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DOLLAR GENERAL CORP

FORM 10-K
(Annual Report)

Filed 04/02/02 for the Period Ending 12/31/01

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

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DOLLAR GENERAL CORP

FORM 10-K
(Annual Report)

Filed 4/2/2002 For Period Ending 12/31/2001

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

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K

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

For the fiscal year ended February 1, 2002

Commission file number 0-4769

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 Number)

100 MISSION RIDGE
GOODLETTSVILLE, TN 37072
(Address of principal executive offices, zip code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of Class	Name of the Exchange on which Registered
Common Stock	New York Stock Exchange
Series B Junior Participating Preferred Stock Purchase Rights	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

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 if disclosure of delinquent filers pursuant to

Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

Aggregate market value of the voting stock held by non-affiliates of the Registrant as of March 15, 2002, was $4,338,998,195, based upon the last reported sale price on such date by the New York Stock Exchange.

The number of shares of common stock outstanding on March 15, 2002, was 332,649,343.

Documents Incorporated by Reference

The information required in Part III of this Form 10-K is incorporated by reference to the Registrant's definitive proxy statement to be filed for the Annual Meeting of Shareholders to be held on June 3, 2002.

The following text contains references to years 2002, 2001, 2000, 1999, 1998, 1997 and 1996, which represent fiscal years ending or ended January 31, 2003, February 1, 2002, February 2, 2001, January 28, 2000, January 29, 1999, January 30, 1998, and January 31, 1997, respectively. This discussion and analysis should be read with, and is qualified in its entirety by the consolidated financial statements and the notes thereto.

PART I

ITEM 1. BUSINESS

General

Dollar General Corporation (the "Company" or "Dollar General") is a leading discount retailer of quality general merchandise at everyday low prices. Through conveniently located stores, the Company offers a focused assortment of consumable basic merchandise including health and beauty aids, packaged food products, home cleaning supplies, housewares, stationery, seasonal goods, basic clothing and domestics. Dollar General stores serve primarily low-, middle- and fixed-income families.

The Company opened its first store in 1955, in which year the Company was first incorporated as a Kentucky corporation under the name J.L. Turner & Son, Inc. The Company changed its name to Dollar General Corporation in 1968, and reincorporated as a Tennessee corporation in 1998. As of March 15, 2002, the Company operated 5,620 stores in 27 states, primarily in the southeastern and midwestern United States.

Overall Business Strategy

Dollar General's mission statement is "A Better Life for Everyone!" To carry out this mission, the Company has developed a business strategy that focuses on providing its customers with a focused assortment of consumable basic merchandise in a convenient, small-store format.

Our Customers. The Company serves the consumable basics needs of customers primarily in the low- and middle-income brackets, and customers on fixed incomes. Research performed by an outside service on behalf of the Company in the Spring of 2001 indicated that approximately 55% of its customers live in households earning less than $30,000 a year, and approximately 36% earn less than $20,000. The Company's merchandising and operating strategies are designed to meet the consumable basics needs of the consumers in this group.

Our Stores. The average Dollar General store has approximately 6,700 selling square feet and serves customers whose homes are usually located within three to five miles of the store. Most stores are in small towns with populations of fewer than 20,000. The Company believes that its target customers prefer the convenience of a small, neighborhood store. As the discount store industry continues to move toward larger, "super-center" type stores, which are often built outside of towns, the Company believes that Dollar General's convenient discount store format will continue to attract customers and provide the Company with a competitive advantage.

Our Merchandise. The Company is committed to offering a focused assortment of quality, consumable basic merchandise in a number of core categories, such as health and beauty aids, packaged food products, home cleaning supplies, housewares, stationery, seasonal goods, basic apparel and domestics. Because the Company offers a focused assortment of consumable basic merchandise, customers are able to shop at Dollar General stores for their everyday household needs. In 2001, the average customer transaction was $8.43.

