DOLLAR GENERAL CORP

FORM 10-Q
(Quarterly Report)

Filed 01/14/02 for the Period Ending 05/04/01

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

DOLLAR GENERAL CORP

FORM 10-Q
(Quarterly Report)

Filed 1/14/2002 For Period Ending 5/4/2001

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

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended May 4, 2001

Commission file number 1-11421

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)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [ ] No [X]. Note: The Company did not timely file its Annual Report on Form 10-K for fiscal 2000 and its quarterly reports on Form 10-Q for the first three quarters of fiscal 2001 as a result of the restatement of the Company's financial statements described herein and therein. Such quarterly report for the first quarter of fiscal 2001 is filed herewith, and such other quarterly reports on Form 10-Q and Annual Report on Form 10-K are being filed on the date hereof.

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

Dollar General Corporation

Form 10-Q

For the Quarter Ended May 4, 2001

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Part I - Financial Information

Item 1. Financial Statements

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

	May 4, 2001 (Unaudited)	February 2, 2001
ASSETS		
Current assets:		
Cash and cash equivalents	$ 160,894	$ 162,310
Merchandise inventories	905,534	896,235
Deferred income taxes	21,912	21,514
Other current assets	37,896	44,868
Total current assets	1,126,236	1,124,927
Property and equipment, at cost	1,386,885	1,339,554
Less: accumulated depreciation and amortization	395,846	366,460
	991,039	973,094
Merchandise inventories	116,000	116,000
Other assets	68,319	68,441
Total assets	$ 2,301,594	$ 2,282,462
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term obligations	$ 7,083	$ 9,035
Accounts payable	282,560	297,262
Accrued expenses and other	200,683	214,192
Income taxes	20,122	17,446
Total current liabilities	510,448	537,935
Long-term obligations	733,526	720,764
Litigation settlement payable	162,000	162,000
Shareholders' equity:		
Preferred stock	--	--
Common stock	166,052	165,646
Additional paid-in capital	294,957	283,925
Accumulated other comprehensive loss	(2,839)	--
Retained earnings	439,919	414,318
	898,089	863,889
Less: common stock purchased by employee deferred compensation trust	2,469	2,126
Total shareholders' equity	895,620	861,763
Total liabilities and shareholders' equity	$ 2,301,594	$ 2,282,462

See notes to condensed consolidated financial statements

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

	Thirteen Weeks Ended			
	May 4, 2001	% of Net Sales	April 28, 2000 (restated)	% of Net Sales
Net sales	$1,202,504	100.0%	$ 997,079	100.0%
Cost of goods sold	881,079	73.3	727,672	73.0
Gross profit	321,425	26.7	269,407	27.0
Selling, general and administrative expense	251,990	20.9	213,341	21.4
Operating profit	69,435	5.8	56,066	5.6
Interest expense	11,600	1.0	9,263	0.9
Income before income taxes	57,835	4.8	46,803	4.7
Income taxes	21,602	1.8	17,468	1.8
Net income	$ 36,233	3.0%	$ 29,335	2.9%
Earnings per share:				
Basic	$ 0.11		$ 0.09	
Diluted	$ 0.11		$ 0.09	
Weighted average diluted shares:				
Basic	331,588		329,476	
Diluted	335,184		334,293	
Dividends per share	$ .032		$ .026	

See notes to condensed consolidated financial statements.

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

	13 Weeks Ended	
	May 4, 2001	April 28, 2000 (Restated)
Cash flows from operating activities:		
Net income	$ 36,233	$ 29,335
Adjustments to reconcile net income to net cash provided by / (used in) operating activities:		
Depreciation and amortization	29,890	26,848
Deferred income taxes	264	(4,329)
Tax benefit from stock option exercises	3,258	4,953
Change in operating assets and liabilities:		
Merchandise inventories	(9,299)	(7,610)
Other current assets	6,972	10,822
Accounts payable	(14,702)	(97,099)
Accrued expenses and other	(15,252)	(3,008)
Income taxes	2,676	(2,407)
Other	(2)	5,545
Net cash provided by / (used in) operating activities	40,038	(36,950)
Cash flows from investing activities:		
Purchase of property and equipment	(35,726)	(103,694)
Proceeds from sale of property and equipment	114	84
Net cash used in investing activities	(35,612)	(103,610)
Cash flows from financing activities:		
Issuance of short-term borrowings	--	181,400
Repayments of long-term obligations	(3,048)	(854)
Payments of cash dividend	(10,631)	(8,470)
Proceeds from exercise of stock options	7,996	9,027
Repurchase of common stock, net	--	(65,549)
Purchase of common stock for employee deferred compensation trust	(159)	--
Net cash (used in) / provided by financing activities	(5,842)	115,554
Net decrease in cash and cash equivalents	(1,416)	(25,006)
Cash and cash equivalents at beginning of period	162,310	54,742
Cash and cash equivalents at end of period	$ 160,894	$ 29,736
Supplemental schedule of noncash investing and financing activities:		
Purchase of property and equipment under capital lease obligations	$ 12,088	$ 6,895

