DOLLAR GENERAL CORP

FORM 10-Q
(Quarterly Report)

Filed 08/25/05 for the Period Ending 07/29/05

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 8/25/2005 For Period Ending 7/29/2005

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 July 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, TENNESSEE 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 [ ]

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

The number of shares of common stock outstanding on August 22, 2005 was 320,992,913.

PART I—FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	July 29, 2005	January 28, 2005
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 145,950	$ 232,830
Short-term investments	-	42,925
Merchandise inventories	1,460,700	1,376,537
Deferred income taxes	33,708	24,908
Prepaid expenses and other current assets	58,305	53,702
Total current assets	1,698,663	1,730,902
Net property and equipment	1,121,697	1,080,838
Other assets, net	20,006	29,264
Total assets	$ 2,840,366	$ 2,841,004
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term obligations	$ 9,561	$ 12,860
Accounts payable	462,697	409,327
Accrued expenses and other	347,606	333,889
Income taxes payable	49,504	69,616
Total current liabilities	869,368	825,692
Long-term obligations	255,445	258,462
Deferred income taxes	67,736	72,385
Shareholders' equity:		
Preferred stock	-	-
Common stock	160,630	164,086
Additional paid-in capital	447,617	421,600
Retained earnings	1,046,650	1,102,457
Accumulated other comprehensive loss	(883)	(973)
	1,654,014	1,687,170
Other shareholders' equity	(6,197)	(2,705)
Total shareholders' equity	1,647,817	1,684,465
Total liabilities and shareholders' equity	$ 2,840,366	$ 2,841,004

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		For the 26 weeks ended	
	July 29, 2005	July 30, 2004	July 29, 2005	July 30, 2004
Net sales	$ 2,066,016	$ 1,836,243	$ 4,043,845	$ 3,584,202
Cost of goods sold	1,474,486	1,299,263	2,888,966	2,534,972
Gross profit	591,530	536,980	1,154,879	1,049,230
Selling, general and administrative	470,460	428,854	926,888	826,554
Operating profit	121,070	108,126	227,991	222,676
Interest income	(2,156)	(1,404)	(4,772)	(3,406)
Interest expense	7,344	5,445	13,312	13,889
Income before income taxes	115,882	104,085	219,451	212,193
Income taxes	40,324	32,763	78,993	73,022
Net income	$ 75,558	$ 71,322	$ 140,458	$ 139,171
Earnings per share:				
Basic	$ 0.23	$ 0.22	$ 0.43	$ 0.42
Diluted	$ 0.23	$ 0.22	$ 0.43	$ 0.42
Weighted-average common shares outstanding:				
Basic	323,836	327,799	326,022	330,954
Diluted	326,340	330,298	328,779	333,778
Dividends per share	$ 0.045	$ 0.040	$ 0.085	$ 0.080

See notes to condensed consolidated financial statements.

DOLLAR GENERAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

	For the 26 weeks ended	
	July 29, 2005	July 30, 2004
Cash flows from operating activities:		
Net income	$ 140,458	$ 139,171
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	90,316	80,697
Deferred income taxes	(13,449)	29,017
Tax benefit from stock option exercises	3,810	3,684
Change in operating assets and liabilities:		
Merchandise inventories	(84,163)	(222,402)
Prepaid expenses and other current assets	(4,603)	(2,159)
Accounts payable	62,213	60,971
Accrued expenses and other	14,391	8,172
Income taxes payable	(20,165)	(26,295)
Other	10,208	(16,268)
Net cash provided by operating activities	199,016	54,588
Cash flows from investing activities:		
Purchases of property and equipment	(139,594)	(134,453)
Purchases of short-term investments	(30,250)	(149,425)
Sales of short-term investments	73,175	206,850
Proceeds from sales of property and equipment	822	90
Net cash used in investing activities	(95,847)	(76,938)
Cash flows from financing activities:		
Repayments of long-term obligations	(8,183)	(8,419)
Payment of cash dividends	(27,596)	(26,448)
Proceeds from exercise of stock options	18,441	14,285
Repurchases of common stock	(172,755)	(169,391)
Other financing activities	44	(970)
Net cash used in financing activities	(190,049)	(190,943)
Net decrease in cash and cash equivalents	(86,880)	(213,293)
Cash and cash equivalents, beginning of period	232,830	345,899
Cash and cash equivalents, end of period	$ 145,950	$ 132,606
Supplemental schedule of noncash investing and financing activities:		
Purchases of property and equipment awaiting processing for payment, included in Accounts payable	$ 4,078	$ 5,366
Purchases of property and equipment under capital lease obligations	$ 1,845	$ 1,364

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 and 26-week periods ended July 29, 2005 and July 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. SFAS 123(R) also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow, rather than as an operating cash flow as required under current literature. This requirement will reduce net operating cash flows and increase net financing cash flows in periods after adoption. While the Company cannot estimate what those amounts will be in the future (because they depend on, among other things, when employees exercise stock options), the amount of operating cash flows recognized in the accompanying condensed consolidated statement of cash flows for such excess tax deductions were $3.8 million for the 26-week period ended July 29, 2005 and were $9.7 million for all of fiscal 2004. 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		26 Weeks Ended	
	July 29, 2005	July 30, 2004	July 29, 2005	July 30, 2004
Net income	$ 75,558	$ 71,322	$ 140,458	$ 139,171
Reclassification of net loss on derivatives	45	54	90	107
Comprehensive income	$ 75,603	$ 71,376	$ 140,548	$ 139,278

3. Earnings per share

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

	13 Weeks Ended July 29, 2005			13 Weeks Ended July 30, 2004		
	Net Income	Shares	Per Share Amount	Net Income	Shares	Per Share Amount
Basic earnings per share	$ 75,558	323,836	$ 0.23	$ 71,322	327,799	$ 0.22
Effect of dilutive stock options		2,504			2,499	
Diluted earnings per share	$ 75,558	326,340	$ 0.23	$ 71,322	330,298	$ 0.22

	26 Weeks Ended July 29, 2005			26 Weeks Ended July 30, 2004		
	Net Income	Shares	Per Share Amount	Net Income	Shares	Per Share Amount
Basic earnings per share	$ 140,458	326,022	$ 0.43	$ 139,171	330,954	$ 0.42
Effect of dilutive stock options		2,757			2,824	
Diluted earnings per share	$ 140,458	328,779	$ 0.43	$ 139,171	333,778	$ 0.42

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

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 11 th 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, and were subsequently consolidated in the Northern District of Alabama where the *Brown* litigation is pending. The plaintiffs in the *Depasquales* and the *Hunsucker* lawsuits have since dismissed their cases and opted into the *Brown* case. 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.

In addition to the matters described in the preceding paragraph, 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 equivalent to the pro forma amounts indicated in the following table:

	13 Weeks Ended		26 Weeks Ended	
(Amounts in thousands except per share data)	July 29, 2005	July 30, 2004	July 29, 2005	July 30, 2004
Net income - as reported	$ 75,558	$ 71,322	$ 140,458	$ 139,171
Less pro forma effect of stock option grants, net of tax	2,115	2,366	4,701	5,904
Net income - pro forma	$ 73,443	$ 68,956	$ 135,757	$ 133,267
Earnings per share - as reported				
Basic	$ 0.23	$ 0.22	$ 0.43	$ 0.42
Diluted	$ 0.23	$ 0.22	$ 0.43	$ 0.42
Earnings per share - pro forma				
Basic	$ 0.23	$ 0.21	$ 0.42	$ 0.40
Diluted	$ 0.23	$ 0.21	$ 0.41	$ 0.40

There were no stock options granted during the second quarter of 2005. The fair value of options granted during the second quarter of 2004 was $6.27 per share. The fair value of options granted during the 26 weeks ended July 29, 2005 and July 30, 2004 was $6.56 and $6.14 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		26 Weeks Ended	
	July 29, 2005 (a)	July 30, 2004	July 29, 2005	July 30, 2004
Expected dividend yield	-	0.9 %	0.9 %	0.9 %
Expected stock price volatility	-	35.2 %	27.4 %	35.9 %
Weighted average risk-free interest rate	-	3.8 %	4.3 %	3.2 %
Expected life of options (years)	-	5.0	5.0	4.6

(a) No stock options were granted during the 13 weeks ended July 29, 2005

6. Income taxes

The effective income tax rates for the 13 weeks ended July 29, 2005 and July 30, 2004 were 34.8% and 31.5%, respectively, and for the 26 weeks ended July 29, 2005 and July 30, 2004 were 36.0% and 34.4%, respectively. The fiscal 2005 periods have benefited primarily from the reduction of the Company's estimated effective annual rate from 36.9% to 36.1% during the second quarter of 2005, due in part to a state investment tax credit resulting from the Company's investment in its Indiana distribution center, and from benefits resulting from an internal corporate reorganization. Additionally, the fiscal 2005 periods have benefited, to a lesser degree, from favorable reductions in certain contingent income tax-related liabilities.

During the fiscal 2004 periods, as previously disclosed, the Company recorded a net reduction in certain contingent income tax-related liabilities and the related interest accruals due to a change in its probability assessment (as described in SFAS No. 5, "Accounting for Contingencies") that the likelihood of certain potential income tax-related exposure items would translate into actual future liabilities. The probability assessment changed in the second quarter of 2004 as a result of two state income tax examinations pertaining to certain prior year income tax returns. Those adjustments resulted in favorable impacts of approximately $6.2 million to the 13-week and 26-week periods' income tax provisions for fiscal 2004, net of the federal income tax effect, and $2.0 million to pre-tax interest expense, in the accompanying condensed consolidated statements of income. These adjustments had the effect of increasing fully diluted earnings per share by approximately $0.02 per share in the 13-week and 26-week periods ended July 30, 2004.

7. Repurchases of common stock

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. During the first 26 weeks of fiscal 2005, the Company purchased approximately 8.4 million shares pursuant to this authorization at a cost of $172.8 million. At July 29, 2005, the Company had approximately 1.0 million shares remaining pursuant to this authorization.

8. Segment reporting

The Company manages its business on the basis of one reportable segment. As of July 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."

(In thousands)	13 Weeks Ended July 29, 2005	13 Weeks Ended July 30, 2004	26 Weeks Ended July 29, 2005	26 Weeks Ended July 30, 2004
Classes of similar products:				
Net sales:				
Highly consumable	$ 1,351,796	$ 1,167,324	$ 2,673,102	$ 2,281,718
Seasonal	317,544	290,893	592,839	551,331
Home products	215,132	208,153	426,884	422,926
Basic clothing	181,544	169,873	351,020	328,227
	$ 2,066,016	$ 1,836,243	$ 4,043,845	$ 3,584,202

9. Guarantor subsidiaries

All of the Company's subsidiaries, except for its not-for-profit subsidiary the assets and revenues of which 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 July 29, 2005. The subsidiary of the Company was in compliance with such agreement as of July 29, 2005.