Our Prices. The Company distributes quality, consumable basic merchandise at everyday low prices. The Company's strategy of a low-cost operating structure and a focused assortment of merchandise is designed to allow the Company to offer quality merchandise at highly competitive prices. As part of this strategy, the Company emphasizes even-dollar price points. The majority of the Company's products are priced at $10 or less, with approximately 33% of the products priced at $1 or less. The most expensive items are generally priced around $35.

Our Cost Controls. The Company places an emphasis on aggressively managing its overhead cost structure. Additionally, the Company seeks to locate stores in neighborhoods where rental and operating costs are low. The Company attempts to control operating costs by implementing new technology where feasible. Examples of this strategy in fiscal 2000 and 2001 include new IBM registers designed to capture payroll information and monitor employee productivity, new handheld store inventory ordering technology which should result in lower inventory handling and carrying costs, and the introduction of a new sales audit product which identifies register procedure violations by providing transactional information about cashier activities.

Growth Strategy

The Company has experienced a rapid rate of expansion in recent years, increasing its number of stores from 2,059 as of January 31, 1995, to 5,620 as of March 15, 2002. In addition to growth from new store openings, the Company recorded same-store sales increases of 7.3%, 0.9% and 6.4% in 2001, 2000 and 1999, respectively. Management will continue to seek to grow the Company's business. The Company believes this growth will come from a combination of new store openings, infrastructure investments and merchandising initiatives.

New Store Growth. Management believes that the Company's convenient, small-store format is adaptable to small towns and neighborhoods throughout the country. The Company currently serves more than 3,000 communities with populations of fewer than 20,000. The Company intends to continue to focus on small towns and neighborhoods within its existing market area where management believes the Company has the potential to expand its store base. By opening new stores in its existing market area, the Company takes advantage of brand awareness and maximizes its operating efficiencies.

In addition, the Company expects to explore the potential for expansion into new geographic markets as opportunities present themselves. Specifically, in 2001 the Company opened its first stores in New York and New Jersey. As of March 15, 2002, the Company had 60 stores in New York, and 10 stores in New Jersey. Consistent with its strategy, the Company is focusing its efforts in these states on small communities.

In 2001, 2000, and 1999, the Company opened 602, 758, and 646 new stores, and remodeled or relocated 78, 237, and 409 stores, respectively. In 2002, the Company currently expects to open approximately 600 new stores, close 60 to 80 stores, and remodel or relocate approximately 100 stores.

Infrastructure Investments. In recent years, the Company has made significant investments in its distribution network and management information systems. In August 2000, the Company opened a 1.0 million square-foot distribution center ("DC") in Alachua, Florida, and in April 2001, the Company opened a 1.2 million square-foot DC in Zanesville, Ohio. Subsequent to the DC opening in Alachua, Florida the Company closed a DC in Homerville, Georgia. In addition, the Company closed a DC in Villa Rica, Georgia that had only served new stores. As a result of these openings and closings, the Company has seven distribution centers located throughout the southeastern and midwestern United States. Of these seven DCs, four were opened between 1998 and 2001 - Alachua, Florida; Zanesville, Ohio; Indianola, Mississippi; and Fulton, Missouri. The remaining three DCs are located in Ardmore, Oklahoma; Scottsville, Kentucky; and South Boston, Virginia. These significant investments in distribution were the result of the Company's strategy to reduce transportation expenses and effectively support the Company's growth. Each DC, on average, services 800 stores with an average distance per delivery of approximately 220 miles.

Recent investments in technology include a new merchandise planning system designed to assist our merchants with their purchasing and store allocation decisions (2001 and 2002); satellite technology that provides faster check authorization and improves communications between the stores and the corporate office (2001 and 2002); new handheld store-ordering technology to improve the accuracy of store orders (2000 and 2001); new flatbed scanners to increase checkout speed and scanning accuracy (2000); new IBM registers that capture payroll data and monitor employee productivity (2000, 2001 and 2002);

and an automated distribution center replenishment system to reduce inventory safety stocks (2000).