See notes to condensed consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of presentation and accounting policies

Basis of presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and are presented in accordance with the requirements of Form 10-Q and Rule 10-01 of Regulation S-X. Such financial statements consequently do not include all of the disclosures normally required by generally accepted accounting principles or those normally made in the Company's Annual Report on Form 10-K. Accordingly, the reader of this quarterly report on Form 10-Q should refer to the Company's Annual Report on Form 10-K for the year ended February 2, 2001 for additional information.

The accompanying condensed consolidated financial statements have been prepared in accordance with the Company's customary accounting practices and have not been audited. In management's opinion, all adjustments (which are of a normal recurring nature) necessary for a fair presentation of the consolidated results of operations for the 13-week periods ended May 4, 2001 and April 28, 2000 have been made.

Interim cost of goods sold is determined using ongoing estimates of inventory shrinkage, inflation, and markdowns. Because the Company's business is moderately seasonal, the results for interim periods are not necessarily indicative of the results to be expected for the entire year.

Accounting pronouncements

Effective February 3, 2001, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS Nos. 137 and 138. These statements require the Company to recognize all derivative instruments on the balance sheet at fair value. These statements also establish new accounting rules for hedging instruments, which depend on the nature of the hedge relationship. A fair value hedge requires that the effective portion of the change in the fair value of a derivative instrument be offset against the change in the fair value of the underlying asset, liability, or firm commitment being hedged through earnings. A cash flow hedge requires that the effective portion of the change in the fair value of a derivative instrument be recognized in Other Comprehensive Income ("OCI"), a component of Shareholders' Equity, and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Any ineffective portion of a derivative instrument's change in fair value is immediately recognized in earnings. As disclosed in further detail below, the first quarter 2001 unaudited condensed consolidated financial statements include the provisions required by SFAS No. 133, while the first quarter 2000 unaudited condensed consolidated financial statements were prepared in accordance with the applicable professional literature for derivatives and hedging instruments in effect at that time. The Company believes that these statements will not have a material impact on the annual consolidated financial results.

The adoption of SFAS No. 133 resulted in the Company recording a cumulative after-tax decrease to OCI of approximately $2.0 million. This transition adjustment was recorded to recognize the Company's only outstanding derivative instrument, which is designated and effective as a cash flow hedge, at fair value (approximately $0.2 million) and to reclassify from asset accounts deferred losses realized on the settlement of interest rate derivatives which were designated and effective as hedges during fiscal year 2000 (approximately $1.8 million). The Company estimated that it would reclassify into earnings during the twelve-month period ending February 1, 2002, approximately $0.4 million of net losses relating to the transition adjustment recorded in OCI as of February 3, 2001.

The Company uses derivative financial instruments primarily to reduce its exposure to adverse fluctuations in interest rates and, to a much lesser extent, other market exposures. When entered into, the Company formally designates and documents the financial instrument as a hedge of a specific underlying exposure, as well as the risk management objectives and strategies for undertaking the hedge transaction. Because of the high degree of effectiveness between the hedging instrument and the underlying exposure being hedged, fluctuations in the value of the derivative instruments are generally offset by changes in the value or cash flows of the underlying exposures being hedged. Derivatives are recorded in the Condensed Consolidated Balance Sheet at fair value in either other assets, net or accrued expenses and other, depending on whether the amount is an asset or liability.