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

	As of July 29, 2005			
	DOLLAR GENERAL CORPORATION	GUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTAL
BALANCE SHEET:				
ASSETS				
Current assets:				
Cash and cash equivalents	$ 62,615	$ 83,335	$ -	$ 145,950
Short-term investments	-	-	-	-
Merchandise inventories	-	1,460,700	-	1,460,700
Deferred income taxes	10,734	22,974	-	33,708
Prepaid expenses and other current assets	40,323	1,949,196	(1,931,214)	58,305
Total current assets	113,672	3,516,205	(1,931,214)	1,698,663
Property and equipment, at cost	190,636	1,873,060	-	2,063,696
Less accumulated depreciation and amortization	87,720	854,279	-	941,999
Net property and equipment	102,916	1,018,781	-	1,121,697
Other assets, net	3,595,780	52,506	(3,628,280)	20,006
Total assets	$ 3,812,368	$ 4,587,492	$ (5,559,494)	$ 2,840,366
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities:				
Current portion of long-term obligations	$ 1,216	$ 8,345	$ -	$ 9,561
Accounts payable	1,939,392	453,519	(1,930,214)	462,697
Accrued expenses and other	27,022	320,584	-	347,606
Income taxes payable	-	50,504	(1,000)	49,504
Total current liabilities	1,967,630	832,952	(1,931,214)	869,368
Long-term obligations	191,303	1,345,702	(1,281,560)	255,445
Deferred income taxes	5,618	62,118	-	67,736
Shareholders' equity:				
Preferred stock	-	-	-	-
Common stock	160,630	23,853	(23,853)	160,630
Additional paid-in capital	447,617	1,243,468	(1,243,468)	447,617
Retained earnings	1,046,650	1,079,399	(1,079,399)	1,046,650
Accumulated other comprehensive loss	(883)	-	-	(883)
	1,654,014	2,346,720	(2,346,720)	1,654,014
Other shareholders' equity	(6,197)	-	-	(6,197)
Total shareholders' equity	1,647,817	2,346,720	(2,346,720)	1,647,817
Total liabilities and shareholders' equity	$ 3,812,368	$ 4,587,492	$ (5,559,494)	$ 2,840,366

	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 July 29, 2005			
	DOLLAR GENERAL CORPORATION	GUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTAL
STATEMENTS OF INCOME:				
Net sales	$ 43,547	$ 2,066,016	$ (43,547)	$ 2,066,016
Cost of goods sold	-	1,474,486	-	1,474,486
Gross profit	43,547	591,530	(43,547)	591,530
Selling, general and administrative	38,119	475,888	(43,547)	470,460
Operating profit	5,428	115,642	-	121,070
Interest income	(1,578)	(578)	-	(2,156)
Interest expense	5,046	2,298	-	7,344
Income before income taxes	1,960	113,922	-	115,882
Income taxes	(658)	40,982	-	40,324
Equity in subsidiaries' earnings, net of taxes	72,940	-	(72,940)	-
Net income	$ 75,558	$ 72,940	$ (72,940)	$ 75,558

	For the 13 weeks ended July 30, 2004			
	DOLLAR GENERAL CORPORATION	GUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTAL
STATEMENTS OF INCOME:				
Net sales	$ 45,197	$ 1,836,243	$ (45,197)	$ 1,836,243
Cost of goods sold	-	1,299,263	-	1,299,263
Gross profit	45,197	536,980	(45,197)	536,980
Selling, general and administrative	38,510	435,541	(45,197)	428,854
Operating profit	6,687	101,439	-	108,126
Interest income	(404)	(1,000)	-	(1,404)
Interest expense	4,298	1,147	-	5,445
Income before income taxes	2,793	101,292	-	104,085
Income taxes	1,158	31,605	-	32,763
Equity in subsidiaries' earnings, net of taxes	69,687	-	(69,687)	-
Net income	$ 71,322	$ 69,687	$ (69,687)	$ 71,322

	For the 26 weeks ended July 29, 2005			
	DOLLAR GENERAL CORPORATION	GUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTAL
STATEMENTS OF INCOME:				
Net sales	$ 89,581	$ 4,043,845	$ (89,581)	$ 4,043,845
Cost of goods sold	-	2,888,966	-	2,888,966
Gross profit	89,581	1,154,879	(89,581)	1,154,879
Selling, general and administrative	75,340	941,129	(89,581)	926,888
Operating profit	14,241	213,750	-	227,991
Interest income	(3,946)	(826)	-	(4,772)
Interest expense	10,130	3,182	-	13,312
Income before income taxes	8,057	211,394	-	219,451
Income taxes	2,936	76,057	-	78,993
Equity in subsidiaries' earnings, net of taxes	135,337	-	(135,337)	-
Net income	$ 140,458	$ 135,337	$ (135,337)	$ 140,458

	For the 26 weeks ended July 30, 2004			
	DOLLAR GENERAL CORPORATION	GUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTAL
STATEMENTS OF INCOME:				
Net sales	$ 89,729	$ 3,584,202	$ (89,729)	$ 3,584,202
Cost of goods sold	-	2,534,972	-	2,534,972
Gross profit	89,729	1,049,230	(89,729)	1,049,230
Selling, general and administrative	74,874	841,409	(89,729)	826,554
Operating profit	14,855	207,821	-	222,676
Interest income	(1,437)	(1,969)	-	(3,406)
Interest expense	9,113	4,776	-	13,889
Income before income taxes	7,179	205,014	-	212,193
Income taxes	3,073	69,949	-	73,022
Equity in subsidiaries' earnings, net of taxes	135,065	-	(135,065)	-
Net income	$ 139,171	$ 135,065	$ (135,065)	$ 139,171

	For the 26 weeks ended July 29, 2005			
	DOLLAR GENERAL CORPORATION	GUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTAL
STATEMENTS OF CASH FLOWS:				
Cash flows from operating activities:				
Net income	$ 140,458	$ 135,337	$ (135,337)	$ 140,458
Adjustments to reconcile net income to net cash provided by (used in) operating activities:				
Depreciation and amortization	10,848	79,468	-	90,316
Deferred income taxes	(516)	(12,933)	-	(13,449)
Tax benefit from stock option exercises	3,810	-	-	3,810
Equity in subsidiaries' earnings, net	(135,337)	-	135,337	-
Change in operating assets and liabilities:				
Merchandise inventories	-	(84,163)	-	(84,163)
Prepaid expenses and other current assets	2,469	(7,072)	-	(4,603)
Accounts payable	(8,736)	70,949	-	62,213
Accrued expenses and other	(10,508)	24,899	-	14,391
Income taxes	(1,022)	(19,143)	-	(20,165)
Other	3,733	6,475	-	10,208
Net cash provided by operating activities	5,199	193,817	-	199,016
Cash flows from investing activities:				
Purchases of property and equipment	(9,799)	(129,795)	-	(139,594)
Purchases of short-term investments	(30,250)	-	-	(30,250)
Sales of short-term investments	72,675	500	-	73,175
Proceeds from sale of property and equipment	18	804	-	822
Net cash provided by (used in) investing activities	32,644	(128,491)	-	(95,847)
Cash flows from financing activities:				
Repayments of long-term obligations	(3,043)	(5,140)	-	(8,183)
Payment of cash dividends	(27,596)	-	-	(27,596)
Proceeds from exercise of stock options	18,441	-	-	18,441
Repurchases of common stock	(172,755)	-	-	(172,755)
Changes in intercompany note balances, net	82,511	(82,511)	-	-
Other financing activities	44	-	-	44
Net cash used in financing activities	(102,398)	(87,651)	-	(190,049)
Net decrease in cash and cash equivalents	(64,555)	(22,325)	-	(86,880)
Cash and cash equivalents, beginning of period	127,170	105,660	-	232,830
Cash and cash equivalents, end of period	$ 62,615	$ 83,335	$ -	$ 145,950

	For the 26 weeks ended July 30, 2004			
	DOLLAR GENERAL CORPORATION	**GUARANTOR SUBSIDIARIES**	**ELIMINATIONS**	**CONSOLIDATED TOTAL**
STATEMENTS OF CASH FLOWS:				
Cash flows from operating activities:				
Net income	$ 139,171	$ 135,065	$ (135,065)	$ 139,171
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	10,071	70,626	-	80,697
Deferred income taxes	5,084	23,933	-	29,017
Tax benefit from stock option exercises	3,684	-	-	3,684
Equity in subsidiaries' earnings, net	(135,065)	-	135,065	-
Change in operating assets and liabilities:			-	
Merchandise inventories	-	(222,402)		(222,402)
Prepaid expenses and other current assets	(4,016)	1,857	-	(2,159)
Accounts payable	4,066	56,905	-	60,971
Accrued expenses and other	(8,043)	16,215	-	8,172
Income taxes	8,765	(35,060)	-	(26,295)
Other	(5,698)	(10,570)	-	(16,268)
Net cash provided by operating activities	18,019	36,569	-	54,588
Cash flows from investing activities:				
Purchases of property and equipment	(18,408)	(116,045)	-	(134,453)
Purchases of short-term investments	(148,925)	(500)	-	(149,425)
Sales of short-term investments	206,350	500	-	206,850
Proceeds from sale of property and equipment	16	74	-	90
Net cash provided by (used in) investing activities	39,033	(115,971)	-	(76,938)
Cash flows from financing activities:				
Repayments of long-term obligations	(3,876)	(4,543)	-	(8,419)
Payment of cash dividends	(26,448)	-	-	(26,448)
Proceeds from exercise of stock options	14,285	-	-	14,285
Repurchases of common stock	(169,391)	-	-	(169,391)
Changes in intercompany note balances, net	(115,138)	115,138	-	-
Other financing activities	(970)	-	-	(970)
Net cash provided by (used in) financing activities	(301,538)	110,595	-	(190,943)
Net increase (decrease) in cash and cash equivalents	(244,486)	31,193	-	(213,293)
Cash and cash equivalents, beginning of period	285,007	60,892	-	345,899
Cash and cash equivalents, end of period	$ 40,521	$ 92,085	$ -	$ 132,606

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.

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 document. The Company has no obligation, and does not intend, to publicly update or revise any forward-looking statements contained herein to reflect events or circumstances occurring after the date of this document 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.

The Company's business is moderately seasonal with the highest portion of 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 Christmas 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 Christmas 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 and by less than anticipated sales. Less than anticipated sales in the Christmas selling season would also negatively impact the Company's ability to leverage the increased labor costs.

Adverse weather conditions or other disruptions, especially during the peak Christmas selling 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 because of the lower prices, and thus the lower 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. These other retail companies operate stores in many of the 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, the possibility of war and 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.

Rising fuel and energy costs could negatively impact discretionary spending and the Company's costs of doing business. A continuing rise in fuel and energy costs could adversely affect the Company's business by reducing consumer spending or causing consumers to shift their spending to other products. In addition, continued increases in those costs also would increase the Company's transportation costs and overall cost of doing business and could adversely affect the Company's financial statements as a whole.

The Company's business is dependent on its ability to obtain attractive pricing and other terms from its vendors and on the timely receipt of 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 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 negatively impact the Company's operating results . The Company has undertaken 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 federal, state or local regulations governing the sale of the Company's products, particularly "over-the-counter" medications or health products, could increase the Company's cost of doing business and could adversely impact the Company's sales results. The Company's inability to comply with such changes in a timely fashion could result in significant fines or penalties that could impact the Company's financial statements as a whole.

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. Higher than expected increases in these costs could have an unanticipated negative impact on the Company's profitability.

Accounting Periods

The Company follows 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 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.

Executive Overview. For the second quarter of 2005, the Company earned $75.6 million, or $0.23 per diluted share. In summary, the Company increased revenue by 12.5%, aided by new stores and a same-stores sales increase of 3.9%. The gross profit rate declined compared to the prior year period primarily due to the continued shift in sales to highly consumable categories, which typically have lower gross profit rates, and higher transportation costs due, in part, to rising fuel costs. Operating expenses declined, as a rate to sales, compared to the prior year period for reasons outlined below. See detailed discussions below for additional comments on financial performance in the current year periods as compared with the prior year periods.

Despite the continued difficult economic environment for its customers, the Company has made considerable progress in implementing many of the important operating initiatives outlined in its Annual Report on Form 10-K for the fiscal year ended January 28, 2005. That progress includes the following:

- Opened 438 new stores, including 15 new Dollar General Market stores, while remaining on pace for the 2005 new store goal of 730;
- Implemented the EZstore project in 2,625 stores, while remaining on pace to execute this strategy in 50% of stores by the end of 2005;
- Reduced inventory levels on a per-store basis by approximately 3% as compared to the end of the second quarter of 2004 and will be continuing this inventory reduction effort throughout the remainder of the year;
- Continued testing Dollar General Market formats, including in new geographic areas;
- Continued focus on hiring practices and increasing accountability among Company employees;
- Commenced operations of an eighth distribution center near Jonesville, South Carolina in accordance with the anticipated time frame;
- Identified Marion, Indiana as the site of a ninth distribution center with a planned opening in 2006; and
- Completed the rollout of coolers to the stores

While the Company provides no assurance that it will continue to be successful in executing these initiatives, nor does it guarantee that their successful implementation will result in superior financial performance, management continues to believe that they are appropriate initiatives for the long-term success of the business.