Merchandising Initiatives. The Company's merchandising initiatives are designed to promote same-store sales increases. In 2001, the Company increased the number of stores offering perishable products. This program, which includes a selection of dairy products, luncheon meats, frozen foods and ice cream, was expanded from 20 stores in 2000 to approximately 400 stores by the end of 2001. The Company also increased the number of items carried by its stores in certain other categories, including home cleaning, paper products and pet supplies. The Company will continue to evaluate the performance of its merchandise mix and make changes where appropriate.

Merchandise

Dollar General stores offer a focused assortment of quality, consumable basic merchandise in a number of core categories. The Company separates its merchandise into the following four divisions for internal reporting purposes:
(1) highly consumable, (2) hardware and seasonal, (3) basic clothing, and (4) home products.

Since 1997, the Company has increased its emphasis on the highly consumable division by adding items in the food, paper, household chemicals, and health and beauty care categories. During the same period, the Company has reduced its emphasis on the home products division by eliminating items such as bath mats, area rugs, and bath towels. In 1998, the Company introduced approximately 400 new stock-keeping units ("SKUs") of family-oriented, basic apparel including items such as jeans, khakis, T-shirts and knit shirts for men, women and children at prices of $10 or less. As of March 15, 2002, the Company continues to carry approximately half of those SKUs, which the Company considers a part of its core apparel program.

The percentage of total sales of each of the four divisions tracked by the Company is as follows: in 2001 total sales consisted of 58.0% highly consumables, 16.7% hardware and seasonal, 10.9% basic clothing and 14.4% home products; in 2000 total sales consisted of 55.3% highly consumables, 15.5% hardware and seasonal, 12.2% basic clothing and 17.0% home products; and in 1999 total sales consisted of 51.3% highly consumables, 16.5% hardware and seasonal, 12.4% basic clothing and 19.8% home products. Of the four divisions, the hardware and seasonal division typically records the highest gross profit rate and the highly consumables division typically records the lowest gross profit rate.

The Company purchases its merchandise from a wide variety of suppliers. One supplier, Proctor and Gamble, accounted for approximately 12% of the Company's purchases in 2001. No other supplier accounted for more than 4.5% of the Company's purchases in 2001. Approximately 12% of the Company's purchases in 2001 were imported.

The Company does not run weekly advertising circulars but does advertise to support new store openings. Advertising expenses are less than 1% of sales.

The Company maintains approximately 3,500 core SKUs per store. The Company's average customer purchase in 2001 was $8.43. The average number of items in each customer purchase was 5.7, and the average price of each purchased item was $1.48.

As indicated in Note 3 to the Consolidated Financial Statements, the Company believes that it has certain excess inventory that will require a markdown to assist with its disposition. Accordingly, the Company recorded a markdown which had the impact of reducing inventory at cost at February 2, 2001 and increasing cost of goods sold in the fourth quarter of 2000 by approximately $21.5 million. The Company believes that this markdown will be adequate to sell the excess inventory during fiscal year 2002. However, 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's business is modestly seasonal in nature. The only extended seasonal increase in business that the Company experiences is the Christmas selling season. During the Christmas selling season, the Company carries merchandise that it does not carry during the rest of the year such as gift sets, trim-a-tree, certain baking items, and a broader assortment of toys and candy. In 2001, 2000, and 1999 the fourth quarter generated 30%, 32% and 30% of the Company's total annual revenues, respectively. Although all four of the Company's divisions experienced their highest sales in the fourth quarter, the hardware and seasonal division had the largest increases.

The Dollar General Store

The typical Dollar General store has approximately 6,700 square feet of selling space and is operated by a manager, an assistant manager and two or more sales clerks. Most stores are in small towns with populations of fewer than 20,000. As of March 15, 2002, approximately 58% of stores were located in strip shopping centers, 38% were freestanding buildings and 4% were in downtown store buildings. The Company generally has not encountered difficulty locating suitable store sites in the past, and management does not currently anticipate experiencing material difficulty in finding suitable locations at favorable rents.

