	$ 67,849	337,257	$ 0.20

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

4. Commitments and contingencies

Legal proceedings

Restatement-Related Proceedings. As previously disclosed in the Company’s periodic reports filed with the Securities and Exchange Commission (the “SEC”), the Company restated its audited financial statements for fiscal years 1999 and 1998, and certain unaudited financial information for fiscal year 2000, by means of its Form 10-K for the fiscal year ended February 2, 2001, which was filed on January 14, 2002 (the “2001 Restatement”).

The SEC conducted an investigation into the circumstances giving rise to the 2001 Restatement and, on January 8, 2004, the Company received notice that the SEC staff was considering recommending that the SEC bring a civil injunctive action against the Company for alleged violations of the federal securities laws in connection with circumstances relating to the 2001 Restatement. On April 7, 2005, the SEC filed a Complaint and a proposed Final Judgment and Consent and Undertakings of Dollar General Corporation with the United States District Court for the Middle District of Tennessee, which the Court approved on April 14, 2005. The Final Judgment and Consent and Undertakings reflect the terms of the settlement previously agreed to by the Company and the SEC. Specifically, without admitting or denying the allegations in the Complaint, the Company consented to the entry of a permanent civil injunction against future violations of the antifraud, books and records, reporting and internal control provisions of the federal securities laws and related SEC rules and agreed to pay a $10 million non-deductible civil penalty. The Company accrued the $10 million penalty in its financial statements for the year ended January 30, 2004 and paid the $10 million penalty on April 28, 2005. The Company is not entitled to seek reimbursement from its insurers with respect to this settlement.

Other Litigation. On March 14, 2002, a complaint was filed in the United States District Court for the Northern District of Alabama (*Edith Brown, on behalf of herself and others similarly situated v. Dolgencorp. Inc., and Dollar General Corporation* , CV02-C-0673-W (*"Brown"*)) to commence a collective action against the Company on behalf of current and former salaried store managers. The complaint alleges that these individuals were entitled to overtime pay and should not have been classified as exempt employees under the Fair Labor Standards Act ("FLSA"). Plaintiffs seek to recover overtime pay, liquidated damages, declaratory relief and attorneys' fees.

On January 12, 2004, the court certified an opt-in class of plaintiffs consisting of all persons employed by the Company as store managers at any time since March 14, 1999, who regularly worked more than 50 hours per week and either: (1) customarily supervised less than two employees at one time; (2) lacked authority to hire or discharge employees without supervisor approval; or (3) sometimes worked in non-managerial positions at stores other than the one he or she managed. The Company's attempt to appeal this decision on a discretionary basis to the 11th Circuit Court of Appeals was denied.

Notice was sent to prospective class members and the deadline for individuals to opt in to the lawsuit was May 31, 2004. Approximately 5,000 individuals opted in. The Court has entered a scheduling order that governs the discovery and remaining phases of the case.

Three additional lawsuits, *Tina Depasquales v. Dollar General Corp.* (Southern District of Georgia, Savannah Division, CV 404-096, filed May 12, 2004), *Karen Buckley v. Dollar General Corp.* (Southern District of Ohio, C-2-04-484, filed June 8, 2004), and *Sheila Ann Hunsucker v. Dollar General Corp. et al.* (Western District of Oklahoma, Civ-04-165-R, filed February 19, 2004), were filed asserting essentially the same claims as the *Brown* case, all of which have since been consolidated in the Northern District of Alabama where the *Brown* litigation is pending. The Company believes that the consolidation will not affect the scheduling order or extend any of the deadlines in the *Brown* case.

The Company believes that its store managers are and have been properly classified as exempt employees under the FLSA and that the action is not appropriate for collective action treatment. The Company intends to vigorously defend the action. However, no assurances can be given that the Company will be successful in defending this action on the merits or otherwise, and, if not, the resolution could have a material adverse effect on the Company's financial statements as a whole.

The Company is involved in other legal actions and claims arising in the ordinary course of business. The Company currently believes that such other litigation and claims, both individually and in the aggregate, will be resolved without a material 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 financial statements as a whole.

5. Stock-based compensation

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

	13 Weeks Ended	
(Amounts in thousands except per share data)	April 29, 2005	April 30, 2004
Net income – as reported	$ 64,900	$ 67,849
Less pro forma effect of stock option grants, net of tax	2,586	3,538
Net income – pro forma	$ 62,314	$ 64,311
Earnings per share – as reported		
Basic	$ 0.20	$ 0.20
Diluted	$ 0.20	$ 0.20
Earnings per share – pro forma		
Basic	$ 0.19	$ 0.19
Diluted	$ 0.19	$ 0.19

The fair value of options granted during the first quarter of 2005 and 2004 was $6.56 and $5.98 per share, respectively. The fair value of each stock option grant was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

	13 Weeks Ended	
	April 29, 2005	April 30, 2004
Expected dividend yield	0.9 %	0.9 %
Expected stock price volatility	27.4 %	36.8 %
Weighted average risk-free interest rate	4.3 %	2.4 %
Expected life of options (years)	5.0	4.0

6. Segment reporting

The Company manages its business on the basis of one reportable segment. As of April 29, 2005, all of the Company’s operations were located within the United States, with the exception of an immaterial Hong Kong subsidiary formed to assist in the process of importing certain merchandise that began operations in 2004. The following data is presented in accordance with SFAS No. 131, “Disclosures about Segments of an Enterprise and Related Information.”

	13 Weeks Ended	
(In thousands)	April 29, 2005	April 30, 2004
Classes of similar products:		
Net sales:		
Highly consumable	$ 1,321,306	$ 1,114,394
Seasonal	275,295	260,438
Home products	211,752	214,773
Basic clothing	169,476	158,354
	$ 1,977,829	$ 1,747,959

7. Guarantor subsidiaries

All of the Company’s subsidiaries, except for its not-for-profit subsidiary whose assets and revenues are not material (the “Guarantors”), have fully and unconditionally guaranteed on a joint and several basis the Company’s obligations under certain outstanding debt obligations. Each of the Guarantors is a direct or indirect wholly owned subsidiary of the Company. In order to participate as a subsidiary guarantor on certain of the Company’s financing arrangements, a subsidiary of the Company has entered into a letter agreement with certain state regulatory agencies to maintain a minimum balance of stockholders’ equity of $50 million in excess of the Company’s debt it has guaranteed, or $500 million as of April 29, 2005. The subsidiary of the Company was in compliance with such agreement as of April 29, 2005.