The following table contains results of operations data for the 13-week and 26-week periods ending July 29, 2005 and July 30, 2004, and the dollar and percentage variances among those periods:

(amounts in millions, excluding per share amounts)	13 Weeks Ended		2005 vs. 2004		26 Weeks Ended		2005 vs. 2004	
	July 29, 2005	July 30, 2004	*Amount change*	*% change*	July 29, 2005	July 30, 2004	*Amount change*	*% change*
Net sales by category:								
Highly consumable	$ 1,351.8	$ 1,167.3	$ 184.5	15.8	2,673.1	2,281.7	391.4	17.2 %
% of net sales	*65.43%*	*63.57%*			*66.10%*	*63.66%*		
Seasonal	317.5	290.9	26.7	9.2	592.8	551.3	41.5	7.5
% of net sales	*15.37%*	*15.84%*			*14.66%*	*15.38%*		
Home products	215.1	208.2	7.0	3.4	426.9	422.9	4.0	0.9
% of net sales	*10.41%*	*11.34%*			*10.56%*	*11.80%*		
Basic clothing	181.5	169.9	11.7	6.9	351.0	328.2	22.8	6.9
% of net sales	*8.79%*	*9.25%*			*8.68%*	*9.16%*		
Net sales	$ 2,066.0	$ 1,836.2	$ 229.8	12.5 %	$ 4,043.8	$ 3,584.2	$ 459.6	12.8 %
Cost of goods sold	1,474.5	1,299.3	175.2	13.5	2,889.0	2,535.0	354.0	14.0
% of net sales	*71.37%*	*70.76%*			*71.44%*	*70.73%*		
Gross profit	591.5	537.0	54.5	10.2	1,154.9	1,049.2	105.6	10.1
% of net sales	*28.63%*	*29.24%*			*28.56%*	*29.27%*		
Selling, general and administrative	470.5	428.9	41.6	9.7	926.9	826.6	100.3	12.1
% of net sales	*22.77%*	*23.35%*			*22.92%*	*23.06%*		
Operating profit	121.1	108.1	12.9	12.0	228.0	222.7	5.3	2.4
% of net sales	*5.86%*	*5.89%*			*5.64%*	*6.21%*		
Interest income	(2.2)	(1.4)	(0.8)	53.6	(4.8)	(3.4)	(1.4)	40.1
% of net sales	*(0.10)%*	*(0.08)%*			*(0.12)%*	*(0.10)%*		
Interest expense	7.3	5.4	1.9	34.9	13.3	13.9	(0.6)	(4.2)
% of net sales	*0.36%*	*0.30%*			*0.33%*	*0.39%*		
Income before income taxes	115.9	104.1	11.8	11.3	219.5	212.2	7.3	3.4
% of net sales	*5.61%*	*5.67%*			*5.43%*	*5.92%*		
Income taxes	40.3	32.8	7.6	23.1	79.0	73.0	6.0	8.2
% of net sales	*1.95%*	*1.78%*			*1.95%*	*2.04%*		
Net income	$ 75.6	$ 71.3	$ 4.2	5.9	$ 140.5	$ 139.2	$ 1.3	0.9
% of net sales	*3.66%*	*3.88%*			*3.47%*	*3.88%*		
Diluted earnings per share	$ 0.23	$ 0.22	$ 0.01	4.5 %	$ 0.43	$ 0.42	$ 0.01	2.4 %
Weighted average diluted shares	326.3	330.3	(4.0)	(1.2)	328.8	333.8	(5.0)	(1.5)

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

Net Sales . The increase in net sales of $229.8 million resulted primarily from opening 633 net new stores since July 30, 2004, and a same-store sales increase of 3.9% 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 $68.2 million of the increase in sales while stores opened since the beginning of 2004 were the primary contributors to the remaining $161.5 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. A significant factor in the Company's merchandising strategy has been the rollout of coolers, which allow the stores to sell refrigerated products. As a result of the cooler rollout and other factors, 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 in the 2005 period compared to the 2004 period was primarily attributable to the highly

consumable category, which increased by $184.5 million, or 15.8%. The Company continually reviews its merchandise mix and adjusts it when 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 61 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; an increase in markdowns as a percentage of sales; 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.

Selling, General and Administrative (“SG&A”) Expense . The decrease 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 the following expense categories that increased less than the 12.5 percent increase in sales: store-related salary costs (increased 9.6%) reflecting the Company’s cost-containment efforts including the EZstore project, which is designed to improve inventory flow and other areas of store operations; inventory services (decreased 39.8%) reflecting a reduction in the number of inventories taken during the period at a lower average cost per inventory compared to the prior year period; health benefits (decreased 25.5%) primarily due to a downward revision in claim lag assumptions based upon review and recommendation by the Company’s outside actuary, resulting in a $2.6 million reduction of the Company’s estimate of incurred but not reported health claims; insurance costs (decreased 1.7%) primarily due to lower worker’s compensation and general liability costs relative to sales as compared with the prior year period; and a reduction in professional fees (decreased 33.0%) primarily due to the reduction of consulting fees in the 2005 period associated with the EZstore project, and fees in the 2004 period associated with the Company’s initial Sarbanes-Oxley compliance efforts. These items were partially offset by store occupancy costs (increased 19.7%) primarily due to rising average monthly rentals associated with the Company’s leased store locations.

Interest Expense . The increase in interest expense in the 2005 period compared to the 2004 period is due primarily to a $2.0 million reduction in income tax-related interest expense recorded in the 2004 period resulting from the outcome of certain state income tax examinations as further discussed in Note 6 to the Condensed Consolidated Financial Statements.

Income Taxes. The effective income tax rate for the 2005 period was 34.8% compared to 31.5% in the 2004 period. The rate for the 2005 period is lower than the Company’s estimated annual effective rate of approximately 36.1% primarily due to the year-to-date impact of a state investment tax credit associated with the construction of the Marion, Indiana DC and the impact of an internal corporate restructuring. The tax rate in the 2004 period was favorably impacted by

$6.2 million resulting from the outcome of certain state income tax examinations relating to prior years as further discussed in Note 6 to the Condensed Consolidated Financial Statements.

26 WEEKS ENDED JULY 29, 2005 AND JULY 30, 2004

Net Sales . The increase in net sales of $459.6 million resulted primarily from opening 633 net new stores since July 30, 2004, and a same-store sales increase of 4.4% for the 2005 period compared to the 2004 period. The increase in same-store sales accounted for $151.7 million of the increase in sales while stores opened since the beginning of 2004 were the primary contributors to the remaining $308.0 million sales increase during the 2005 period.

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 $391.4 million, or 17.2%, consistent with the factors outlined above.

Gross Profit . The gross profit rate declined by 71 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 3.12% compared to 3.18% in the 2004 period.

Selling, General and Administrative ("SG&A") Expense . The decrease 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 the following expense categories that increased less than the 12.8 percent increase in sales: store-related salary costs (increased 11.2%) reflecting the Company's cost-containment efforts including the EZstore project as discussed above; health benefits (decreased 12.0%) primarily due to a reduction in claim lag assumptions as discussed above; a reduction in professional fees (decreased 33.1%) primarily due to the reduction of consulting fees in the 2005 period associated with the EZstore project and Sarbanes-Oxley compliance efforts as discussed above; and insurance costs (increased 1.0%) primarily due to lower worker's compensation and general liability costs relative to sales as compared with the prior year period. These items were partially offset by store occupancy costs (increased 20.0%) primarily due to rising average monthly rentals associated with the Company's leased store locations; and fees associated with the increased customer usage of debit cards (increased 116.6%).

Interest Expense . Interest expense in the 2005 period compared to the 2004 period remained relatively constant. A $2.0 million reduction in income tax-related interest expense in the 2004 period resulting from the outcome of certain state income tax examinations as discussed in Note 6 to the Condensed Consolidated Financial Statements was offset by (i) a $0.8 million increase in capitalized interest in the 2005 period compared to the 2004 period relating primarily to the Company's DC construction and expansion projects, and (ii) a $0.7 million reduction in debt issuance cost amortization in the 2005 period compared to the 2004 period due primarily to the amendment of the Company's revolving credit facility in June 2004.

Income Taxes. The effective income tax rate for the 2005 period was 36.0% compared to 34.4% in the 2004 period. The 2005 rate approximates the Company's estimated annual effective tax rate of approximately 36.1%. The tax rate in the 2004 period was favorably impacted by $6.2 million resulting from the outcome of certain state income tax examinations relating to prior years as further discussed in Note 6 to the Condensed Consolidated Financial Statements.

Liquidity and Capital Resources

Current Financial Condition / Recent Developments . At July 29, 2005, the Company had total long-term debt (including the current portion) of $265.0 million and $146.0 million of cash and cash equivalents, compared with total long-term debt of $271.3 million and $232.8 million of cash and cash equivalents at January 28, 2005. The reduction in cash and cash equivalents during the first 26 weeks of 2005 is primarily attributable to repurchases by the Company of its common stock. Other significant factors affecting the Company's cash and debt balances during the period include cash flows provided by operating activities, net sales of short-term investments, purchases of property and equipment and payments of cash dividends, all as further described below.

The Company's inventory balance represented approximately 51% of its total assets as of July 29, 2005. The Company's ability to effectively manage 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 July 29, 2005 and July 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 July 29, 2005, the Company had repurchased approximately 9.0 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 July 29, 2005, the Company had no outstanding borrowings and $6.5 million of standby letters of credit under the Credit Facility. The standby letters of credit reduce the borrowing capacity under the Credit Facility. At July 29, 2005 the Company was in compliance with all financial covenants contained in the Credit Facility.

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. 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.

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 July 29, 2005 and January 28, 2005, the Company had commercial letter of credit facilities totaling $195.0 million and $215.0 million, respectively, of which $147.2 million and $98.8 million, respectively, were outstanding for the funding of imported merchandise purchases.

In July 2005, as an inducement for the Company to select Marion, Indiana as the site for construction of a new DC, the Economic Development Board of Marion approved a tax increment financing in the amount of $14.5 million. Pursuant to this financing, proceeds from the issuance of certain revenue bonds will be loaned to the Company in connection with the construction of the DC. This transaction will be funded during the second half of 2005.

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 component of the increase in cash flows from operating activities in the 2005 period as compared to the 2004 period was the change in inventory balances. The most significant change in inventory levels occurred in the seasonal and basic clothing categories. Seasonal inventory levels declined by 2% in the 2005 period as compared to an 18% increase in the 2004 period, while basic clothing inventory levels increased by 2% in the 2005 period as compared to a 29% increase in the 2004 period. Inventory management is a continuing focal point for the Company. In connection with this effort, the Company has completed an initiative of identifying specific merchandise in its stores that it wants to sell through via promotional sales to customers. Some of these items have already been marked down and some may require additional markdowns in future periods. The future rate of sales of this merchandise will be a key determinant of the rate of future markdowns.

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: $41 million for distribution and transportation-related capital expenditures; $38 million for new stores; $27 million for the EZstore project; and $13 million for systems-related capital projects. During the 2005 period, the Company opened 438 new stores. Distribution and transportation expenditures in the 2005 period include costs associated with the construction of the Company's DCs in Marion, Indiana and near Jonesville, South Carolina.

Significant components of property and equipment purchases in the 2004 period included the following approximate amounts: $38 million for new stores; $38 million for distribution and transportation-related capital expenditures; $16 million for coolers in new and existing stores, which allow the stores to carry refrigerated products; $13 million for certain fixtures in existing stores and $11 million for systems-related capital projects. During the 2004 period, the Company opened 420 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 DC near Jonesville, South Carolina.

Net sales of short-term investments increased net cash from investing activities by $42.9 million and $57.4 million in the 2005 and 2004 periods, respectively, and primarily reflect the Company's investment activities in tax-exempt auction market securities.

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, if necessary, borrowings under the Credit Facility.

Cash flows used in financing activities . The Company repurchased approximately 8.4 and 9.0 million shares of its common stock during the 2005 and 2004 periods at a total cost of $172.8 million, and $169.4 million, respectively. The Company paid cash dividends of $27.6 million and $26.4 million, or $0.085 and $0.08 per share, respectively, on its outstanding common stock during the 2005 and 2004 periods. These uses of cash were partially offset by stock option proceeds of $18.4 million and $14.3 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 Company estimates that this change resulted in a reduction of gross profit of approximately $3.4 million and $6.7 million, respectively, for the 13-week and 26-week periods ended July 29, 2005. The impact of this change on the Company’s annual consolidated financial statements is not currently expected to be material, 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 results of operations.

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 internally and with external counsel as necessary to assess probability of loss and for the ability to estimate 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 July 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 July 29, 2005.

(b) Changes in Internal Control Over Financial Reporting . There have been no changes in the Company's internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f)) identified in connection with the evaluation of the Company's internal control over financial reporting as required by Exchange Act Rule 13a-15(d) that occurred during the quarter ended July 29, 2005 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

The information contained in Note 4 to the 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 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table contains information regarding purchases of the Company's common stock made during the quarter ended July 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)
04/30/05-05/31/05	2,010,361	$ 20.48	2,010,300	6,300,200
06/01/05-06/30/05	5,258,656	$ 20.26	5,257,600	1,042,600
07/01/05-07/29/05	568	$ 20.46	-	1,042,600
Total	7,269,585	$ 20.32	7,267,900	1,042,600

(a) Includes 1,157 shares purchased in open market transactions in satisfaction of the Company's obligations under certain employee benefit plans and 528 shares accepted in lieu of cash to pay employee tax liabilities upon lapse of restrictions on restricted stock.