The Company's recent store growth is summarized in the following table:

Year	Stores at Beginning of Year	Stores Opened	Stores Closed	Net Store Increase	Stores at Year End
1999	3,687	646	39	607	4,294
2000	4,294	758	52	706	5,000
2001	5,000	602	62	540	5,540

In 2002, the Company currently expects to open approximately 600 new stores, close 60 to 80 stores, and remodel or relocate approximately 100 stores. As of March 15, 2002, the Company operated 5,620 retail stores.

Employees

As of March 15, 2002, the Company and its subsidiaries employed approximately 48,000 full-time and part-time employees, including divisional and regional managers, area managers, store managers, and DC and administrative personnel, compared with approximately 39,500 employees on February 2, 2001. Management believes the Company's relationship with its employees is good.

Competition

The Company is engaged in a highly competitive business. The Company competes with discount stores and with many other retailers, including mass merchandise, grocery, drug, convenience, variety and other specialty stores. Some of the nation's largest retail companies operate stores in areas where the Company operates. The Company's direct competitors in the dollar store retail category include Family Dollar, Dollar Tree, Fred's and various local, independent operators. Competitors from other retail categories include CVS, Rite Aid, Walgreens, Eckerds, Wal-Mart and Kmart. Some of the Company's competitors from outside the dollar store segment are better capitalized than the Company.

The dollar store category differentiates itself from other forms of retailing by offering consistently low prices in a convenient, small-store format. The Company's prices are competitive because of its low cost operating structure and the relatively limited assortment of products offered. Labor and marketing expenses are minimized by not using circulars, limiting price points and relying on simple merchandise presentation. Occupancy expenses are typically low because the Company attempts to locate in second tier locations, either in small towns or in the neighborhoods of more urban areas where such expenses are low. The Company believes that its limited assortment of products allows it to focus its purchasing efforts on fewer SKUs than other retailers, which helps keep the cost of goods low.

ITEM 2. PROPERTIES

As of March 15, 2002, the Company operated 5,620 retail stores located in 27 states as follows:

State	Number of Stores	State	Number of Stores
Alabama	266	Missouri	255
Arkansas	193	Nebraska	61
Delaware	20	New Jersey	10
Florida	323	New York	60
Georgia	311	North Carolina	291
Illinois	241	Ohio	305
Indiana	239	Oklahoma	225
Iowa	126	Pennsylvania	293
Kansas	138	South Carolina	205
Kentucky	242	Tennessee	312
Louisiana	194	Texas	710
Maryland	57	Virginia	219
Michigan	61	West Virginia	110
Mississippi	153		

Substantially all of the Company's stores are located in leased premises. Individual store leases vary as to their terms, rental provisions and expiration dates. In 2001, the Company's aggregate store rental expense averaged $5.05 per square foot of selling space. The Company's policy has been to negotiate low-cost, short-term leases (usually with initial or primary terms of three to five years) with multiple renewal options when available. In 2002, the Company expects to open approximately 200 to 250 stores subject to built-to-suit arrangements with landlords. Such stores will typically carry a primary lease term of between 7 and 10 years.

The Company's DCs serve Dollar General stores as described in the following table:

		As of March 15, 2002	
Location	Year Opened	Approximate Square Footage	Approximate Number of Stores Served
Scottsville, Kentucky	1959	720,000	822
Ardmore, Oklahoma	1994	1,200,000	970
South Boston, Virginia	1997	1,210,000	884
Indianola, Mississippi	1998	820,000	620
Fulton, Missouri	1999	1,150,000	795
Alachua, Florida	2000	980,000	722
Zanesville, Ohio	2001	1,170,000	807

The Company owns the DC located in Scottsville, Kentucky and leases all of its other DCs. The Company opened its Zanesville, Ohio DC in April of 2001. The Company's executive offices are located in approximately 302,000 square feet of leased space in Goodlettsville, Tennessee.