The following consolidating schedules present condensed financial information on a combined basis. Dollar amounts are in thousands.

	As of April 29, 2005			
	DOLLAR GENERAL CORPORATION	GUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTAL
BALANCE SHEET:				
ASSETS				
Current assets:				
Cash and cash equivalents	$ 154,263	$ 82,260	$ -	$ 236,523
Short-term investments	-	-	-	-
Merchandise inventories	-	1,465,981	-	1,465,981
Deferred income taxes	9,242	12,283	-	21,525
Prepaid expenses and other current assets	25,576	1,806,490	(1,772,900)	59,166
Total current assets	189,081	3,367,014	(1,772,900)	1,783,195
Property and equipment, at cost	184,806	1,806,180	-	1,990,986
Less accumulated depreciation and amortization	82,649	816,340	-	898,989
Net property and equipment	102,157	989,840	-	1,091,997
Other assets, net	3,478,124	60,691	(3,509,469)	29,346
Total assets	$ 3,769,362	$ 4,417,545	$ (5,282,369)	$ 2,904,538
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities:				
Current portion of long-term obligations	$ 2,617	$ 8,120	$ -	$ 10,737
Accounts payable	1,812,497	420,114	(1,772,869)	459,742
Accrued expenses and other	30,070	292,672	-	322,742
Income taxes payable	-	54,588	(31)	54,557
Total current liabilities	1,845,184	775,494	(1,772,900)	847,778
Long-term obligations	190,995	1,304,251	(1,238,794)	256,452
Deferred income taxes	5,217	67,125	-	72,342
Shareholders' equity:				
Preferred stock	-	-	-	-
Common stock	164,071	23,853	(23,853)	164,071
Additional paid-in capital	441,119	1,243,468	(1,243,468)	441,119
Retained earnings	1,129,626	1,003,354	(1,003,354)	1,129,626
Accumulated other comprehensive loss	(928)	-	-	(928)
	1,733,888	2,270,675	(2,270,675)	1,733,888
Other shareholders' equity	(5,922)	-	-	(5,922)
Total shareholders' equity	1,727,966	2,270,675	(2,270,675)	1,727,966
Total liabilities and shareholders' equity	$ 3,769,362	$ 4,417,545	$ (5,282,369)	$ 2,904,538

	As of January 28, 2005			
	DOLLAR GENERAL CORPORATION	**GUARANTOR SUBSIDIARIES**	**ELIMINATIONS**	**CONSOLIDATED TOTAL**
BALANCE SHEET:				
ASSETS				
Current assets:				
Cash and cash equivalents	$ 127,170	$ 105,660	$ -	$ 232,830
Short-term investments	42,425	500	-	42,925
Merchandise inventories	-	1,376,537	-	1,376,537
Deferred income taxes	10,024	14,884	-	24,908
Prepaid expenses and other current assets	23,305	1,740,029	(1,709,632)	53,702
Total current assets	202,924	3,237,610	(1,709,632)	1,730,902
Property and equipment, at cost	184,618	1,755,717	-	1,940,335
Less accumulated depreciation and amortization	78,661	780,836	-	859,497
Net property and equipment	105,957	974,881	-	1,080,838
Other assets, net	3,376,578	58,373	(3,405,687)	29,264
Total assets	$ 3,685,459	$ 4,270,864	$ (5,115,319)	$ 2,841,004
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities:				
Current portion of long-term obligations	$ 4,399	$ 8,461	$ -	$ 12,860
Accounts payable	1,763,024	355,904	(1,709,601)	409,327
Accrued expenses and other	37,378	296,511	-	333,889
Income taxes payable	-	69,647	(31)	69,616
Total current liabilities	1,804,801	730,523	(1,709,632)	825,692
Long-term obligations	190,769	1,261,998	(1,194,305)	258,462
Deferred income taxes	5,424	66,961	-	72,385
Shareholders' equity:				
Preferred stock	-	-	-	-
Common stock	164,086	23,853	(23,853)	164,086
Additional paid-in capital	421,600	1,243,468	(1,243,468)	421,600
Retained earnings	1,102,457	944,061	(944,061)	1,102,457
Accumulated other comprehensive loss	(973)	-	-	(973)
	1,687,170	2,211,382	(2,211,382)	1,687,170
Other shareholders' equity	(2,705)	-	-	(2,705)
Total shareholders' equity	1,684,465	2,211,382	(2,211,382)	1,684,465
Total liabilities and shareholders' equity	$ 3,685,459	$ 4,270,864	$ (5,115,319)	$ 2,841,004

	For the 13 weeks ended April 29, 2005			
	DOLLAR GENERAL CORPORATION	GUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTAL
STATEMENTS OF INCOME:				
Net sales	$ 46,034	$ 1,977,829	$ (46,034)	$ 1,977,829
Cost of goods sold	-	1,414,480	-	1,414,480
Gross profit	46,034	563,349	(46,034)	563,349
Selling, general and administrative	37,221	465,241	(46,034)	456,428
Operating profit	8,813	98,108	-	106,921
Interest income	(2,368)	(248)	-	(2,616)
Interest expense	1,981	3,987	-	5,968
Income before income taxes	9,200	94,369	-	103,569
Provision for income taxes	3,594	35,075	-	38,669
Equity in subsidiaries' earnings, net of taxes	59,294	-	(59,294)	-
Net income	$ 64,900	$ 59,294	$ (59,294)	$ 64,900

	For the 13 weeks ended April 30, 2004			
	DOLLAR GENERAL CORPORATION	GUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTAL
STATEMENTS OF INCOME:				
Net sales	$ 44,532	$ 1,747,959	$ (44,532)	$ 1,747,959
Cost of goods sold	-	1,235,709	-	1,235,709
Gross profit	44,532	512,250	(44,532)	512,250
Selling, general and administrative	36,364	405,868	(44,532)	397,700
Operating profit	8,168	106,382	-	114,550
Interest income	(1,033)	(969)	-	(2,002)
Interest expense	4,815	3,629	-	8,444
Income before income taxes	4,386	103,722	-	108,108
Provision for income taxes	1,915	38,344	-	40,259
Equity in subsidiaries' earnings, net of taxes	65,378	-	(65,378)	-
Net income	$ 67,849	$ 65,378	$ (65,378)	$ 67,849