(b) On December 1, 2004, the Company announced that its Board of Directors had approved on November 30, 2004 a share repurchase program of 10 million shares. That repurchase authorization expires on November 30, 2005. Under the authorization, purchases may be made in the open market or in privately negotiated transactions from time to time subject to market conditions. The Company did not have any repurchase plan or program that expired during the second quarter of 2005, nor has the Company determined to terminate the current plan prior to its expiration.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Company's Annual Shareholders' Meeting was held on May 24, 2005. Proxies for that Meeting were solicited in accordance with Regulation 14A of the Exchange Act. There was no solicitation in opposition to management's nominees and each of those nominees was elected to serve a one-year term. The voting results on each matter at the Meeting are set forth below:

(a) **Proposal 1—Election of Directors**

	For	Withhold Authority
David L. Beré	278,454,610	2,445,419
Dennis C. Bottorff	278,302,550	2,597,479
Barbara L. Bowles	277,269,492	3,630,537
James L. Clayton	276,119,055	4,780,974
Reginald D. Dickson	276,130,791	4,769,238
E. Gordon Gee	276,398,561	4,501,468
Barbara M. Knuckles	277,466,287	3,433,742
David A. Perdue	275,538,938	5,361,091
J. Neal Purcell	277,512,060	3,387,969
James D. Robbins	277,538,013	3,362,016
David M. Wilds	275,018,186	5,881,843

(b) **Proposal 2—Approval of Annual Incentive Plan to assure full tax deductibility of awards in connection with Internal Revenue Code Section 162(m)**

For	Against	Abstain
271,403,170	7,464,549	2,032,309

(c) **Proposal 3—Ratification of the appointment of Ernst & Young LLP as independent auditors**

For	Against	Abstain
278,209,326	608,134	2,082,568

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: August 25, 2005   By: /s/ David M. Tehle
David M. Tehle
Executive Vice President and Chief Financial Officer

EXHIBIT INDEX

4.1	Seventh Supplemental Indenture, dated as of May 23, 2005, by and among Dollar General Corporation, the guarantors named therein, as guarantors, and Wachovia Bank, National Association (formerly known as First Union National Bank), as trustee.
4.2	Eighth Supplemental Indenture, dated as of July 27, 2005, by and among Dollar General Corporation, the guarantors named therein, as guarantors, and Wachovia Bank, National Association (formerly known as First Union National Bank), as trustee.
10.1	Amendment to Dollar General Corporation 1998 Stock Incentive Plan.
10.2	Form of Restricted Stock Unit Award Agreement and Election Forms in connection with restricted stock unit grants made to outside directors pursuant to the Company's 1998 Stock Incentive Plan.
10.3	Form of Stock Option Grant Notice in connection with option grants made pursuant to the Company's 1998 Stock Incentive Plan.
10.4	Form of Restricted Stock Award Agreement in connection with restricted stock grants made pursuant to the Company's 1998 Stock Incentive Plan.
10.5	Form of Restricted Stock Unit Award Agreement in connection with restricted stock unit grants made to officers and employees pursuant to the Company's 1998 Stock Incentive Plan.
10.6	Dollar General Corporation Annual Incentive Plan (effective March 16, 2005, as approved by shareholders on May 24, 2005).
10.7	Dollar General Corporation 2005 Store Support and Distribution Center Teamshare Bonus Program.
10.8	Summary of Outside Director Compensation (effective May 25, 2005).
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.

SEVENTH SUPPLEMENTAL INDENTURE

SEVENTH SUPPLEMENTAL INDENTURE (this "Supplemental Indenture"), dated as of May 23, 2005 among: Dollar General Corporation (the "Company"), a corporation duly organized and existing under the laws of the State of Tennessee; Dolgencorp, Inc., a Kentucky corporation; Dolgencorp of Texas, Inc., a Kentucky corporation; DG Logistics, LLC, a Tennessee limited liability company; Dade Lease Management, Inc., a Delaware corporation; Dollar General Partners, a Kentucky general partnership; Dollar General Financial, Inc., a Tennessee corporation; Nations Title Company, Inc., a Tennessee corporation; Dollar General Intellectual Property, L.P., a Vermont limited partnership; The Greater Cumberland Insurance Company, a Vermont corporation; Dolgencorp of New York, Inc., a Kentucky corporation; Dollar General Stores, Ltd., a Kentucky limited partnership; DGC Properties, LLC, a Delaware limited liability company; DGC Properties of Kentucky, LLC, a Delaware limited liability company; Dollar General Investment, Inc., a Delaware corporation; Lonestar Administrative Services, Inc., a Tennessee corporation; Dollar General Global Sourcing Limited, a Hong Kong corporation; and DGC Holdings, LLC, a Delaware limited liability company (collectively, the "Existing Guarantors"); and Ashley River Insurance Company, Inc., a South Carolina corporation, and DG Transportation, Inc., a Tennessee corporation (the "Additional Guarantors" and, together with the Existing Guarantors, the "Guarantors"); and Wachovia Bank, National Association, [formerly known as First Union National Bank] a national banking association, as trustee (the "Trustee").

WITNESSETH

WHEREAS, the Company and the Existing Guarantors have heretofore executed and delivered to the Trustee an indenture (the "Indenture"), dated as of June 21, 2000, as amended by that certain First Supplemental Indenture dated as of July 28, 2000, that certain Second Supplemental Indenture dated as of June 18, 2001, that certain Third Supplemental Indenture dated as of June 20, 2002, that certain Fourth Supplemental Indenture dated as of December 11, 2002, that certain Fifth Supplemental Indenture dated as of May 23, 2003, and that certain Sixth Supplemental Indenture dated as of July 15, 2003, providing for the issuance of an aggregate principal amount of $200,000,000 of 8 5/8% Notes due June 15, 2010 (the "Notes");

WHEREAS, Section 4.06 and Article X of the Indenture provide that under certain circumstances the Company may or must cause certain of its Subsidiaries to execute and deliver to the Trustee a supplement to the Indenture pursuant to which such Subsidiaries shall unconditionally guarantee all of the Company's Obligations under the Notes pursuant to a Guarantee on the terms and conditions set forth herein; and

WHEREAS, pursuant to Section 9.01 of the Indenture, the Trustee is authorized to execute and deliver this Supplemental Indenture.

NOW THEREFORE, in consideration of the foregoing and for other good and valuable consideration, the receipt of which is hereby acknowledged, the Company, the Additional Guarantor and the Trustee mutually covenant and agree for the equal and ratable benefit of the Holders of the Notes as follows:

1. Capitalized Terms. Capitalized terms used herein without definition shall have the meanings assigned to them in the Indenture.

2. Agreement to Guarantee. The Additional Guarantor hereby agrees, jointly and severally with all other Guarantors, to unconditionally guarantee the Company's Obligations under the Notes and the Indenture on the terms and subject to the conditions set forth in Article X of the Indenture and to be bound by all other applicable provisions of the Indenture and the Notes. The Additional Guarantor hereby agrees that its Guarantee shall remain in full force and effect notwithstanding any failure to endorse on each Note a notation of such Guarantee. This Guarantee is subject to release as and to the extent provided in Section 10.04 of the Indenture. This Guarantee shall remain in full force and effect irrespective of the release of the Guarantee of any Guarantor other than the Additional Guarantor making the Guarantee as provided in Section 10.04 of the Indenture.

3. No Recourse Against Others. No past, present or future director, officer, employee, incorporator, partner, member, shareholder or agent of any Guarantor, as such, shall have any liability for any obligations of the Company or any Guarantor under the Notes, any Guarantee, the Indenture or this Supplemental Indenture or for any claim based on, in respect of, or by reason of, such obligations. Each Holder by accepting a Note waives and releases all such liability. Such waiver and release form a part of the consideration for issuance of the Notes and the Guarantees.

4. Governing Law. This Supplemental Indenture shall be governed by, and construed in accordance with, the laws of the State of New York.

5. Counterparts. The parties may sign any number of copies of this Supplemental Indenture. Each signed copy shall be an original, but all of them together represent the same agreement.

6. Effect of Headings. The Section headings herein are for convenience only and shall not affect the construction hereof.

7. The Trustee. The Trustee shall not be responsible in any manner whatsoever for or in respect of the validity or sufficiency of this Supplemental Indenture or for or in respect of the correctness of the recitals of fact contained herein, all of which recitals are made solely by the Additional Guarantor.

IN WITNESS WHEREOF, the parties hereto have caused this Supplemental Indenture to be duly executed and attested, all as of the date first above written.

ASHLEY RIVER INSURANCE COMPANY, INC.

By: /s/ Wade Smith
Name: Wade Smith
Title: Treasurer

DG TRANSPORTATION, INC.

By: /s/ Wade Smith
Name: Wade Smith
Title: Treasurer

DOLLAR GENERAL CORPORATION

By: /s/ Wade Smith
Name: Wade Smith
Title: Treasurer

DOLGENCORP, INC.

By: /s/ Wade Smith
Name: Wade Smith
Title: Treasurer

DOLGENCORP OF TEXAS, INC.

By: /s/ Wade Smith
Name: Wade Smith
Title: Treasurer

DG LOGISTICS, LLC
By: Dolgencorp, Inc., its Managing Member

By: /s/ Wade Smith
Name: Wade Smith
Title: Treasurer

DADE LEASE MANAGEMENT, INC.

By: /s/ Wade Smith
Name: Wade Smith
Title: Treasurer

DOLLAR GENERAL PARTNERS

By: Dolgencorp, Inc., a general partner

By: /s/ Wade Smith
Name: Wade Smith
Title: Treasurer

By: Dade Lease Management, Inc., a general partner

By: /s/ Wade Smith
Name: Wade Smith
Title: Treasurer

By: Dollar General Financial, Inc., a general partner

By: /s/ Wade Smith
Name: Wade Smith
Title: Treasurer

DOLLAR GENERAL FINANCIAL, INC.

By: /s/ Wade Smith
Name: Wade Smith
Title: Treasurer

NATIONS TITLE COMPANY, INC.

By: /s/ Wade Smith
Name: Wade Smith
Title: Treasurer

DOLLAR GENERAL INTELLECTUAL PROPERTY, L.P.

By: Dade Lease Management, Inc., its General Partner

By: /s/ Wade Smith
Name: Wade Smith
Title: Treasurer

THE GREATER CUMBERLAND INSURANCE COMPANY

By: /s/ Wade Smith
Name: Wade Smith
Title: Treasurer

DOLGENCORP OF NEW YORK, INC.

By: /s/ Wade Smith
Name: Wade Smith
Title: Treasurer

DOLLAR GENERAL STORES
By: Dolgencorp, Inc., its general partner

By: /s/ Wade Smith
Name: Wade Smith
Title: Treasurer

DGC PROPERTIES, LLC
By: Dolgencorp, Inc., its Managing Member

By: /s/ Wade Smith
Name: Wade Smith
Title: Treasurer

DGC PROPERTIES OF KENTUCKY, LLC
By: Dollar General Partners, its Managing Member
By: Dolgencorp, Inc., a general partner

By: /s/ Wade Smith
Name: Wade Smith
Title: Treasurer

By: Dade Lease Management, Inc., a general partner

By: /s/ Wade Smith
Name: Wade Smith
Title: Treasurer

By: Dollar General Financial, Inc., a general partner

By: /s/ Wade Smith
Name: Wade Smith
Title: Treasurer

DOLLAR GENERAL INVESTMENT, INC.

By: /s/ Wade Smith
Name: Wade Smith
Title: Treasurer

LONESTAR ADMINISTRATIVE SERVICES, INC.

By: /s/ Wade Smith
Name: Wade Smith
Title: Treasurer

DOLLAR GENERAL GLOBAL SOURCING LIMITED

By: /s/ Wade Smith
Name: Wade Smith
Title: Treasurer

DGC HOLDINGS, LLC
By: Dollar General Corporation, its Managing Member

By: /s/ Wade Smith
Name: Wade Smith
Title: Treasurer

WACHOVIA BANK, NATIONAL ASSOCIATION, TRUSTEE

By: /s/ Laura Bass
Name: Laura Bass
Title: Assistant Vice President

EIGHTH SUPPLEMENTAL INDENTURE

EIGHTH SUPPLEMENTAL INDENTURE (this "Supplemental Indenture"), dated as of July 27 th , 2005 among: Dollar General Corporation (the "Company"), a corporation duly organized and existing under the laws of the State of Tennessee; Dolgencorp, Inc., a Kentucky corporation; Dolgencorp of Texas, Inc., a Kentucky corporation; DG Logistics, LLC, a Tennessee limited liability company; Dade Lease Management, Inc., a Delaware corporation; Dollar General Partners, a Kentucky general partnership; Dollar General Financial, Inc., a Tennessee corporation; Nations Title Company, Inc., a Tennessee corporation; Dollar General Intellectual Property, L.P., a Vermont limited partnership; The Greater Cumberland Insurance Company, a Vermont corporation; Dolgencorp of New York, Inc., a Kentucky corporation; Dollar General Stores, Ltd., a Kentucky limited partnership; DGC Properties, LLC, a Delaware limited liability company; DGC Properties of Kentucky, LLC, a Delaware limited liability company; Dollar General Investment, Inc., a Delaware corporation; Lonestar Administrative Services, Inc., a Tennessee corporation; Dollar General Global Sourcing Limited, a Hong Kong corporation; DGC Holdings, LLC, a Delaware limited liability company; Ashley River Insurance Company, Inc., a South Carolina corporation; and DG Transportation, Inc., a Tennessee corporation (collectively, the " Existing Guarantors "); and DG Retail, LLC, a Tennessee limited liability company (the " Additional Guarantor " and, together with the Existing Guarantors, the " Guarantors "); and Wachovia Bank, National Association, [formerly known as First Union National Bank] a national banking association, as trustee (the " Trustee ").