The fair values of derivatives used to hedge or modify our risks fluctuate over time. These fair value amounts should not be viewed in isolation, but rather in relation to the fair values or cash flows of the underlying hedged transactions and in other exposures and to the overall reduction in our risk relating to adverse fluctuations in interest rates and other market factors. In addition, the earnings impact resulting from our derivative instruments is recorded in the same line item within the Condensed Consolidated Statement of Income as the underlying exposure being hedged. The Company also formally assesses, both at the inception and at least quarterly thereafter, whether the financial instruments that are used in hedging transactions are effective at offsetting changes in either the fair value or cash flows of the related underlying exposures. Any ineffective portion of a financial instrument's change in fair value is immediately recognized in earnings.

The Company primarily executes derivative transactions with major financial institutions. These counterparties expose the Company to credit risk in the event of non-performance. The amount of such exposure is limited to the unpaid portion of amounts due to the Company pursuant to the terms of the derivative financial instruments, if any. Although there are no collateral requirements if a downgrade in the credit rating of these counterparties occur, management believes that this exposure is mitigated by provisions in the derivative agreements which allow for the legal right of offset of any amounts due to the Company from the counterparties with any amounts payable to the counterparties by the Company. As a result, management considers the risk of counterparty default to be minimal.

At May 4, 2001, the Company was party to an interest rate swap agreement with a notional amount of $100 million. The Company designated this agreement as a hedge of the floating rate commitments relating to a portion of its synthetic lease agreements. Under the terms of the agreement, the Company will pay a fixed rate of 5.60% on the $100 million notional amount through September 1, 2002.

During the first quarter of 2001, the Company recorded an additional $0.8 million decrease to OCI, net of both income taxes and reclassifications to earnings, primarily related to net losses on its interest rate swap agreement, which will generally offset cash flow gains relating to the underlying synthetic lease agreements being hedged in future periods. The Company estimates that it will reclassify into earnings during the next nine months approximately $0.8 million of the net amount recorded in OCI as of May 4, 2001. The Company did not discontinue any fair value or cash flow hedge relationships during the quarter ended May 4, 2001.

The following table summarizes activity in Other Comprehensive Income / (Loss) related to derivatives held by the Company during the period from February 3, 2001, through May 4, 2001 (in millions):

	Before-Tax Amount	Income Tax	After-Tax Amount
Cumulative effect of adopting SFAS No. 133, net...........	$ (3.2)	$ 1.2	$ (2.0)
Net changes in fair value of derivatives..................	(1.1)	0.4	(0.7)
Net gains reclassified from OCI into earnings.............	(0.2)	0.1	(0.1)
Accumulated derivative net losses as of May 4, 2001.......	$ (4.5)	$ 1.7	$ (2.8)

2. Restatement of financial statements

On April 30, 2001, the Company announced that it had become aware of certain accounting issues that would cause it to restate its audited financial statements for fiscal years 1999 and 1998, and to revise the unaudited financial information for the fiscal year 2000 that had been previously released by the Company. As disclosed in further detail in the Company's Form 10-K for fiscal year 2000, the Company has restated its audited financial statements for fiscal years 1999 and 1998, as well as the unaudited financial information for the fiscal year 2000 that had been previously released by the Company.

As a result, the comparative information contained in this quarterly report on Form 10-Q with respect to the quarter ended April 28, 2000 has been restated. Restated net income, diluted earnings per share and retained earnings for the quarter ended April 28, 2000 are $29.3 million, $0.09 and $404.8 million, respectively, as compared to the previously reported amounts of $44.3 million, $0.13 and $507.7 million.

3. Comprehensive income

Comprehensive income consists of the following (in thousands):

	13 Weeks Ended	
	May 4, 2001	April 28, 2000
Net income	$ 36,233	$ 29,335
Accumulated net losses on derivative financial instruments	(2,839)	--
	$ 33,394	$ 29,335

4. Inventory

In the fourth quarter of 2000, the Company determined that it had certain excess inventory that would require a markdown to assist with its disposition. While the Company believes that this markdown will be adequate to ensure the sale of the excess inventory during fiscal years 2001 and 2002, there can be no assurance that the Company will be able to sell all of this inventory by the end of 2002 without a further markdown. The Company reclassified $116.0 million of inventory out of current assets at February 2, 2001 that it does not expect to sell before February 1, 2002. Because the Company believes that such inventory may not be sold prior to May 3, 2002, this amount has continued to be excluded from current assets at May 4, 2001.