	For the 13 weeks ended April 29, 2005			
	DOLLAR GENERAL CORPORATION	**GUARANTOR SUBSIDIARIES**	**ELIMINATIONS**	**CONSOLIDATED TOTAL**
STATEMENTS OF CASH FLOWS:				
Cash flows from operating activities:				
Net income	$ 64,900	$ 59,294	$ (59,294)	$ 64,900
Adjustments to reconcile net income to net cash provided by (used in) operating activities:				
Depreciation and amortization	5,301	38,705	-	44,006
Deferred income taxes	575	2,765	-	3,340
Tax benefit from stock option exercises	2,967	-	-	2,967
Equity in subsidiaries' earnings, net	(59,294)	-	59,294	-
Change in operating assets and liabilities:				
Merchandise inventories	-	(89,444)	-	(89,444)
Prepaid expenses and other current assets	(2,010)	(3,454)	-	(5,464)
Accounts payable	(8,583)	69,109	-	60,526
Accrued expenses and other	(7,397)	(3,427)	-	(10,824)
Income taxes	(27)	(15,059)	-	(15,086)
Other	2,052	(2,222)	-	(170)
Net cash provided by (used in) operating activities	(1,516)	56,267	-	54,751
Cash flows from investing activities:				
Purchases of property and equipment	(2,912)	(62,149)	-	(65,061)
Purchases of short-term investments	(21,250)	-	-	(21,250)
Sales of short-term investments	63,675	500	-	64,175
Proceeds from sale of property and equipment	-	122	-	122
Net cash provided by (used in) investing activities	39,513	(61,527)	-	(22,014)
Cash flows from financing activities:				
Repayments of long-term obligations	(1,641)	(3,081)	-	(4,722)
Payment of cash dividends	(13,145)	-	-	(13,145)
Proceeds from exercise of stock options	13,494	-	-	13,494
Repurchases of common stock	(25,062)	-	-	(25,062)
Changes in intercompany note balances, net	15,059	(15,059)	-	-
Other financing activities	391	-	-	391
Net cash used in financing activities	(10,904)	(18,140)	-	(29,044)
Net increase (decrease) in cash and cash equivalents	27,093	(23,400)	-	3,693
Cash and cash equivalents, beginning of period	127,170	105,660	-	232,830
Cash and cash equivalents, end of period	$ 154,263	$ 82,260	$ -	$ 236,523

	For the 13 weeks ended April 30, 2004			
	DOLLAR GENERAL CORPORATION	GUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTAL
STATEMENTS OF CASH FLOWS:				
Cash flows from operating activities:				
Net income	$ 67,849	$ 65,378	$ (65,378)	$ 67,849
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	4,887	34,749	-	39,636
Deferred income taxes	4,198	8,361	-	12,559
Tax benefit from stock option exercises	2,172	-	-	2,172
Equity in subsidiaries' earnings, net	(65,378)	-	65,378	-
Change in operating assets and liabilities:				
Merchandise inventories	-	(120,044)	-	(120,044)
Prepaid expenses and other current assets	(6,494)	4,259	-	(2,235)
Accounts payable	(613)	101,162	-	100,549
Accrued expenses and other	(3,139)	(6,036)	-	(9,175)
Income taxes	8,694	(16,116)	-	(7,422)
Other	89	(15,601)	-	(15,512)
Net cash provided by operating activities	12,265	56,112	-	68,377
Cash flows from investing activities:				
Purchases of property and equipment	(13,421)	(47,282)	-	(60,703)
Purchases of short-term investments	(128,650)	(500)	-	(129,150)
Sales of short-term investments	125,725	500	-	126,225
Proceeds from sale of property and equipment	8	21	-	29
Net cash used in investing activities	(16,338)	(47,261)	-	(63,599)
Cash flows from financing activities:				
Repayments of long-term obligations	(1,683)	(2,380)	-	(4,063)
Payment of cash dividends	(13,319)	-	-	(13,319)
Proceeds from exercise of stock options	6,546	-	-	6,546
Repurchases of common stock	(133,589)	-	-	(133,589)
Changes in intercompany note balances, net	4,337	(4,337)	-	-
Other financing activities	447	-	-	447
Net cash used in financing activities	(137,261)	(6,717)	-	(143,978)
Net increase (decrease) in cash and cash equivalents	(141,334)	2,134	-	(139,200)
Cash and cash equivalents, beginning of period	285,007	60,892	-	345,899
Cash and cash equivalents, end of period	$ 143,673	$ 63,026	$ -	$ 206,699

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

Forward-Looking Statements / Risk Factors

Except for specific historical information, many of the matters discussed in this report and in the documents incorporated by reference into this report may express or imply projections of revenues or expenditures, statements of plans and objectives for future operations, growth or initiatives, statements of future economic performance, or statements regarding the outcome or impact of pending or threatened litigation. These and similar statements regarding events or results which the Company expects will or may occur in the future are forward-looking statements concerning matters that involve risks, uncertainties and other factors which may cause the actual performance of the Company to differ materially from those expressed or implied by these statements. All forward-looking information should be evaluated in the context of these risks, uncertainties and other factors. The words "believe," "anticipate," "project," "plan," "expect," "estimate," "objective," "forecast," "goal," "intend," "will likely result," or "will continue" and similar expressions generally identify forward-looking statements. The Company believes the assumptions underlying these forward-looking statements are reasonable; however, any of the assumptions could be inaccurate, and therefore, actual results may differ materially from those projected in the forward-looking statements. Factors and risks that may result in actual results differing from such forward-looking information include, but are not limited to those listed below, as well as other factors discussed throughout this document, including without limitation the factors described under "Critical Accounting Policies and Estimates" or, from time to time, in the Company's filings with the SEC, press releases and other communications.