WITNESSETH

WHEREAS, the Company and the Existing Guarantors have heretofore executed and delivered to the Trustee an indenture (the "Indenture"), dated as of June 21, 2000, as amended by that certain First Supplemental Indenture dated as of July 28, 2000, that certain Second Supplemental Indenture dated as of June 18, 2001, that certain Third Supplemental Indenture dated as of June 20, 2002, that certain Fourth Supplemental Indenture dated as of December 11, 2002, that certain Fifth Supplemental Indenture dated as of May 23, 2003, that certain Sixth Supplemental Indenture dated as of July 15, 2003, and that certain Seventh Supplemental Indenture providing for the issuance of an aggregate principal amount of $200,000,000 of 8 5/8% Notes due June 15, 2010 (the " Notes ");

WHEREAS, Section 4.06 and Article X of the Indenture provide that under certain circumstances the Company may or must cause certain of its Subsidiaries to execute and deliver to the Trustee a supplement to the Indenture pursuant to which such Subsidiaries shall unconditionally guarantee all of the Company's Obligations under the Notes pursuant to a Guarantee on the terms and conditions set forth herein; and

WHEREAS, pursuant to Section 9.01 of the Indenture, the Trustee is authorized to execute and deliver this Supplemental Indenture.

NOW THEREFORE, in consideration of the foregoing and for other good and valuable consideration, the receipt of which is hereby acknowledged, the Company, the Additional

Guarantor and the Trustee mutually covenant and agree for the equal and ratable benefit of the Holders of the Notes as follows:

1. Capitalized Terms. Capitalized terms used herein without definition shall have the meanings assigned to them in the Indenture.

2. Agreement to Guarantee. The Additional Guarantor hereby agrees, jointly and severally with all other Guarantors, to unconditionally guarantee the Company's Obligations under the Notes and the Indenture on the terms and subject to the conditions set forth in Article X of the Indenture and to be bound by all other applicable provisions of the Indenture and the Notes. The Additional Guarantor hereby agrees that its Guarantee shall remain in full force and effect notwithstanding any failure to endorse on each Note a notation of such Guarantee. This Guarantee is subject to release as and to the extent provided in Section 10.04 of the Indenture. This Guarantee shall remain in full force and effect irrespective of the release of the Guarantee of any Guarantor other than the Additional Guarantor making the Guarantee as provided in Section 10.04 of the Indenture.

3. No Recourse Against Others. No past, present or future director, officer, employee, incorporator, partner, member, shareholder or agent of any Guarantor, as such, shall have any liability for any obligations of the Company or any Guarantor under the Notes, any Guarantee, the Indenture or this Supplemental Indenture or for any claim based on, in respect of, or by reason of, such obligations. Each Holder by accepting a Note waives and releases all such liability. Such waiver and release form a part of the consideration for issuance of the Notes and the Guarantees.

4. Governing Law. This Supplemental Indenture shall be governed by, and construed in accordance with, the laws of the State of New York.

5. Counterparts. The parties may sign any number of copies of this Supplemental Indenture. Each signed copy shall be an original, but all of them together represent the same agreement.

6. Effect of Headings. The Section headings herein are for convenience only and shall not affect the construction hereof.

7. The Trustee. The Trustee shall not be responsible in any manner whatsoever for or in respect of the validity or sufficiency of this Supplemental Indenture or for or in respect of the correctness of the recitals of fact contained herein, all of which recitals are made solely by the Additional Guarantor.

IN WITNESS WHEREOF, the parties hereto have caused this Supplemental Indenture to be duly executed and attested, all as of the date first above written.

DG RETAIL, LLC
By: Dollar General Corporation, its Managing Member

By: /s/ Wade Smith
Name: Wade Smith
Title: Treasurer

DOLLAR GENERAL CORPORATION

By: /s/ Wade Smith
Name: Wade Smith
Title: Treasurer

DOLGENCORP, INC.

By: /s/ Wade Smith
Name: Wade Smith
Title: Treasurer

DOLGENCORP OF TEXAS, INC.

By: /s/ Wade Smith
Name: Wade Smith
Title: Treasurer

DG LOGISTICS, LLC
By: Dolgencorp, Inc., its Managing Member

By: /s/ Wade Smith
Name: Wade Smith
Title: Treasurer

DADE LEASE MANAGEMENT, INC.

By: /s/ Wade Smith
Name: Wade Smith
Title: Treasurer

DOLLAR GENERAL PARTNERS

By: Dolgencorp, Inc., a general partner

By: /s/ Wade Smith
Name: Wade Smith
Title: Treasurer

By: Dade Lease Management, Inc., a general partner

By: /s/ Wade Smith
Name: Wade Smith
Title: Treasurer

By: Dollar General Financial, Inc., a general partner

By: /s/ Wade Smith
Name: Wade Smith
Title: Treasurer

DOLLAR GENERAL FINANCIAL, INC.

By: /s/ Wade Smith
Name: Wade Smith
Title: Treasurer

NATIONS TITLE COMPANY, INC.

By: /s/ Wade Smith
Name: Wade Smith
Title: Treasurer

DOLLAR GENERAL INTELLECTUAL PROPERTY, L.P.

By: Dade Lease Management, Inc., its General Partner

By: /s/ Wade Smith
Name: Wade Smith
Title: Treasurer

THE GREATER CUMBERLAND INSURANCE COMPANY

By: /s/ Wade Smith
Name: Wade Smith
Title: Treasurer

DOLGENCORP OF NEW YORK, INC.

By: /s/ Wade Smith
Name: Wade Smith
Title: Treasurer

DOLLAR GENERAL STORES
By: Dolgencorp, Inc., its general partner

By: /s/ Wade Smith
Name: Wade Smith
Title: Treasurer

DGC PROPERTIES, LLC
By: Dolgencorp, Inc., its Managing Member

By: /s/ Wade Smith
Name: Wade Smith
Title: Treasurer

DGC PROPERTIES OF KENTUCKY, LLC
By: Dollar General Partners, its Managing Member
By: Dolgencorp, Inc., a general partner

By: /s/ Wade Smith
Name: Wade Smith
Title: Treasurer

By: Dade Lease Management, Inc., a general partner

By: /s/ Wade Smith
Name: Wade Smith
Title: Treasurer

By: Dollar General Financial, Inc., a general partner

By: /s/ Wade Smith
Name: Wade Smith
Title: Treasurer

DOLLAR GENERAL INVESTMENT, INC.

By: /s/ Wade Smith
Name: Wade Smith
Title: Treasurer

LONESTAR ADMINISTRATIVE SERVICES, INC.

By: /s/ Wade Smith
Name: Wade Smith
Title: Treasurer

DOLLAR GENERAL GLOBAL SOURCING LIMITED

By: /s/ Wade Smith
Name: Wade Smith
Title: Treasurer

DGC HOLDINGS, LLC
By: Dollar General Corporation, its Managing Member

By: /s/ Wade Smith
Name: Wade Smith
Title: Treasurer

ASHLEY RIVER INSURANCE COMPANY, INC.

By: /s/ Wade Smith
Name: Wade Smith
Title: Treasurer

DG TRANSPORTATION, INC.

By: /s/ Wade Smith
Name: Wade Smith
Title: Treasurer

WACHOVIA BANK, NATIONAL ASSOCIATION, TRUSTEE

By: /s/ Laura Bass
Name: Laura Bass
Title: Assistant Vice President

AMENDMENT TO
DOLLAR GENERAL CORPORATION
1998 STOCK INCENTIVE PLAN
(As Amended and Restated effective June 2, 2003,
as modified through August 26, 2003)

1. Section 8(c) of the Dollar General Corporation 1998 Stock Incentive Plan (the "Plan") is amended, effective as of January 1, 2005, to read as follows with respect to Restricted Units which are not both earned and vested as of December 31, 2004:

(c) Outside Director Restricted Unit Awards

(i) Each Outside Director shall receive an annual Outside Director Restricted Unit Award of 4,600 Restricted Units. In the event an Outside Director serves as Chairman of the Board, the annual Outside Director Restricted Unit Award shall be 6,000 Restricted Units.

(ii) Subject to earlier vesting as provided in Section 9, each Outside Director Restricted Unit Award shall vest on the first anniversary of the date of grant if the grantee is still a member of the Board on such date.

(iii) An Outside Director shall not have any right, in respect of Restricted Units awarded pursuant to the Plan, to vote on any matter submitted to the Corporation's shareholders until such time as the shares of Common Stock attributable to such Restricted Units have been issued.

(iv) Dividend Equivalents . Whenever a dividend, other than a dividend payable in the form of shares of Common Stock, is declared with respect to the shares of Common Stock, the number of Restricted Units credited to an Outside Director shall be increased by the number of Restricted Units determined by dividing:

(A) the product of:

(1) the number of Restricted Units credited to such Outside Director on the related dividend record date and

(2) the amount of any cash dividend declared by the Corporation on a share of

Common Stock (or, in the case of any dividend distributable in property other than shares of Common Stock, the per share value of such dividend, as determined by the Corporation for purposes of Federal income tax reporting) by

(B) the Fair Market Value on the related dividend payment date.

(v) Subject to Section 9 and (xiii) below, no shares of Common Stock shall be distributed, or amount paid, to any Outside Director in respect of any Restricted Units until such time as such Outside Director has ceased to be a member of the Board (but in no event earlier than the first day of the calendar month that is at least more than six months after the Service Termination Date (as defined below) if the Outside Director is considered to be a key employee of a publicly traded employer for purposes of the distribution limitations of Section 409A(a)(2)(B)(i) of the Code.

(vi) An Outside Director may elect:

(A) to receive a distribution of shares of Common Stock in respect of the Outside Director's Restricted Units in a single lump sum payment or in such number of annual installments, not to exceed ten, as the Outside Director shall elect; and

(B) whether the lump sum distribution or first installment shall be made:

(1) as soon as practicable after the Service Termination Date (subject to deferral to the first day of the calendar month that is more than six months after the Service Termination Date if the Outside Director is considered to be a key employee of a publicly traded employer for purposes of the distribution limitations of Section 409A of the Code as provided in (v) above);

(2) on the first day of the calendar month beginning more than six months after the Service Termination Date; or

(3) on the first anniversary of the Service Termination Date.

Each Outside Director is entitled to make the initial payment elections (the "Initial Payment Elections") described above which will apply to all Restricted Units granted to the Outside Director hereunder. If an Outside Director fails to make such elections in accordance with the procedures set forth herein, the Initial Payment Elections will be considered to be the Plan Default Payment Provisions (as defined below). When used herein, the term "Initial Payment Elections" means either the Initial Payment Elections made by the Outside Director or, if no such Initial Payment Elections have been made, the Plan Default Payment Provisions. An Outside Director receiving a grant of Restricted Units for the first time must make the Initial Payment Elections, if at all, within thirty (30) calendar days after the initial grant date (or by any other date permitted or required by Section 409A of the Code and utilized by the Committee, including, without limitation, the December 31, 2005 election deadline provided in IRS Notice 2005-1) or the Plan Default Payment Provisions will apply. The Initial Payment Elections of an Outside Director who was granted Restricted Units prior to December 31, 2004 will be those in place on December 31, 2005 (or on any other date permitted or required by Section 409A of the Code and utilized by the Committee).

An Outside Director may make changes to the Initial Payment Elections subject to the following conditions:

(A) such changes may not be made later than one full year prior to the date as of which his or her service as an Outside Director terminates (the "Service Termination Date");

(B) an Outside Director may not make any change to either the Initial Payment Elections or to any subsequent payment elections after December 31, 2005 that would have the effect of accelerating the time or schedule of payment (e.g., change from installments to a lump sum or accelerate time of payment); and

(C) except for elections to change the time or form of payment in the case of death or disability (within the meaning of Section 409A(a)(2)(C) of the Code), such changes must defer the first payment for at least five (5) years from the otherwise applicable payment date.