5. Segment reporting

The Company manages its business on the basis of one reportable segment. As of May 4, 2001 and April 28, 2000, all of the Company's operations were located within the United States. The following data is presented in accordance with Statement of Financial Accounting Standards No. 131 "Disclosures about Segments of an Enterprise and Related Information." The following amounts are in thousands:

	13 Weeks Ended	
	May 4, 2001	April 28, 2000
Sales by Category:		
Highly Consumable	$ 721,292	$ 545,633
Hardware and Seasonal...	168,804	137,695
Basic Clothing	130,632	120,910
Home Products	181,776	192,841
	$1,202,504	$ 997,079

6. Guarantor subsidiaries

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

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

	May 4, 2001			
	DOLLAR GENERAL CORPORATION	GUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTAL
BALANCE SHEET DATA:				
ASSETS				
Current assets				
Cash and cash equivalents	$ 121,414	$ 39,480	$ --	$ 160,894
Merchandise inventories	--	905,537	--	905,534
Deferred income taxes	6,395	15,517	--	21,912
Other current assets	14,369	642,947	(619,420)	37,896
Total current assets	142,178	1,603,478	(619,420)	1,126,236
Property and equipment, at cost	148,846	1,238,039	--	1,386,885
Less: accumulated depreciation and amortization	41,104	354,742	--	395,846
Net property and equipment	107,742	883,297	--	991,039
Merchandise inventories	--	116,000	--	116,000
Other assets	1,826,681	3,536	(1,761,898)	68,319
Total assets	$ 2,076,601	$ 2,606,311	$(2,381,318)	$ 2,301,594
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities:				
Current portion of long-term obligations	$ 714	$ 6,369	$ --	$ 7,083
Accounts payable	686,452	215,528	(619,420)	282,560
Accrued expenses and other	57,446	143,237	--	200,683
Income taxes	6,563	13,559	--	20,122
Total current liabilities	751,175	378,693	(619,420)	510,448
Long-term obligations	267,806	1,019,542	(553,822)	733,526
Litigation settlement payable	162,000	--	--	162,000
Shareholders' equity:				
Preferred Stock	--	--	--	--
Common Stock	166,052	23,853	(23,853)	166,052
Additional paid-in capital	294,957	927,629	(927,629)	294,957
Accumulated other comprehensive loss	(2,839)	--	--	(2,839)
Retained earnings	439,919	256,594	(256,594)	439,919
	898,089	1,208,076	(1,208,076)	898,089
Less: common stock purchased by employee deferred compensation trust	2,469	--	--	2,469
Total shareholders' equity	895,620	1,208,076	(1,208,076)	895,620
Total liabilities and shareholders' equity	$ 2,076,601	$ 2,606,311	$(2,381,318)	$ 2,301,594

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

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

	Quarter to Date and Year to Date			
	May 4, 2001			
	DOLLAR GENERAL CORPORATION	GUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTAL
STATEMENTS OF INCOME DATA:				
Net sales	$ 35,843	$1,202,504	$ (35,843)	$1,202,504
Cost of goods sold	--	881,079	--	881,079
Gross profit	35,843	321,425	(35,843)	321,425
Selling, general and administrative	30,079	257,754	(35,843)	251,990
Operating profit	5,764	63,671	--	69,435
Interest expense	4,623	6,977	--	11,600
Income before taxes on income	1,141	56,694	--	57,835
Provisions for taxes on income	426	21,176	--	21,602
Equity in subsidiaries' earnings, net	35,518	--	(35,518)	--
Net income	$ 36,233	$ 35,518	$ (35,518)	$ 36,233

	Quarter to Date and Year to Date			
	April 28, 2000			
	DOLLAR GENERAL CORPORATION	GUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTAL
STATEMENTS OF INCOME DATA:				
Net sales	$ 41,821	$ 997,079	$ (41,821)	$997,079
Cost of goods sold	--	727,672	--	727,672
Gross profit	41,821	269,407	(41,821)	269,407
Selling, general and administrative	28,016	227,146	(41,821)	213,341
Operating profit	13,805	42,261	--	56,066
Interest expense	2,842	6,421	--	9,263
Income before taxes on income	10,963	35,840	--	46,803
Provisions for taxes on income	4,092	13,376	--	17,468
Equity in subsidiaries' earnings, net	22,464	--	(22,464)	--
Net income	$ 29,335	$ 22,464	$(22,464)	$ 29,335