The Company's business is moderately seasonal with the highest sales occurring during the fourth quarter. Adverse events during the fourth quarter could, therefore, affect the Company's financial statements as a whole . The Company realizes a significant portion of its net sales and net income during the holiday selling season. In anticipation of the holidays, the Company purchases substantial amounts of seasonal inventory and hires many temporary employees. If for any reason the Company's net sales during the holiday selling season were to fall below seasonal norms, a seasonal merchandise inventory imbalance could result. If such an imbalance were to occur, markdowns might be required to minimize this imbalance. The Company's profitability and operating results could be adversely affected by unanticipated markdowns.

Adverse weather conditions or other disruptions, especially during the peak holiday season but also at other times, could also adversely affect the Company's net sales and could make it more difficult for the Company to obtain sufficient quantities of merchandise from its suppliers.

Competition in the retail industry could limit the Company's growth opportunities and reduce its profitability . The Company competes in the discount retail merchandise business, which is highly competitive. This competitive environment subjects the Company to the risk of reduced profitability resulting from reduced margins required to maintain the Company's competitive position. The Company competes with discount stores and with many other retailers, including mass merchandise, grocery, drug, convenience, variety and other specialty stores. Some of the nation's largest retail companies operate stores in areas where the Company operates. The Company's direct competitors in the dollar store retail category include Family Dollar, Dollar Tree, Fred's, and various local, independent operators. Competitors from other retail categories include CVS, Rite Aid, Walgreens, Eckerd, Wal-Mart and Kmart. The discount retail merchandise business is subject to excess capacity and some of the Company's competitors are much larger and have substantially greater resources than the Company. The competition for customers has intensified in recent years as larger competitors, such as Wal-Mart, have moved into the Company's geographic markets. The Company remains vulnerable to the marketing power and high level of consumer recognition of these major national discount chains, and to the risk that these chains or others could venture into the "dollar store" industry in a significant way. Generally, the Company expects an increase in competition.

The Company's financial performance is sensitive to changes in overall economic conditions that may impact consumer spending . A general slowdown in the United States economy may adversely affect the spending of the Company's consumers, which would likely result in lower net sales than expected on a quarterly or annual basis. Economic conditions affecting disposable consumer income, such as employment levels, business conditions, fuel and energy costs, interest rates, and tax rates, could also adversely affect the Company's business by reducing consumer spending or causing consumers to shift their spending to other products.

Existing military efforts and the possibility of war, acts of terrorism and rising fuel costs could adversely impact the Company . Existing U.S. military efforts, as well as the involvement of the United States in other military engagements, or a significant act of terrorism on U.S. soil or elsewhere, could have an adverse impact on the Company by, among other things, disrupting its information or distribution systems, causing dramatic increases in fuel prices thereby increasing the costs of doing business, or impeding the flow of imports or domestic products to the Company.

The Company's business is dependent on its ability to obtain attractive pricing and other terms from its vendors and to timely receive inventory . The Company believes that it has generally good relations with its vendors and that it is generally able to obtain attractive pricing and other terms from vendors. If the Company fails to maintain good relations with its vendors, it may not be able to obtain attractive pricing with the consequence that its net sales or profit margins would be reduced. The Company may also face difficulty in obtaining needed inventory from its vendors because of interruptions in production or for other reasons, which would adversely affect the Company's business. Also, prolonged or repeated price increases of certain raw materials could affect our vendors' product costs, and, ultimately, the Company's profitability.

The efficient operation of the Company's business is heavily dependent on its information systems . The Company depends on a variety of information technology systems for the efficient functioning of its business. The Company relies on certain software vendors to maintain and periodically upgrade many of these systems so that they can continue to support the Company's business. The software programs supporting many of the Company's systems were licensed to the Company by independent software developers. The inability of these developers or the Company to continue to maintain and upgrade these information systems and software programs would disrupt or reduce the efficiency of the Company's operations if it were unable to convert to alternate systems in an efficient and timely manner. In addition, costs and potential problems and interruptions associated with the implementation of new or upgraded systems and technology or with maintenance or adequate support of existing systems could also disrupt or reduce the efficiency of the Company's operations.

The Company is subject to interest rate risk . The Company is subject to market risk from exposure to changes in interest rates based on its financing, investing and cash management activities.

The Company is dependent upon the smooth functioning of its distribution network and upon the capacity of its distribution centers ("DCs") . The Company relies upon the ability to replenish depleted inventory through deliveries to its DCs from vendors and from the DCs to its stores by various means of transportation, including shipments by air, sea and truck. Labor shortages in the trucking industry could negatively impact transportation costs. In addition, long-term disruptions to the national and international transportation infrastructure that lead to delays or interruptions of service would adversely affect the Company's business. Moreover, if the Company were unable to achieve functionality of the new DCs in the time frame expected, the Company's ability to achieve the expected growth could be inhibited.

Construction and expansion projects relating to the Company's DCs entail risks which could cause delays and cost overruns, such as: shortages of materials; shortages of skilled labor or work stoppages; unforeseen construction, scheduling, engineering, environmental or geological problems; weather interference; fires or other casualty losses; and unanticipated cost increases. The completion dates and ultimate costs of these projects could differ significantly from initial expectations due to construction-related or other reasons. The Company cannot guarantee that any project will be completed on time or within established budgets.

The Company's success depends to a significant extent upon the abilities of its senior management team and the performance of its employees . The loss of services of key members of the Company's senior management team or of certain other key employees could negatively impact the Company's business. In addition, future performance will depend upon the Company's ability to attract, retain and motivate qualified employees to keep pace with its expansion schedule. The inability to do so may limit the Company's ability to effectively penetrate new market areas.

If the Company cannot open new stores on schedule, its growth will be impeded . Delays in store openings could adversely affect the Company's future operations by slowing new store growth, which may in turn reduce its revenue growth. The Company's ability to timely open new stores and to expand into additional states will depend in part on the following factors: the availability of attractive store locations; the ability to negotiate favorable lease terms; the ability to hire and train new personnel, especially store managers; the ability to identify customer demand in different geographic areas; general economic conditions; and the availability of sufficient funds for expansion. Many of these factors are beyond the Company's control.

The inability to execute operating initiatives could impact the Company's operating results . The Company is undertaking a significant number of operating initiatives in 2005 that have the potential to be disruptive in the short term if they are not implemented effectively. Ineffective implementation or execution of some or all of these initiatives could negatively impact the Company's operating results.