All payment elections (whether Initial or subsequent) shall be filed in writing with the Secretary of the Corporation and shall be effective when received by the Secretary; *provided* that, if an Outside Director's Service Termination Date occurs within one full year of the date an election is received it shall be deemed to be ineffective and the last election filed more than twelve months before the Service Termination Date shall be deemed to be effective.

(vii) Any payment to be made to an Outside Director shall be made in shares of Common Stock; *provided*, that any fractional shares of Common Stock to be delivered in respect of Restricted Units shall be settled in cash based upon the Fair Market Value on the last business day immediately prior to the date such shares would otherwise have been delivered to the Outside Director or the Outside Director's beneficiary; *provided, further*, that the Committee may, in its sole discretion, elect to pay cash, or part cash and part Common Stock in lieu of delivering only Common Stock for Restricted Units. If a cash payment is made in lieu of delivering Common Stock, the amount of such cash payment for each share of Common Stock to which a Participant is entitled shall be equal to the Fair Market Value of the Common Stock as of on the last business day immediately prior to the date on which the distribution is required to be made.

(viii) If an Outside Director fails to specify a commencement date for a distribution in accordance with Section 8(c)(vi), such distribution shall commence as soon as practicable after the Service Termination Date, unless the Outside Director is considered to be a key employee of a publicly traded employer for purposes of the distribution limitations of Section 409A of the Code as provided in (v) above, in which case the distribution shall commence on the first day of the calendar month that is at least six months after the Service Termination Date (the "Plan's Default Payment Time"). If an Outside Director fails to specify whether a distribution shall be made in a lump-sum payment or a number of installments, such distribution shall be made in a lump-sum payment (the "Plan's Default Payment Form" and, together with the Plan's Default Payment Time, the "Plan's Default Payment Provisions").

(ix) In the case of any distribution being made in annual installments, each installment after the first installment shall be paid on the first business day of each subsequent calendar year until the entire amount shall have been paid. The value of any installment payment payable in cash shall be an amount equal to the product of:

(A) the number Restricted Units then standing to the credit of an Outside Director (which shall be net of the number of Restricted Units with respect to which a prior installment payment has been made);

(B) the Fair Market Value of a share of Common Stock on the last business day immediately prior to the date as of which such installment is payable; and

(C) a fraction, the numerator of which is one and the denominator of which is the number of installments (including the then current installment) remaining to be paid.

(x) Outside Director Restricted Unit Awards shall not be transferable without the prior written consent of the Board other than (i) transfers by the holder to a member of his or her Immediate Family or a trust for the benefit of the holder or a member of his or her Immediate Family, or (ii) transfers by will or by the laws of descent and distribution or a qualified domestic relations order.

(xi) Recipients of Outside Director Restricted Unit Awards shall enter into a restricted unit agreement with the Corporation setting forth the terms of such grant as provided herein.

(xii) Termination of Service

(A) If an Outside Director's service as a director of the Corporation terminates by reason of death, Disability or Normal Retirement, all Outside Director Restricted Unit Awards held by such Outside Director shall immediately vest.

(B) If an Outside Director's service as a director of the Corporation terminates for any reason other than death, Disability or Normal Retirement, all Unvested Outside Director Restricted Unit Awards held by such Outside Director shall thereupon terminate, except that if an Outside Director's service as a director is terminated for Cause (as such term is defined in Section 5(j) of this Plan) all Restricted Units shall terminate and be forfeited.

(C) In the event of the death of an Outside Director, any payment due in respect of the Outside Director's Restricted Units shall be made to the beneficiary designated in writing by such Outside Director and filed with the Secretary of the Corporation, or, in the absence of such designation, to the Outside Director's estate. Any such payment shall be made at the same time and subject to the same conditions as would have applied had the Outside Director survived and the date of his or her death been treated as the termination date of the Outside Director's service, unless the Outside Director shall have specified that an alternative form of payment permitted under the Plan should apply in the event of his or her death.

(xiii) Outside Director Restricted Unit Awards shall be subject to Section 9, *provided*, that no payment in respect of any Restricted Units shall be accelerated pursuant to Section 9 unless the Change in Control is a change in ownership or effective control, or in the ownership of a substantial portion of the assets, of the Corporation for purposes of Section 409A(a)(2)(A)(v) of the Code. The number of Outside Director Restricted Units theretofore awarded shall be adjusted automatically in the manner prescribed by Section 3(c).

(d) Any applicable withholding taxes shall be paid in shares of Common Stock subject to the Outside Director Option or Outside Director Restricted Unit Award valued as the Fair Market Value of such shares unless the Corporation agrees to accept payment in cash in the amount of such withholding taxes.

(e) The Board, in its sole discretion, may determine to reduce the size of any Outside Director Option or Outside Director Restricted Unit Award prior to grant or to postpone the vesting or distribution of any Outside Director Restricted Unit Award prior to grant.

2. The following new Section 8(f) is added the Plan, effective as of January 1, 2005, to read as follows with respect to Restricted Units which are both earned and vested as of December 31, 2004:

(f) Unless otherwise expressly provided, Outside Director Restricted Units which are both earned and vested as of December 31, 2004 shall not be affected by the Plan changes adopted as of January 1, 2005 to comply with Section 409A of the Code; and the time and form of payment provisions of the Plan applicable thereto on December 31, 2004 shall continue to apply to such Outside Director Restricted Units.

3. The following new Section 12(j) is added to the Plan, effective as of January 1, 2005, to read as follows:

(j) It is intended that any compensation, benefit or other remuneration which is provided pursuant to or in connection with the Plan which is considered to be nonqualified deferred compensation for purposes of Section 409A of the Code and which is not both earned and vested as of December 31, 2004 shall be provided and paid in a manner, and at such time and in such form, as complies with the applicable requirements of Section 409A of the Code to avoid the unfavorable tax consequences provided therein for non-compliance. The Committee is authorized to amend the Plan or any election under the Plan as may be determined by it to be necessary or appropriate to evidence or further evidence such required compliance with Section 409A of the Code.

It is specifically intended that all elections, consents and modifications thereto under the Plan with respect to compensation, benefit or other remuneration provided pursuant to or in connection with the Plan which is considered to be nonqualified deferred compensation for purposes of Section 409A of the Code and which is not both earned and vested as of December 31, 2004 will comply with the applicable requirements of Section 409A of the Code (including any transition or grandfather rules thereunder). The Committee is authorized to adopt rules or regulations deemed necessary or appropriate in connection therewith to anticipate and/or comply the requirements of Section 409A of the Code (including any transition or grandfather rules thereunder).

It is also intended that if any compensation, benefit or other remuneration which is provided pursuant to or in connection with the Plan is considered to be nonqualified deferred compensation for purposes of Section 409A of the Code but for being earned and vested as of December 31, 2004, then no material modification of the Plan after October 3, 2004 shall apply to such Plan benefits which are earned and vested as of December 31, 2004 unless such modification expressly so provides.

[NAME_FIRST] [NAME_ LAST]
[ADDRESS1]
[ADDRESS2]
[CITY] [STATE] [ZIP]

RESTRICTED STOCK UNIT AWARD AGREEMENT

You have been granted an Outside Director Restricted Unit Award ("RSUs") as follows:

Grant Date	**# RSUs**	**Vesting Date**	**Payment Date**
			After Termination of Board Service

Plan Information: The RSUs have been granted pursuant to the 1998 Stock Incentive Plan, as amended and restated on June 2, 2003, and modified on August 26, 2003 and on May 24, 2005 (the "Plan"), and are subject to all the restrictions, conditions and other terms contained in that Plan (see the enclosed Prospectus and Prospectus Supplement for a summary of the Plan). Each RSU represents the right to receive one share of Dollar General common stock (or equivalent cash payment at the sole discretion of the Compensation Committee) on the Payment Date.

Important Tax Law Changes: Due to tax law changes enacted in the American Jobs Creation Act of 2004 and applicable to the Plan effective January 1, 2005, new rules contained in Section 409A of the Internal Revenue Code ("IRC") apply to the payment of RSUs. These new rules apply to RSUs that are unvested as of, or granted after, December 31, 2004. Please refer to the Prospectus Supplement dated May 24, 2005 for more information.

Vesting Information: The RSUs generally will vest on the Vesting Date set forth above if you are a member of the Board on that date. The Vesting Date may be accelerated upon a change in control of Dollar General, or upon the termination of your service as a director by reason of death, Disability or Normal Retirement (each as defined in the Plan), all as set forth in the Plan. If your service as a director is terminated for Cause (as defined in the Plan), all RSUs, vested or not, will terminate immediately and you will not be entitled to any payment with respect to your RSUs.

Payment Date and Form: You will not receive a payment relating to the RSUs until you have ceased to be a Board member. Your payment will be made in shares of Dollar General common stock (other than fractional shares, which will be paid in cash), or in cash or part shares and part cash at the sole option of the Compensation Committee. You can choose to receive your payment either in a single lump sum or in 10 or less annual installments. You also may choose the timing of your lump sum payment or first payment installment from 3 options: (1) as soon as practicable after you cease to be a Board member (subject to a 6-month delay if you are a "key employee"); (2) on the first day of the calendar month beginning more than 6 months after you cease to be a Board member; or (3) on the first anniversary of the date on which you cease to be a Board member.

Your elections will apply to **all** RSUs granted to you under the Plan, not just to those subject to this particular award. Your "Initial Payment Elections" will be either those in place on December 31, 2005 (or any later date permitted under IRC Section 409A and allowed by the Compensation Committee) or, in the event you do not affirmatively choose your elections or follow the proper procedures for doing so, the Plan

Default Payment Provisions (described below). You may make changes to your Initial Payment Elections after December 31, 2005 as long as:

(a) you make the changes no later than 1 full year before your service as an Outside Director terminates;

(b) the changes do not have the effect of accelerating the time or schedule of payment (e.g., you may not change from installments to a lump sum; and you may not elect to accelerate time of payment); and

(c) the changes defer the first payment for at least 5 years from the previously selected payment date (except for elections to change the time or form of payment not related to death or disability).

Your payment elections must be in writing (see attached form). If you make no payment elections, your payment will be made in a lump sum (the Plan's default payment form) as soon as practicable after you cease to be a Board member subject to a 6-month delay if you are a "key employee" (the Plan's default payment time). The Plan's default payment form and default payment time are the "Plan Default Payment Provisions".

You may also designate a beneficiary to receive your payments in the event of your death at any time. If you make no beneficiary designation, your payments will be made to your estate upon your death.

General Information: Section 8(c)(xi) of the Plan requires that you enter into an agreement with Dollar General regarding this award. Accordingly, please sign below and return to Susan Lanigan.

IN WITNESS WHEREOF, the parties have executed this Agreement effective as of ________, 2005.

DOLLAR GENERAL CORPORATION

By: ______________________________

Susan S. Lanigan
Executive Vice President and General Counsel

[DIRECTOR NAME]

____

OUTSIDE DIRECTOR RESTRICTED UNIT AWARD
PAYMENT ELECTION FORM

Instructions: Please complete the following with respect to:

- The timing of payment of your RSUs; and
- Your designated beneficiary.

Please note that your elections will apply to all of your RSUs (whether previously awarded, currently awarded or to be awarded in the future), and that failure to file any election means you have elected the Plan Default Payment Provisions.

Except as provided below, you may change your payment elections at any time through December 31, 2005 by completing another Election Form and submitting it to the Stock Services Administrator, 100 Mission Ridge, Goodlettsville, TN 37072. Thereafter, you may change your payment elections only if: (a) the new election is made **not later than 1 full year prior** to the date on which you cease to be an Outside Director, (b) the new election does not accelerate the time or schedule of payment (e.g., you cannot elect to change from installments to a lump sum; and you cannot elect to accelerate time of payment), and (c) the first payment must be deferred for at least 5 years from the previously selected payment date (except for elections to change the time or form of payment not related to death or disability).

If properly completed and timely filed, this will supersede any prior elections made by you immediately upon receipt of your Election Form by the Stock Services Administrator unless your service as a director terminates within 12 months of the receipt of your changes. In that case, your elections are considered to be (1) those reflected on the last Election Form properly completed and timely received by the Stock Services Administrator more than 12 months prior to your service termination date or (2) if there is no Election Form properly completed and timely received by the Stock Services Administrator, those under the Plan Default Payment Provisions. We refer to the date on which your service as a director terminates as your “Service Termination Date.”