	For the 13 weeks ended May 4, 2001			
	DOLLAR GENERAL CORPORATION	GUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTAL
STATEMENTS OF CASH FLOWS DATA:				
Cash flows from operating activities:				
Net income	$ 36,233	$ 35,518	$ (35,518)	$ 36,233
Adjustments to reconcile net income to net cash provided by / (used in) operating activities:				
Depreciation and amortization	3,338	26,552		29,890
Deferred income taxes	(15)	279		264
Tax benefits from stock options exercises	3,258	--		3,258
Change in operating assets and liabilities:				
Merchandise inventories	--	(9,299)		(9,299)
Other current assets	843	49,045	(42,916)	6,972
Accounts payable	23,079	(80,697)	42,916	(14,702)
Accrued expenses and other	3,157	(18,409)		(15,252)
Income taxes	723	1,953		2,676
Other	(29,126)	(6,394)	35,518	(2)
Net cash provided by / (used in) operating activities	41,490	(1,452)	--	40,038
Cash flows from investing activities:				
Purchases of property and equipment	(3,706)	(32,020)	--	(35,726)
Proceeds from sale of property and equipment	15	99	--	114
Issuance of long-term notes receivable	(35,843)	--	35,843	--
Other	2,047	--	(2,047)	--
Net cash used in investing activities	(37,487)	(31,921)	33,796	(35,612)
Cash flows from financing activities:				
Issuance of long-term obligations	--	35,843	(35,843)	--
Repayments of long-term obligations	(438)	(2,610)	--	(3,048)
Payment of cash dividends	(10,631)	--	--	(10,631)
Proceeds from exercise of stock options	7,996	--	--	7,996
Other	(159)	(2,047)	2,047	(159)
Net cash provided by / (used in) financing activities	(3,232)	31,186	(33,796)	(5,842)
Net increase / (decrease) in cash and cash equivalents	771	(2,187)	--	(1,416)
Cash and cash equivalents, beginning of year	120,643	41,667	--	162,310
Cash and cash equivalents, end of period	$ 121,414	$ 39,480	$ --	$ 160,894

	For the 13 weeks ended April 28, 2000			
	DOLLAR GENERAL CORPORATION	GUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTAL
STATEMENTS OF CASH FLOWS DATA:				
Cash flows from operating activities:				
Net income	$ 29,335	$ 22,464	$ (22,464)	$ 29,335
Adjustments to reconcile net income to net cash provided by / (used in) operating activities:				
Depreciation and amortization	3,223	23,625	--	26,848
Deferred income taxes	(326)	(4,003)	--	(4,329)
Tax benefits from stock options exercises	4,953	--	--	4,953
Change in operating assets and liabilities:				
Merchandise inventories	--	(7,610)	--	(7,610)
Other current assets	12,636	77,750	(79,564)	10,822
Accounts payable	(124,961)	(51,702)	79,564	(97,099)
Accrued expenses and other	5,490	(8,498)	--	(3,008)
Income taxes	889	(3,296)	--	(2,407)
Other	(22,292)	5,373	22,464	5,545
Net cash provided by / (used in) operating activities	(91,053)	54,103	--	(36,950)
Cash flows from investing activities:				
Purchases of property and equipment	(8,367)	(95,327)	--	(103,694)
Proceeds from sale of property and equipment	59	25	--	84
Issuance of long-term notes receivable	(41,821)	--	41,821	--
Contribution of capital	(393)	--	393	--
Net cash used in investing activities	(50,522)	(95,302)	42,214	(103,610)
Cash flows from financing activities:				
Issuance of short-term borrowings	181,400	--	--	181,400
Issuance of long-term obligations	--	41,821	(41,821)	--
Repayments of long-term obligations	(303)	(551)	--	(854)
Payment of cash dividends	(8,470)	--	--	(8,470)
Proceeds from exercise of stock options	9,027	--	--	9,027
Repurchase of common stock, net	(65,549)	--	--	(65,549)
Issuance of common stock, net	--	393	(393)	--
Net cash provided by / (used in) financing activities	116,105	41,663	(42,214)	115,554
Net increase / (decrease) in cash and cash equivalents	(25,470)	464	--	(25,006)
Cash and cash equivalents, beginning of year	42,688	12,054	--	54,742
Cash and cash equivalents, end of period	$ 17,218	$ 12,518	$ --	$ 29,736

7. Commitments and Contingencies

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

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

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

The Company has been notified that the Securities and Exchange Commission ("SEC") is conducting an investigation into the circumstances that gave rise to the Company's April 30, 2001 announcement. The Company is cooperating with this investigation by providing documents and other information to the SEC.