The Company's cost of doing business could increase as a result of changes in federal, state or local regulations . Unanticipated changes in the federal or state minimum wage or living wage requirements or changes in other wage or workplace regulations could adversely impact the Company's ability to meet financial targets. In addition, changes in these requirements or in federal, state or local regulations governing the sale of the Company's products, particularly "over-the-counter" medications or health products, would increase the Company's cost of doing business and, with respect to regulations governing the sale of products, could adversely and materially impact the Company's sales results.

Rising insurance costs and loss experience could negatively impact profitability . The costs of insurance (workers' compensation insurance, general liability insurance, health insurance, property insurance and directors' and officers' liability insurance) and loss experience have risen in recent years. If such increases continue, they could have a negative impact on the Company's profitability.

Readers are cautioned not to place undue reliance on forward-looking statements made herein, since the statements speak only as of the date of this report. Except as may be required by law, the Company undertakes no obligation to publicly update or revise any forward-looking statements contained herein to reflect events or circumstances occurring after the date of this report or to reflect the occurrence of unanticipated events. Readers are advised, however, to consult any further disclosures the Company may make on related subjects in its documents filed with or furnished to the SEC or in its other public disclosures.

Accounting Periods

The following text contains references to years 2005 and 2004, which represent fiscal years ending or ended February 3, 2006 and January 28, 2005, respectively. Fiscal 2005 will be a 53-week accounting period and 2004 was a 52-week accounting period. This discussion and analysis should be read with, and is qualified in its entirety by, the Condensed Consolidated Financial Statements and the notes thereto.

Results of Operations

The following discussion of the Company's financial performance is based on the Condensed Consolidated Financial Statements set forth herein. The nature of the Company's business is moderately seasonal. Historically, sales and net income in the fourth quarter have been higher than sales and net income 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 the Company's business may affect comparisons between periods. The following table contains results of operations data for the first 13 weeks of each of 2005 and 2004, and the dollar and percentage variances among those periods:

	13 Weeks Ended		*2005 vs. 2004*	
(amounts in millions, excluding per share amounts)	April 29, 2005	April 30, 2004	*Amount change*	*% change*
Net sales by category:				
Highly consumable	$ 1,321.3	$ 1,114.4	$ 206.9	18.6 %
% of net sales	*66.81%*	*63.75%*		
Seasonal	275.3	260.4	14.9	5.7
% of net sales	*13.92%*	*14.90%*		
Home products	211.8	214.8	(3.0)	(1.4)
% of net sales	*10.71%*	*12.29%*		
Basic clothing	169.5	158.4	11.1	7.0
% of net sales	*8.57%*	*9.06%*		
Net sales	$ 1,977.8	$ 1,748.0	$ 229.9	13.2 %
Cost of goods sold	1,414.5	1,235.7	178.8	14.5
% of net sales	*71.52%*	*70.69%*		
Gross profit	563.3	512.3	51.1	10.0
% of net sales	*28.48%*	*29.31%*		
Selling, general and administrative	456.4	397.7	58.7	14.8
% of net sales	*23.08%*	*22.75%*		
Operating profit	106.9	114.6	(7.6)	(6.7)
% of net sales	*5.41%*	*6.55%*		
Interest income	(2.6)	(2.0)	(0.6)	30.7
% of net sales	*(0.13)%*	*(0.11)%*		
Interest expense	6.0	8.4	(2.5)	(29.3)
% of net sales	*0.30%*	*0.48%*		
Income before income taxes	103.6	108.1	(4.5)	(4.2)
% of net sales	*5.24%*	*6.18%*		
Income taxes	38.7	40.3	(1.6)	(3.9)
% of net sales	*1.96%*	*2.30%*		
Net income	$ 64.9	$ 67.8	$ (2.9)	(4.3) %
% of net sales	*3.28%*	*3.88%*		
Diluted earnings per share	$ 0.20	$ 0.20	$ -	- %
Weighted average diluted shares	331.2	337.3	(6.0)	(1.8)

13 WEEKS ENDED APRIL 29, 2005 AND APRIL 30, 2004

Net Sales . Increases in net sales resulted primarily from opening additional stores, including 621 net new stores since April 30, 2004, and a same-store sales increase of 4.9% for the 2005 period compared to the 2004 period. Same-store sales calculations for a given period include only those stores that were open both at the end of that period and at the beginning of the preceding fiscal year. The increase in same-store sales accounted for $83.5 million of the increase in sales while stores opened since the beginning of 2004 were the primary contributors to the remaining $146.4 million sales increase during the 2005 period.

The Company monitors its sales internally by the four major categories noted in the table above. The Company's merchandising mix in recent years has shifted to faster-turning consumable products versus home products and clothing. This has been driven by customer wants and needs in the marketplace. As a result, the highly consumable category has become a greater percentage of the Company's overall sales mix while the percentages of the home products and basic clothing categories have declined. Accordingly, the Company's sales increase by merchandise category in the 2005 period compared to the 2004 period was primarily attributable to the highly consumable category, which increased by $206.9 million, or 18.6%. The Company continually reviews its merchandise mix and adjusts it when deemed necessary as a part of its ongoing efforts to improve overall sales and gross profit. These ongoing reviews may result in a shift in the Company's merchandising strategy which could increase permanent markdowns in the future.

Gross Profit . The gross profit rate declined by 83 basis points in the 2005 period as compared with the 2004 period due to a number of factors, including but not limited to: lower sales, as a percentage of total sales, in the Company's seasonal, home products and basic clothing categories, which have higher than average markups; higher transportation expenses primarily attributable to increased fuel costs; and the estimated impact of the expansion of the number of departments utilized for the gross profit calculation from 10 to 23, as further described below under "Critical Accounting Policies and Estimates." These factors were partially offset by higher average mark-ups on the Company's beginning inventory in the 2005 period as compared with the 2004 period. The increased average mark-up on beginning inventory represents the cumulative impact of higher margin purchases over time.

In the 2005 period the Company's shrink, expressed in retail dollars as a percentage of sales, was 3.01% compared to 3.13% in the 2004 period.