Form of Payment: Choose **one** of the following:

[ ] Lump Sum Distribution

[ ] Annual Installments *(if you choose this option, indicate below the number of annual installments desired, which may not exceed 10):*
No. of Annual Installments: ______

Timing of Payment: Choose **one** of the following to indicate when you would like your lump sum distribution or your first annual installment, as applicable, to be made:

[ ] As soon as practicable after my Service Termination Date (subject to a 6-month delay if you are a “key employee”);
[ ] On the first day of the calendar month beginning more than 6 months after my Service Termination Date
[ ] On the first anniversary of my Service Termination Date

Date ______________________ ____
Signature

OUTSIDE DIRECTOR RESTRICTED UNIT AWARD
BENEFICIARY DESIGNATION FORM

Instructions: Please complete the following with respect to your designated beneficiary for your Outside Director Restricted Unit Awards ("RSUs").

You may change your designated beneficiary at any time by completing another Beneficiary Designation Form and submitting it to the Stock Services Administrator, 100 Mission Ridge, Goodlettsville, TN 37072.

Beneficiary Designation:

Please indicate below the name of the person to whom you would like your payments to be made upon your death (if you do not designate a beneficiary, payments will be made to your estate):

____

I understand that this Beneficiary Designation Form supersedes any prior Beneficiary Designation Form for my RSUs.

Date ____________________ ______________________________________
Signature

Form of
Stock Option Grant Notice

[NAME FIELD]
[ADDRESS FIELD]
[CITY, STATE, ZIP FIELD]

Stock Option Notice

Congratulations! Dollar General Corporation's Board of Directors has awarded you the option to purchase shares of Dollar General common stock as follows:

Grant Date	# Options	Option Price	Grant Type	Expiration Date

Plan Information: This non-qualified stock option has been granted pursuant to the 1998 Stock Incentive Plan and is subject to all the restrictions, conditions and other terms contained in that Plan (See the Prospectus and any supplements for a summary of the Plan. A copy is enclosed if this is your first Dollar General stock option grant.)

Vesting Information: You must be employed on each scheduled vesting date to be entitled to this option. This grant will vest in increments of ___% of the represented shares as follows:

____% will vest on [date field]
____% will vest on [date field]
____% will vest on [date field]
____% will vest on [date field]

Expiration Information: This option is not exercisable after the expiration date set forth above, subject to earlier termination as provided in the Plan.

General Information: Please review the enclosed Frequently Asked Questions. For additional information, contact the Stock Services Line at _______________, select option ___ followed by option ___ -OR- log on to your account at:

[INSERT CURRENT WEB ADDRESS]

If you are a new Dollar General optionee, your Personal Identification Number (PIN) for the website, as well as the Stock Services Line, will be mailed to you under separate cover. Your user id for the stock option website is your 9 digit Social Security number.

Form of
Restricted Stock Award Agreement

DOLLAR GENERAL CORPORATION
RESTRICTED STOCK AGREEMENT

This Agreement is made and entered into as of the ____ day of _______, _____, by and between DOLLAR GENERAL CORPORATION, a Tennessee corporation (the "Company"), and ______________, _____________________________ of the Company (the "Employee").

WHEREAS , the Compensation Committee of the Company's Board of Directors has authorized a grant to the Employee of ________________ (_________) shares of restricted Company common stock (the "Restricted Stock") pursuant to the terms and provisions of the Dollar General Corporation 1998 Stock Incentive Plan (the "Plan") [and of the Employment Agreement effective _____________, ____ by and between the Company and Employee (the "Employment Agreement")]; and

WHEREAS , Section 7(b) of the Plan requires the execution of an agreement evidencing the Restricted Stock grant within 60 days after the grant date, and provides that no rights shall attach to the grant until the Company receives a fully executed copy of such agreement.

NOW, THEREFORE , for and in consideration of the premises and other good and valuable consideration, including the services to be rendered to the Company by the Employee, the Company does hereby grant the Restricted Stock to the Employee, and the Employee accepts such Restricted Stock, on the following terms and conditions:

(1) Grant of Restricted Stock . The Company hereby grants to the Employee on the date hereof ________________ (______) shares of Restricted Stock, subject to all the restrictions, limitations and other terms and provisions of the [Employment Agreement, the] Plan and this Agreement. The Company shall cause such Restricted Stock to be issued by the Company's stock transfer agent who will release such Restricted Stock to the Employee solely upon the written instructions of the Company. The Company shall maintain physical custody of the certificate(s) representing the Restricted Stock.

(2) Restrictions . Until the Restricted Stock vests, the Restricted Stock shall be subject to the prohibitions and restrictions on transfer set forth herein and in the Plan (the "Restrictions"). The Employee shall have all of the rights of a shareholder of the Company, including the right to vote the shares and to receive any cash dividends. Stock dividends or stock splits issued with respect to the Restricted Stock shall be treated as additional shares of Restricted Stock that are subject to the same restrictions, and all other terms and conditions that apply to the shares on which such dividends are paid or additional shares are issued.

(3) Vesting . [Except as may be provided in the Employment Agreement in cases of death, Disability (as defined in the Employment Agreement), termination of employment, or expiration of employment Term (as defined in the Employment Agreement),] the Restricted Stock, subject to all the restrictions, limitations and other terms and provisions of the [Employment Agreement, the] Plan and this Agreement, shall vest and the Restrictions shall lapse in accordance with the following schedule, so long as the Employee is employed by the Company on the applicable vesting date:

Number of Shares	Vesting Date
	____________, ________
	____________, ________
	____________, ________

(4) Non-transferability. Unvested Restricted Stock is not transferable by the Employee other than to a member of Employee's Immediate Family (as defined in the Plan) or a trust for the benefit of Employee or a member of his Immediate Family (as defined in the Plan), or by will or the laws of descent and distribution, or as otherwise provided from time to time in the Plan.

(5) Agreement Subject to [Employment Agreement and] Plan. This Agreement does not undertake to express all conditions, terms and provisions of the [Employment Agreement or the] Plan. The grant of the Restricted Stock is subject in all respects to all of the restrictions, limitations and other terms and provisions of the [Employment Agreement and the] Plan, [each of] which, by this reference, is incorporated herein to the same extent as if copied verbatim. [Where the terms of the Employment Agreement conflict with the terms of the Plan, the terms of the Plan shall govern and take precedence in all cases.]

(6) Tax Withholding and Section 83(b) Elections. At the time the Employee shall become subject to federal income taxation with respect to the Restricted Stock (normally upon vesting, unless the Employee files an election under Section 83(b) of the Code), the Employee shall pay to the Company the amount of any Federal, state, local and other taxes required to be withheld by the Company with respect to the Restricted Stock. If the Employee files an election under Section 83(b) of the Code with the Internal Revenue Service to include the fair market value of any shares of Restricted Stock in gross income while they are still subject to the Restrictions, the Employee shall promptly furnish to the Company a copy of such election. The Company may make such provisions and take such steps as it may deem necessary or appropriate for the withholding of all Federal, state, local and other taxes required by law to be withheld upon the vesting of the Restricted Stock. Unless otherwise determined by the Committee, you will be permitted to elect to surrender a sufficient number of shares of the vested Restricted Stock to satisfy Dollar General's minimum tax withholding obligation.

(7) Acceptance of Restricted Stock. The Employee hereby accepts the Restricted Stock subject to all the restrictions, limitations and other terms and provisions of the [Employment Agreement, the] Plan and this Agreement.

[Signature Pages Begin on the Following Page]

IN WITNESS WHEREOF, the parties have executed this Agreement effective as of the day and year first above written.

DOLLAR GENERAL CORPORATION

By: ______________________________

[name]
[title]

employee name

Form of
Restricted Stock Unit Award Agreement for Officers/Employees

[name]
[address]

RESTRICTED STOCK UNIT AWARD AGREEMENT

Congratulations! The Compensation Committee (the "Committee") of Dollar General Corporation's Board of Directors has granted you a Restricted Unit Award for Restricted Units ("RSUs") in your capacity as an employee as follows:

Grant Date	# RSUs
__________	_________

In order for you to be entitled to this award, you must accept the award by signing and returning a copy of this Agreement within 60 days after the grant date.

Plan Information: The RSUs have been granted pursuant to the 1998 Stock Incentive Plan (the "Plan"), and are subject to all the restrictions, conditions and other terms contained in that Plan (see the enclosed Prospectus and any supplements for a summary of the Plan). Each RSU represents the right to receive one share of Dollar General common stock on the Vesting Date.

Vesting Information: The RSUs generally will vest in increments of _____________ of the represented shares if you remain an employee until the applicable Vesting Date for that increment as follows:

_______ will vest on ________________
_______ will vest on ________________
_______ will vest on ________________

Vesting will be accelerated upon a change in control of Dollar General (as defined in the Plan) or under the circumstances (if any) described in your employment agreement (if any) for full vesting of stock options, restricted stock or other equity compensation awards and may be accelerated as otherwise provided pursuant to the Plan, all as set forth in the Plan. If your employment is terminated for Cause (as defined in the Plan), all RSUs, vested or not, will terminate immediately and you will not be entitled to any payment with respect to your RSUs. If your employment ends for reasons other than Cause (as defined in the Plan), all of your vested RSUs which have not yet been settled will be settled in due course, and all of your unvested RSUs will be forfeited.

No Voting Rights: You have no right to vote shares of Dollar General common stock represented by your RSUs, whether vested or unvested. Once shares of Dollar General common stock are issued to you in settlement of your vested RSUs, you will have all rights normally associated with share ownership including the right to vote and to receive dividends.

Dividends: Prior to settlement of your vested RSUs, you will not receive any dividends on shares of Dollar General common stock represented by your RSUs.

Your RSUs will be credited with cash dividends which would otherwise have been paid if the shares of Dollar General common stock represented by your RSUs (including any deemed reinvested additional shares attributable to your RSUs pursuant to this paragraph) were actually outstanding and those credits will be accumulated. These dividend equivalents will be deemed to be reinvested in additional shares of Dollar General common stock (determined by dividing the deemed cash dividend amount by the Fair Market Value (as defined in the Plan) of a share of Dollar General common stock on the related dividend payment date.

In addition, your RSUs will be credited with any such dividends or distributions that are paid in shares of Dollar General common stock represented by your RSUs and will otherwise be adjusted by the Committee for other capital or corporate events as provided in the Plan.

Any such deemed cash or stock dividends or distributions or other adjustment, including deemed reinvested additional shares, will vest or be forfeited based on the vesting or forfeiture of the RSUs to which they are attributable.

Non-transferability . Unvested RSUs are not transferable by you other than to a member of your Immediate Family (as defined in the Plan) or a trust for your benefit or the benefit of a member of your Immediate Family (as defined in the Plan), or by will or the laws of descent and distribution, or as otherwise provided from time to time in the Plan.

Settlement Date and Form: Unless the Committee or the Board of Directors implements a deferred payment program for vested RSUs and you timely elect to defer settlement of your RSUs, you will receive a payment relating to your vested RSUs increment (together with any related vested dividend equivalents and adjustments for stock dividends or distributions) on or shortly after each applicable Vesting Date (provided you have made satisfactory arrangement to pay or cause to be paid the tax withholding associated with your vested RSUs increment). Your payment will be made in shares of Dollar General common stock (other than fractional shares, which will be paid in cash). Unless otherwise determined by the Committee, you will be permitted to elect to have Dollar General withhold, and thus not issue to you at settlement, a sufficient number of shares of Dollar General common stock to satisfy Dollar General's minimum tax withholding obligation.

General Information: Section 7(b)(ii) of the Plan requires that you enter into an agreement with Dollar General regarding this award. Accordingly, please sign below and return to _____________________.

IN WITNESS WHEREOF, the parties have executed this Agreement effective as of __________, _____.

DOLLAR GENERAL CORPORATION

By: ____________________________________
[name and title]

[name of employee]

____

DOLLAR GENERAL CORPORATION
ANNUAL INCENTIVE PLAN

SECTION 1
PURPOSE

The purpose of the Dollar General Corporation Annual Incentive Plan is to permit Dollar General Corporation (the "Company"), through awards of annual incentive compensation that satisfy the requirements for performance-based compensation under Section 162(m) of the Internal Revenue Code, to attract and retain executives and to motivate these executives to promote the profitability and growth of the Company.

SECTION 2
DEFINITIONS

“*Award*” shall mean the amount granted to a Participant by the Committee for a Performance Period.

“*Board*” shall mean the Board of Directors of the Company, or the successor thereto.

“*Code*” shall mean the Internal Revenue Code of 1986, as amended.

“*Committee*” shall mean the Compensation Committee of the Board or any subcommittee thereof which meets the requirements of Section 162(m)(4)(C) of the Code.

“*Exchange Act*” shall mean the Securities Exchange Act of 1934, as amended.