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

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

Results of Operations -- 13 Weeks Ended May 4, 2001 and April 28, 2000

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

Net Sales. Net sales for the first 13 weeks of 2001 were $1.20 billion as compared against $1.00 billion during the first 13 weeks of 2000, an increase of 20.6%. The increase resulted primarily from 684 net new stores and a same store sales increase of 6.8%. The same store sales increase is calculated based on the comparable calendar weeks in the prior year. The Company attributes the same store sales increase to the continued acceptance by the consumer of the Company's consumable basics strategy, and increased seasonal sales due to a stronger presentation of seasonal products as a result of the store reset program undertaken in 2000. Net sales increases (decreases) by division during the period were as follows: highly consumable 32.2%, hardware and seasonal 22.6%, basic clothing 8.0%, and basic home products (5.7%).

Gross Profit. Gross profit during the current year period was $321.4 million, or 26.7% of sales, versus $269.4 million, or 27.0% of sales during the comparable period in the prior year, an increase of 19.3%. The approximately 30 basis point reduction in the gross margin rate as a percentage of sales was due principally to the continued shift in the Company's sales toward lower margin consumable basics items, and an increase in the shrink provision of 14 basis points.

Selling, General & Administrative Expenses ("SG&A"). SG&A expenses during the current year period were $252.0 million, or 20.9% of sales, versus $213.3 million, or 21.4% of sales during the comparable period in the prior year, an increase of 18.1%. The increase can be attributed to a 15.2% increase in store count as compared to the prior year, and to increases in store labor, rent and utilities that were greater than the percentage increase in store count.

The Company recorded $0.3 million in expenses, primarily professional fees, during the current year period related to the restatement of certain previously released financial data. Excluding these expenses, SG&A would have been $251.7 million, or 20.9% of sales, an increase of 18.0% over the prior year.

Interest Expense. Interest expense during the current year period was $11.6 million, or 1.0% of sales, versus $9.3 million, or 0.9% of sales during the comparable period in the prior year, an increase of 25.2%. The increase in interest expense was due to the $200 million of notes described below that the Company placed during the second quarter of 2000.

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

Net Income. Net Income during the current year period was $36.2 million, or 3.0% of sales, compared to $29.3 million, or 2.9% of sales, during the comparable period in the prior year, an increase of 23.5%. Diluted earnings per share were $0.11 in the current year period versus $0.09 in the prior year.

Liquidity and Capital Resources

Cash flows provided by or used in operating activities. Net cash provided by operating activities totaled $40.0 million during the first 13 weeks of 2001, as compared to a $37.0 million use of cash during the comparable period in the prior year. The primary source of cash in 2001 was the combination of net income and depreciation and amortization expenses, which together provided $66.1 million in cash during the current year period. A decrease in accrued expenses and other and an increase in merchandise inventories were uses of cash of $15.3 million and $9.3 million, respectively. The primary component of the decrease in accrued expenses and other was a decrease in accrued bonuses of $15.8 million reflecting the payment of 2000 store bonuses. The increase in inventories reflected the net addition of 196 stores during the period.

The primary use of cash during the first 13 weeks of 2000 was a decrease in accounts payable of $97.1 million, which reflected the payment of bills from the fourth quarter of 1999 on which the company took extended terms. Net income and depreciation and amortization expenses together provided $56.2 million in cash in 2000.

Cash flows provided by or used in investing activities. Net cash used in investing activities during the first 13 weeks of 2001 totaled $35.6 million, as compared to a $103.6 million use of cash during the comparable period in the prior year. The $35.6 million spent in the current year consisted primarily of $15.4 million for new stores and relocations and $16.0 million for various store-related fixtures. The $103.6 million spent in the prior year consisted in part of construction costs relating to Company owned stores, expenditures for new stores and relocations subject to traditional operating leases and construction costs associated with the Company's new distribution centers in Zanesville, Ohio and Alachua, Florida.