Selling, General and Administrative ("SG&A") Expense . The increase in SG&A expense as a percentage of sales in the 2005 period as compared with the 2004 period was due to a number of factors, including but not limited to increases in the following expense categories that were in excess of the 13.2 percent increase in sales: store occupancy costs (increased 20.3%) primarily due to rising average monthly rentals associated with the Company's leased store locations; utilities (increased 20.2%) primarily due to an increase in electricity costs; repairs and maintenance (increased 39.0%) primarily due to an increase in floor cleaning expenses; and fees associated with the increased customer usage of debit cards (increased 172.8%). These increases were partially offset by a reduction in professional fees (decreased 33.2%) primarily due to the reduction of consulting fees in the 2005 period associated with the Company's EZstore project, which is designed to improve inventory flow and other areas of store operations, and fees in the 2004 period associated with the Company's Sarbanes-Oxley compliance efforts which did not recur in the 2005 period.

Interest Expense . The decrease in interest expense in the 2005 period compared to the 2004 period is due primarily to an increase in capitalized interest related to the Company's DC construction and expansion projects.

Provision for Taxes on Income . The effective income tax rates for the 2005 and 2004 periods were relatively constant at 37.3% and 37.2%, respectively. The 2005 rate is higher than the Company's estimated annual effective rate of approximately 36.9% due to an adjustment recorded during the 2005 period pertaining to 2004 foreign taxes.

Liquidity and Capital Resources

Current Financial Condition / Recent Developments . At April 29, 2005, the Company had total debt (including the current portion of long-term obligations and short-term borrowings) of $267.2 million and $236.5 million of cash and cash equivalents, compared with total debt of $271.3 million and $232.8 million of cash and cash equivalents at January 28, 2005. These amounts were relatively constant during the first 13 weeks of 2005 as the most significant factors affecting the Company's cash and debt balances, including cash flows provided by operating activities, net sales of short-term investments, purchases of property and equipment and repurchases of common stock, were effectively offsetting, all as further described below.

The Company's inventory balance represented approximately 50% of its total assets as of April 29, 2005. The Company's proficiency in managing its inventory balances can have a significant impact on the Company's cash flows from operations during a given period or fiscal year. In addition, inventory purchases can be somewhat seasonal in nature, such as the purchase of warm-weather or Christmas-related merchandise. Inventory turns, calculated on a rolling annualized basis using balances from each quarter, were 4.0 times for the periods ended April 29, 2005 and April 30, 2004.

As described in Note 4 to the Condensed Consolidated Financial Statements, the Company is involved in a number of legal actions and claims, some of which could potentially result in a material cash settlement. Adverse developments in these actions could materially and adversely affect the Company's liquidity. The Company also has certain income tax-related contingencies as more fully described below under "Critical Accounting Policies and Estimates". Estimates of these contingent liabilities are included in the Company's Condensed Consolidated Financial Statements. However, future negative developments could have a material adverse effect on the Company's liquidity.

On November 30, 2004, the Board of Directors authorized the Company to repurchase up to 10 million shares of its outstanding common stock. Purchases may be made in the open market or in privately negotiated transactions from time to time subject to market conditions. The objective of the share repurchase program is to enhance shareholder value by purchasing shares at a price that produces a return on investment that is greater than the Company's cost of capital. Additionally, share repurchases generally will be undertaken only if such purchases result in an accretive impact on the Company's fully diluted earnings per share calculation. This authorization expires November 30, 2005. As of April 29, 2005, the Company had repurchased approximately 1.7 million shares pursuant to this authorization. See Part II--Item 2 of this Form 10-Q.

The Company has a $250 million revolving credit facility (the "Credit Facility"), which expires in June 2009. As of April 29, 2005, the Company had no outstanding borrowings and $8.7 million of standby letters of credit under the Credit Facility. The standby letters of credit reduce the borrowing capacity of the Credit Facility. The Credit Facility contains certain financial covenants, all of which the Company was in compliance with at April 29, 2005.

The Company has $200 million (principal amount) of 8 5/8% unsecured notes due June 15, 2010. This indebtedness was incurred to assist in funding the Company’s growth. Interest on the notes is payable semi-annually on June 15 and December 15 of each year. These notes contain a call provision whereby the holders of these notes could have elected to have them repaid on June 15, 2005, at 100% of the principal amount plus accrued and unpaid interest. The notification period for this call provision expired on May 16, 2005 with none of the note holders having given notice of their intention to exercise this call provision. The Company may seek, from time to time, to retire its outstanding notes through cash purchases on the open market, privately negotiated transactions or otherwise. Such repurchases, if any, will depend on prevailing market conditions, the Company’s liquidity requirements, contractual restrictions and other factors. The amounts involved may be material.

Significant terms of the Company’s outstanding debt obligations could have an effect on the Company’s ability to incur additional debt financing. The Credit Facility contains financial covenants which include certain debt to cash flow ratios, a fixed charge coverage test, and minimum allowable consolidated net worth. The Credit Facility also places certain specified limitations on secured and unsecured debt. The Company’s outstanding notes discussed above place certain specified limitations on secured debt and place certain limitations on the Company’s ability to execute sale-leaseback transactions. The Company has generated significant cash flows from its operations during recent years. Therefore, the Company does not believe that any existing limitations on its ability to incur additional indebtedness will have a material impact on its liquidity.

At April 29, 2005 and January 28, 2005, the Company had commercial letter of credit facilities totaling $215.0 million, of which $63.0 million and $98.8 million, respectively, were outstanding for the funding of imported merchandise purchases.

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

Cash flows provided by operating activities . The most significant components of the change in cash flows from operating activities in the 2005 period as compared to the 2004 period were changes in inventory balances and accounts payable balances. The most significant change in inventory levels occurred in the basic clothing category, which increased by 9% in the 2005 period as compared to a 26% increase in the 2004 period. Changes in accounts payable balances resulted in a decrease in cash flows from operating activities of $40.0 million in the 2005 period compared with the 2004 period, primarily reflecting the timing of payments for inventory purchases.

Cash flows used in investing activities . Significant components of the Company’s property and equipment purchases in the 2005 period included the following approximate amounts: $18 million for new stores; $15 million for the EZstore project; $13 million for distribution and transportation-related capital expenditures; and $5 million for systems-related capital projects. During the 2005 period, the Company opened 255 new stores.

Net sales of short-term investments increased net cash from investing activities by $42.9 million in the 2005 period and primarily reflect the Company's investment activities in tax-exempt auction market securities.