“*Executive*” shall mean any “covered employee” (as defined in Section 162(m) of the Code) and, in the discretion of the Committee, any other executive officer of the Company or its Subsidiaries.

“*Participant*” shall mean, for each Performance Period, each Executive who has been selected by the Committee to participate in the Plan.

“*Performance Period*” shall mean the Company’s fiscal year or any other period designated by the Committee with respect to which an Award may be granted. Performance Periods may not overlap.

“*Plan*” shall mean this Dollar General Corporation Annual Incentive Plan, as amended from time to time.

“ *Qualified Performance-Based Award* ” means an Award that is intended to qualify for the Section 162(m) Exemption and is made subject to performance goals based on Qualified Performance Measures.

“ *Qualified Performance Measures* ” means one or more of the performance measures listed below upon which performance goals for certain Qualified Performance-Based Awards may be established from time to time by the Committee within the time period prescribed by Section 162(m) of the Code:

(a) Net earnings or net income (before or after taxes);
(b) Earnings per share;
(c) Net sales or revenue growth;
(d) Gross or net operating profit;
(e) Return measures (including, but not limited to, return on assets, capital, invested capital, equity, sales, or revenue);
(f) Cash flow (including, but not limited to, operating cash flow, free cash flow, and cash flow return on capital);
(g) Earnings before or after taxes, interest, depreciation, and/or amortization;
(h) Gross or operating margins;
(i) Productivity ratios;
(j) Share price (including, but not limited to, growth measures and total shareholder return);
(k) Expense targets;
(l) Margins;
(m) Operating efficiency;
(n) Customer satisfaction;
(o) Working capital targets;
(p) Economic Value Added;
(q) Volume;
(r) Capital expenditures;
(s) Market share;
(t) Costs;
(u) Regulatory ratings;
(v) Asset quality;
(w) Net worth; and
(x) Safety

" *Section 162(m) Cash Maximum* " means $2,500,000.

" *Section 162(m) Exemption* " means the exemption from the limitation on deductibility imposed by Section 162(m) of the Code that is set forth in Section 162(m)(4)(C) of the Code or any successor provision thereto.

SECTION 3
ADMINISTRATION

The Plan shall be administered by the Committee, which shall have full authority to interpret the Plan, to establish rules and regulations relating to the operation of the Plan, to select Participants, to determine the maximum Awards and the amounts of any Awards and to make all determinations and take all other actions necessary or appropriate for the proper administration of the Plan. The Committee's interpretation of the Plan, and all actions taken within the scope of its authority, shall be final and binding on the Company, its shareholders and Participants, Executives, former Executives and their respective successors and assigns. No member of the Committee shall be eligible to participate in the Plan.

SECTION 4
DETERMINATION OF AWARDS

(a) Prior to the beginning of each Performance Period, or at such later time as may be permitted by applicable provisions of the Code (which, in the case of any Qualified Performance-Based Award, currently is not later than the earlier of (i) 90 days after the beginning of the period of service to which the performance goal(s) relate or (ii) the first 25% of the period of service), the Committee shall establish: (1) the Executives or class of Executives who will be Participants in the Plan; (2) for each Participant a maximum Award, which shall be less than the Section 162(m) Cash Maximum; and (3) the performance goal(s) and Qualified Performance Measure(s) applicable to, and the method for computing the amount payable upon achievement of such performance goal(s) in connection with, any Qualified Performance-Based Award.

(b) Following the end of each Performance Period, and before any payments are made under the Plan, the Committee shall certify in writing the satisfaction of the performance goal(s) for any Qualified Performance Measure(s) applicable to any Qualified Performance-Based Award.

(c) The Committee may reduce or eliminate the Award granted to any Participant based on factors determined by the Committee, including but not limited to, performance against budgeted financial goals and the Participant's personal performance, provided, however, that any such reduction or elimination shall not operate to increase a Qualified Performance-Based Award, or amount payable thereunder, to any Participant who is Executive. The Committee may not increase a Qualified Performance-Based Award, or amount payable thereunder, granted to a Participant who is an Executive.

SECTION 5
PAYMENT OF AWARDS

Each Participant shall be eligible to receive, as soon as practicable after the amount of such Participant's Award for a Performance Period has been determined, payment of the Award in cash. Payment of the award may be deferred in accordance with a written election by the Participant in accordance with the terms of the Company's CDP/SERP Plan, as such Plan may be amended and/or restated from time to time.

SECTION 6
AMENDMENTS

The Committee may amend the Plan at any time and from time to time, provided that no such amendment that would require the consent of the shareholders of the Company pursuant to Section 162(m) of the Code, NYSE listing rules or the Exchange Act, or any other applicable law, rule or regulation, shall be effective without such consent. No amendment which adversely affects a Participant's rights to, or interest in, an Award granted prior to the date of the amendment shall be effective unless the Participant shall have agreed thereto in writing.

SECTION 7
TERMINATION

The Committee may terminate this Plan at any time but in no event shall the termination of the Plan adversely affect the rights of any Participant to a previously granted Award without such Participant's written consent.

SECTION 8
OTHER PROVISIONS

(a) No Executive or other person shall have any claim or right to be granted an Award under this Plan until such Award is actually granted. Neither the establishment of this Plan, nor any action taken hereunder, shall be construed as giving any Executive any right to be retained in the employ of the Company. Nothing contained in this Plan shall limit the ability of the Company to make payments or awards to Executives under any other plan, agreement or arrangement.

(b) The rights and benefits of a Participant hereunder are personal to the Participant and, except for payments made following a Participant's death, shall not be subject to any voluntary or involuntary alienation, assignment, pledge, transfer, encumbrance, attachment, garnishment or other disposition.

(c) Awards under this Plan shall not constitute compensation for the purpose of determining participation or benefits under any other plan of the Company unless specifically included as compensation in such plan.

(d) The Company shall have the right to deduct from Awards any taxes or other amounts required to be withheld by law.

(e) All questions pertaining to the construction, regulation, validity and effect of the provisions of the Plan shall be determined in accordance with the laws of the State of Tennessee without regard to principles of conflict of laws.

(f) No member of the Committee or the Board, and no officer, employee or agent of the Company shall be liable for any act or action hereunder, whether of commission or omission, taken by any other member, or by any officer, agent, or employee, or, except in circumstances involving bad faith, for anything done or omitted to be done in the administration of the Plan.

SECTION 9
EFFECTIVE DATE

The Plan shall be effective as of March 16, 2005, subject to approval by the shareholders of the Company in accordance with Section 162(m) of the Code.

2005 Store Support & DC
TEAMSHARE

Serve your Customers, Simplify Processes, Control Expenses, Work Smart. . .

TEAMSHARE is an annual incentive program designed to encourage high performance, while rewarding employees for their commitment to Dollar General's success. It's called TEAMSHARE because it ***requires teamwork. . .our TEAMSHARE goals can only be met through the effort of every DG employee.*** Reaching our goals requires dedication to establishing cost efficiencies, simplifying processes, and focusing on customers. ***Strive for excellence in 2005!***

Your 2005 TEAMSHARE Plan

Fiscal Year-end Total Net Income	**Bonus Level**	**Your Bonus**
$____________	3	_____%
$____________	2	_____%
$____________	1	_____%

** Plan information is non-public and confidential.*

How Does it Work?

Your TEAMSHARE bonus is based on the Company's total net income at fiscal year-end. That means if Dollar General's year-end net income is $______________, you will receive a "1st Level" TEAMSHARE bonus. If the year-end net income is $_______________, you will receive a "2nd Level" TEAMSHARE bonus. Payout opportunities between "levels" are possible.

You can calculate your bonus using the following formula:

$$\frac{\text{Base Pay x Bonus Payout Opportunity x mos. of service}}{\text{12 months}}$$

Please refer to program guidelines (on back of page) for more details.

What is Net Income?

Net Income = Gross Margin – Operating Expenses, Interest Expense and Taxes
Note: May exclude unusual items as approved from time to time by the Compensation Committee of the Board of Directors.

- **Operating Expenses** = Payroll, Supplies, Operating Costs, Utilities, etc.

Strive for excellence in 2005!

GUIDELINES

Who's Eligible?

An employee must meet **each** of the following criteria:

1. Regular, full-time or part-time Store Support or DC employee during the fiscal year.

2. Actively employed with Dollar General on March 15, 2006. *An employee terminated for gross misconduct after March 15, 2006 will forfeit his/her bonus.*

3. Receive a year-end performance rating of "meets standard" (1.75) or greater.

Months of Service

Bonuses are pro-rated based on the number of months employed during the fiscal year. *An employee must be hired/rehired on or before the 15 th of the month to receive credit for the month.*

Example
Jane Doe hired on June 20, 2005.
Jane will not receive credit for June as the majority of the month is over.
Jane will receive credit for July, 2005 – January, 2006.
Jane will receive a pro-rated bonus for seven months = 7/12

Rehired Employees

Employees who leave the company and are rehired during the same fiscal year will be bonus eligible from the date of rehire *unless* rehired within 30 days from the date of termination. Service will be bridged for persons who are away from the Company less than 30 days. Persons who are rehired after 30 days forfeit any bonus amount earned during the fiscal year prior to termination.

Transfers/Promotions

Employees who also worked in a retail position during the fiscal year are eligible for a pro-rated bonus from each bonus plan. *Note: Eligibility requirements must be met in each respective plan to receive a bonus from that plan.*

Example
District Manager from Jan 29, 2005 – June 12, 2006 = 4/12 District bonus plan
Corporate employee from June 13, 2005 – Feb 3, 2006 = 8/12 Store Support bonus plan

Employees on Leave of Absence

Employees on leave are eligible for a pro-rated bonus based on the number of months worked during the fiscal year (provided employment has not terminated before March 15, 2006).

Bonus Payout

If the *Company* meets its performance goals and *you* meet the eligibility guidelines, you will be eligible for a TEAMSHARE bonus! Please note that the IRS considers a bonus to be supplemental income. Therefore, the minimum federal tax, as well as FICA and other applicable state taxes, are deducted as required.

Your bonus will be paid as soon as possible after the Company year-end performance results are available. Generally, checks are issued in April.

* Dollar General reserves the right to adjust, amend or suspend the TEAMSHARE program at any time.

Summary of Director Compensation

On May 24, 2005, the Board of Directors of Dollar General Corporation (the "Company") approved the following schedule of fees for the directors of the Company who are not otherwise officers or employees of the Company or any of its subsidiaries or affiliates (the "Non-Employee Directors"), to be effective for meetings held on or after May 25, 2005:

Annual Cash Retainer (payable in quarterly installments):

All Board Members:	$35,000

Additional Cash Retainer (payable in quarterly installments):

Audit Committee Chair:	$20,000
Other Committee Chair:	$10,000
Presiding Director:	$15,000

Board and Committee Meeting Fees:

Attended in Person:	
Board	$1,250/meeting
Audit Committee	$1,500/meeting
Other Committees	$1,250/meeting
Telephonic:	$625/meeting

Equity Grants:

4,600 Restricted Stock Units/year (under the terms of the Company's 1998 Stock Incentive Plan)

Directors also receive reimbursement for fees and expenses incurred in connection with continuing education seminars and travel expenses related to meeting attendance or Company-requested appearances.

Non-Employee Directors may defer all or a part of any fees normally paid by the Company to them pursuant to a voluntary nonqualified compensation deferral plan. The compensation eligible for deferral includes the annual retainer, meeting and other fees, as well as any per diem compensation for special assignments, earned by a director for service to the Board or one of its committees. The compensation deferred is credited to a liability account, which is then invested at the option of the director in either an account that mirrors the performance of a fund selected by the Compensation Committee or its delegate (the "Mutual Fund Options") or in a phantom stock account which mirrors the performance of the Company's common stock (the "Common Stock Option"). In accordance with a director's election, the deferred compensation will be paid in a lump sum or in monthly installments over a 5, 10 or 15-year period, or a combination of both, at the time designated by the plan upon a director's resignation or termination from the Board. However, a director may request to receive an "unforeseeable emergency hardship" in-service lump sum distribution of amounts credited to his account in accordance with the terms of the deferral plan. All deferred compensation will be immediately due and payable upon a "change in control" (as defined in the compensation deferral plan) of the Company. Effective January 1, 2005, account balances deemed to be invested in the Mutual Fund Options are payable in cash and account balances deemed to be invested in the Common Stock Option are payable in shares of the Company's common stock and cash in lieu of fractional shares. Prior to January 1, 2005, all account balances were payable in cash. The above description of the deferral plan is qualified in its entirety by the actual terms of the deferral plan.

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: August 25, 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: August 25, 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 July 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: August 25, 2005

/s/ David M. Tehle

Name: David M. Tehle
Title: Chief Financial Officer
Date: August 25, 2005