Cash flows provided by or used in financing activities. Net cash used in financing activities during the first 13 weeks of 2001 was $5.8 million. Financing activities during the comparable period in the prior year were a source of funds of $115.6 million. The Company increased its short-term borrowings by $181.4 million during the prior year period to fund working capital needs and common stock repurchases. The Company believes that seasonal working capital requirements will continue to be met through cash flow provided by operations supplemented by various short-term borrowing arrangements.

Total debt (including current maturities and short-term borrowings) was $740.6 million at May 4, 2001 and $729.8 million at February 2, 2001.

The Company has $200 million (principal amount) of 8 5/8% unsecured notes due June 15, 2010. The notes pay interest semi-annually on June 15 and December 15 of each year. The holders of the notes may elect to have their notes repaid on June 15, 2005, at 100% of the principal amount plus accrued and unpaid interest.

Forward-Looking Statements

This discussion and analysis contains historical and forward-looking information. The forward-looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The Company believes the assumptions underlying these forward-looking statements are reasonable; however, any of the assumptions could be inaccurate, and therefore, actual results may differ materially from those projected in the forward-looking statements as a result of certain risks and uncertainties. These risks include, but are not limited to, those set forth under Item 7 in the Company's Annual Report on Form 10-K for the fiscal year ended February 2, 2001.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We have no material changes to the disclosures relating to this item that are set forth in our report on Form 10-K for the fiscal year ended February 2, 2001.

Part II - Other Information

Item 1. Legal Proceedings

Restatement-Related Proceedings

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

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

In addition, six purported shareholder derivative lawsuits have been filed in Tennessee state court against certain current and former Company directors and officers and Deloitte & Touche LLP, the Company's former independent accountant. The Company is named as a nominal defendant in the actions, which seek restitution and/or compensatory and punitive damages with interest, equitable and/or injunctive relief, costs and such further relief as the court deems proper. By order entered October 31, 2001, the court appointed Michael Dixon, Jr., Carolinas Electrical Workers Retirement Fund and Thomas Dewey, plaintiffs in one of the six filed cases, as lead plaintiffs and the law firms of Branstetter, Kilgore Stranch & Jennings and Stanley, Mandel & Iola as lead counsel. In the same order, the court stayed the remaining cases pending completion of the lead case. Among other things, the plaintiffs allege that certain current and former Company directors and officers breached their fiduciary duties to the Company and that Deloitte & Touche aided and abetted those breaches and was negligent in its service as the Company's independent accountant. During August and September 2001, the Company moved to dismiss all six cases for failure to make a pre-suit demand on the Board of Directors and, in the alternative, requested that the court stay the actions pending the completion of an investigation into the allegations in the complaints by the Shareholder Derivative Claim Review Committee of the Company's Board of Directors. The lead plaintiffs filed an opposition to this motion on October 2, 2001. A hearing on the motion has not yet been scheduled.

Two purported shareholder derivative lawsuits also have been filed in the United States District Court for the Middle District of Tennessee against certain current and former Company directors and officers alleging that they breached their fiduciary duties to the Company. The Company is named as a nominal defendant in these actions, which seek declaratory relief, compensatory and punitive damages, costs and such further relief as the court deems proper. By motion filed on September 28, 2001, the Company requested that the federal court abstain from exercising jurisdiction over the purported shareholder derivative actions in deference to the pending state court actions. By agreement of the parties and court order dated December 3, 2001, the case has been stayed until June 3, 2002.

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

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

The Company has been notified that the Securities and Exchange Commission ("SEC") is conducting an investigation into the circumstances that gave rise to the Company's April 30, 2001 announcement. The Company is cooperating with this investigation by providing documents and other information to the SEC.

Other Litigation

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

Item 6. Exhibits and Reports on Form 8-K

(a) Not Applicable

(b) Reports on Form 8-K:

(1) A Current Report on Form 8-K, dated March 8, 2001, was filed with the SEC in connection with the announcement of February sales results.
(2) A Current Report on Form 8-K, dated April 16, 2001, was filed with the SEC in connection with the announcement of March sales results.
(3) A Current Report on Form 8-K, dated April 30, 2001, was filed with the SEC in connection with an announcement that the Company had become aware of certain accounting issues that would cause it to restate its audited financial statements for fiscal years 1998 and 1999, and to restate the unaudited financial information for the fiscal year 2000 that had been previously released.

SIGNATURES

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

DOLLAR GENERAL CORPORATION

By:

/s/ James J. Hagan

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

January 14, 2002