Significant components of property and equipment purchases in the 2004 period included the following approximate amounts: $20 million for new stores; $18 million for distribution and transportation-related capital expenditures; $8 million for coolers in new and existing stores, which allow the stores to carry refrigerated products; $7 million for certain fixtures in existing stores and $6 million for systems-related capital projects. During the 2004 period, the Company opened 244 new stores. Distribution and transportation expenditures in the 2004 period include costs associated with the expansion of the Ardmore, Oklahoma and South Boston, Virginia DCs as well as costs associated with the construction of the Company's new DC near Jonesville, South Carolina.

Capital expenditures for the 2005 fiscal year are projected to be approximately $350 million. The Company anticipates funding its 2005 capital requirements with cash flows from operations and the Credit Facility, if necessary.

Cash flows used in financing activities . The Company repurchased approximately 1.2 million shares of its common stock during the 2005 period at a total cost of $25.1 million, and repurchased approximately 8.1 million shares of its common stock during the 2004 period at a total cost of $152.6 million, $19.0 million of which were awaiting settlement and included in Accounts payable at April 30, 2004. The Company paid cash dividends of $13.1 million and $13.3 million, respectively, or $0.04 per share, on its outstanding common stock during the 2005 and 2004 periods. These uses of cash were offset by stock option proceeds of $13.5 million and $6.5 million, respectively, during the 2005 and 2004 periods.

Critical Accounting Policies and Estimates

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect reported amounts and related disclosures. Management considers an accounting estimate to be critical if:

- it requires assumptions to be made that were uncertain at the time the estimate was made; and
- changes in the estimate or different estimates that could have been selected could have a material effect on the Company's results of operations or financial condition.

Management discussed the development and selection of its critical accounting estimates with the Audit Committee of the Company's Board of Directors and the Audit Committee reviewed the disclosures presented below relating to them.

In addition to the estimates presented below, there are other items within the Company's financial statements that require estimation, but are not deemed critical as defined above. The Company believes 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.

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 the Company's 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. 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 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 lower of cost or market ("LCM") and/or LIFO reserves.

To reduce the potential of such distortions in the valuation of inventory, the Company's RIM calculation through the end of 2004 utilized 10 departments in which fairly homogenous classes of merchandise inventories having similar gross margins were grouped. In 2005, in order to further refine its RIM calculation, the Company expanded the number of departments it utilizes for its gross margin calculation from 10 to 23. The impact of this change on the Company's future consolidated financial statements is not currently expected to be material to a given fiscal year, although a given quarter could be impacted based on the mix of sales in the quarter. Other factors that reduce potential distortion include the use of historical experience in estimating the shrink provision (see discussion below) and the utilization of an independent statistician to assist in the LIFO sampling process and index formulation. Also, on an ongoing basis, the Company reviews and evaluates the salability of its inventory and records LCM reserves, if necessary.

The Company calculates its 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 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, the Company's effective shrink rate for a given reporting period will include the impact of adjusting the estimated results to the actual results. Although the Company performs physical inventories in all of its stores annually, 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.

Property and Equipment. Property and equipment are recorded at cost. The Company groups its assets into relatively homogeneous classes and generally provides 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 shorter of the applicable lease term or the estimated useful life of the asset. The valuation and classification of these assets and the assignment of useful depreciable lives involves significant judgments and the use of estimates. Property and equipment are reviewed for impairment periodically and whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable.

Self-Insurance Liability. The Company retains a significant portion of the risk for its workers' compensation, employee health insurance, general liability, property loss and automobile coverage. These costs are significant primarily due to the large employee base and number of stores. Provisions are made to this insurance liability on an undiscounted basis based on actual claim data and estimates of incurred but not reported claims developed by an independent actuary utilizing historical claim trends. If future claim trends deviate from recent historical patterns, the Company may be required to record additional expenses or expense reductions, which could be material to the Company's future financial results.

Contingent Liabilities – Income Taxes . The Company is subject to routine income tax audits that occur periodically in the normal course of business. The Company estimates its contingent income tax liabilities based on its assessment of probable income tax-related exposures and the anticipated settlement of those exposures translating into actual future liabilities. The contingent liabilities are estimated based on both historical audit experiences with various state and federal taxing authorities and the Company's interpretation of current income tax-related trends. If the Company's income tax contingent liability estimates prove to be inaccurate, the resulting adjustments could be material to the Company's future financial results.

Contingent Liabilities - Legal Matters. The Company is subject to legal, regulatory and other proceedings and claims. Reserves, if any, are established 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 the Company's financial statements and SEC filings, management's view of the Company's exposure. The Company reviews outstanding claims and proceedings with external counsel to assess probability and estimates of loss. These assessments are re-evaluated each quarter or as new information becomes available to determine whether a reserve should be established or if any existing reserve should be adjusted. The actual cost of resolving a claim or proceeding ultimately may be substantially different than the amount of the recorded reserve. In addition, because it is not permissible under GAAP to establish a litigation reserve until the loss is both probable and estimable, in some cases there may be insufficient time to establish a reserve 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). See Note 4 to the Condensed Consolidated Financial Statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We have no material changes to the disclosures relating to this item that are set forth in our report on Form 10-K for the fiscal year ended January 28, 2005.

ITEM 4. CONTROLS AND PROCEDURES

(a) Disclosure Controls and Procedures . The Company maintains disclosure controls and procedures that are designed to ensure that information relating to the Company and its consolidated subsidiaries required to be disclosed in the Company’s periodic filings under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), is recorded, processed, summarized and reported in a timely manner in accordance with the requirements of the Exchange Act, and that such information is accumulated and communicated to management, including the Company’s Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. The Company carried out an evaluation, under the supervision and with the participation of management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of these disclosure controls and procedures, as such term is defined in Exchange Act Rule 13a-15(e), as of April 29, 2005. Based on this evaluation, the Chief Executive Officer and the Chief Financial Officer each concluded that the Company’s disclosure controls and procedures were effective as of April 29, 2005.

(b) Changes in Internal Control Over Financial Reporting . During the quarter ended April 29, 2005, the Company remediated the material weakness in its internal control over financial reporting that arose from the Company’s inappropriate interpretation of GAAP relating to accounting for leases and leasehold improvements that was reported in the Company’s Form 10-K for the fiscal year ended January 28, 2005, filed with the SEC on April 12, 2005. More specifically the Company:

- changed its practice to amortize leasehold improvements over the shorter of eight years or the applicable non-cancelable lease term; and

- changed its practice to include the period of time needed to prepare new stores for opening (approximately 30 days) in its calculation of straight-line rent expense.

There have been no other changes in the Company's internal control over financial reporting that occurred during the Company's first fiscal quarter that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

PART II—OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Restatement-Related Proceedings

As previously disclosed in the Company's periodic reports filed with the Securities and Exchange Commission (the "SEC"), the Company restated its audited financial statements for fiscal years 1999 and 1998, and certain unaudited financial information for fiscal year 2000, by means of its Form 10-K for the fiscal year ended February 2, 2001, which was filed on January 14, 2002 (the "2001 Restatement").

The SEC conducted an investigation into the circumstances giving rise to the 2001 Restatement and, on January 8, 2004, the Company received notice that the SEC staff was considering recommending that the SEC bring a civil injunctive action against the Company for alleged violations of the federal securities laws in connection with circumstances relating to the 2001 Restatement. On April 7, 2005, the SEC filed a Complaint and a proposed Final Judgment and Consent and Undertakings of Dollar General Corporation with the United States District Court for the Middle District of Tennessee, which the Court approved on April 14, 2005. The Final Judgment and Consent and Undertakings reflect the terms of the settlement previously agreed to by the Company and the SEC. Specifically, without admitting or denying the allegations in the Complaint, the Company consented to the entry of a permanent civil injunction against future violations of the antifraud, books and records, reporting and internal control provisions of the federal securities laws and related SEC rules and agreed to pay a $10 million non-deductible civil penalty. The Company accrued the $10 million penalty in its financial statements for the year ended January 30, 2004 and paid the $10 million penalty on April 28, 2005. The Company is not entitled to seek reimbursement from its insurers with respect to this settlement.

Other Litigation

On March 14, 2002, a complaint was filed in the United States District Court for the Northern District of Alabama (*Edith Brown, on behalf of herself and others similarly situated v. Dolgencorp. Inc., and Dollar General Corporation* , CV02-C-0673-W (*"Brown"*)) to commence a collective action against the Company on behalf of current and former salaried store managers. The complaint alleges that these individuals were entitled to overtime pay and should not have been classified as exempt employees under the Fair Labor Standards Act ("FLSA"). Plaintiffs seek to recover overtime pay, liquidated damages, declaratory relief and attorneys' fees.

On January 12, 2004, the court certified an opt-in class of plaintiffs consisting of all persons employed by the Company as store managers at any time since March 14, 1999, who regularly worked more than 50 hours per week and either: (1) customarily supervised less than two employees at one time; (2) lacked authority to hire or discharge employees without supervisor approval; or (3) sometimes worked in non-managerial positions at stores other than the one he or she managed. The Company's attempt to appeal this decision on a discretionary basis to the 11th Circuit Court of Appeals was denied.

Notice was sent to prospective class members and the deadline for individuals to opt in to the lawsuit was May 31, 2004. Approximately 5,000 individuals opted in. The Court has entered a scheduling order that governs the discovery and remaining phases of the case.

Three additional lawsuits, *Tina Depasquales v. Dollar General Corp.* (Southern District of Georgia, Savannah Division, CV 404-096, filed May 12, 2004), *Karen Buckley v. Dollar General Corp.* (Southern District of Ohio, C-2-04-484, filed June 8, 2004), and *Sheila Ann Hunsucker v. Dollar General Corp. et al.* (Western District of Oklahoma, Civ-04-165-R, filed February 19, 2004), were filed asserting essentially the same claims as the *Brown* case, all of which have since been consolidated in the Northern District of Alabama where the *Brown* litigation is pending. The Company believes that the consolidation will not affect the scheduling order or extend any of the deadlines in the *Brown* case.

The Company believes that its store managers are and have been properly classified as exempt employees under the FLSA and that the action is not appropriate for collective action treatment. The Company intends to vigorously defend the action. However, no assurances can be given that the Company will be successful in defending this action on the merits or otherwise, and, if not, the resolution could have a material adverse effect on the Company's financial statements as a whole.

The Company is involved in other legal actions and claims arising in the ordinary course of business. The Company currently believes that such other litigation and claims, both individually and in the aggregate, will be resolved without a material 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 financial statements as a whole.

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

The following table sets forth information with respect to purchases of shares of the Company's common stock made during the quarter ended April 29, 2005 by or on behalf of the Company 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 (a)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (b)	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (b)
01/29/05-02/28/05	6,760	$22.04	-	9,460,880
03/01/05-03/31/05	602	$21.73	-	9,460,500
04/01/05-04/29/05	1,154,639	$21.79	1,150,000	8,310,500
Total	1,162,001	$21.79	1,150,000	8,310,500

(a) Includes 7,830 shares purchased in open market transactions in satisfaction of the Company's obligations under certain employee benefit plans and 4,171 shares accepted in lieu of cash to pay employee tax liabilities upon lapse of restrictions on restricted stock.

(b) On March 13, 2003, the Company announced that its Board of Directors had authorized the Company to repurchase up to 12 million shares of the Company's outstanding common stock. That repurchase authorization expired on March 13, 2005. In addition, on November 30, 2004, the Company's Board of Directors approved an additional share repurchase program of 10 million shares. That repurchase authorization expires on November 30, 2005. Under both authorizations, purchases may be made in the open market or in privately negotiated transactions from time to time subject to market conditions.

ITEM 6. EXHIBITS

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

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: May 26, 2005	By:	/s/ David M. Tehle
		David M. Tehle
		Executive Vice President and Chief Financial Officer

EXHIBIT INDEX

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.

CERTIFICATIONS

I, David A. Perdue, 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 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: May 26, 2005

/s/ David A. Perdue

David A. Perdue
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 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: May 26, 2005

/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 April 29, 2005 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/ David A. Perdue

Name: David A. Perdue
Title: Chief Executive Officer
Date: May 26, 2005

/s/ David M. Tehle

Name: David M. Tehle
Title: Chief Financial Officer
Date: May 26, 2005