ITEM 3. LEGAL PROCEEDINGS

Restatement-Related Proceedings

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 restate the unaudited financial information for fiscal year 2000 that had been previously released by the Company. The Company subsequently restated such financial statements and financial information by means of its Form 10-K for the fiscal year ended February 2, 2001, which was filed on January 14, 2002.

Following the April 30, 2001, announcement 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.

On January 3, 2002, the Company reached a settlement agreement with the putative class action plaintiffs, pursuant to which the Company agreed to pay at least $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 was subject to confirmatory discovery, to the final approval of the Company's Board of Directors, and to court approval. Under such settlement agreement, the plaintiffs had the right, following the completion of confirmatory discovery, to amend their complaint 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.

On April 1, 2002, following the completion of such confirmatory discovery, the Company and the putative class action plaintiffs amended their settlement agreement. Pursuant to such amended settlement agreement, the Company has agreed to pay $162 million to such plaintiffs in settlement for their claims and to implement certain enhancements to its corporate governance and internal control procedures. Such amended agreement is subject to the final approval of the Company's Board of Directors and to court approval.

The Company recognized an expense of $162 million in the fourth quarter of 2000 in respect of the class action settlement, which the Company expects to disburse in the second or third quarter of 2002. The Company expects to receive from its insurers approximately $4.5 million in respect of such 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 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 2001, 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 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to shareholders during the fourth quarter of the fiscal year ended February 1, 2002.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON STOCK AND RELATED SECURITY HOLDER MATTERS

The Company's common stock is traded on the New York Stock Exchange under the symbol "DG." The following table sets forth the range of the high and low closing prices of the Company's common stock during each quarter in 2001 and 2000, as reported on the New York Stock Exchange, together with dividends. All numbers have been restated to reflect common stock splits.

2001	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
High	$ 23.73	$ 20.90	$ 18.10	$ 16.70
Low	$ 15.51	$ 15.94	$ 11.23	$ 13.34
Dividends	$ .032	$ .032	$ .032	$ .032

2000	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
High	$ 21.80	$ 21.44	$ 23.06	$ 19.81
Low	$ 14.65	$ 16.31	$ 14.75	$ 13.50
Dividends	$ .026	$ .032	$ .032	$ .032

The Company's stock price at the close of the market on March 15, 2002, was $15.42.

There were approximately 16,039 shareholders of record of the Company's common stock as of March 15, 2002. The Company has paid cash dividends on its common stock since 1975. The Board of Directors regularly reviews the Company's dividend plans to ensure that they are consistent with the Company's earnings performance, financial condition, need for capital and other relevant factors. The Company did not sell any of its equity securities during 2001 without registration under the Securities Act of 1933, as amended.

ITEM 6. SELECTED FINANCIAL DATA*

(In thousands except per share and operating data)

	February 1, 2002	February 2, 2001 (53 week year)	January 28, 2000	January 29, 1999
SUMMARY OF OPERATIONS:				
Net sales	$ 5,322,895	$ 4,550,571	$ 3,887,964	$ 3,220,989
Gross profit	$ 1,509,412	$ 1,250,903	$ 1,093,498	$ 892,519
Litigation settlement expense	-	$ 162,000	-	-
Income before income taxes	$ 327,822	$ 108,647	$ 294,697	$ 239,009
Net income	$ 207,513	$ 70,642	$ 186,673	$ 150,934
Net income as a % of sales	3.9%	1.6%	4.8%	4.7%
PER SHARE RESULTS:				
Diluted earnings per share (a)	$ 0.62	$ 0.21	$ 0.55	$ 0.45
Basic earnings per share (a)	$ 0.63	$ 0.21	$ 0.61	$ 0.53
Cash dividends per share of common stock (a)	$ 0.13	$ 0.12	$ 0.10	$ 0.08
Weighted average diluted shares (a)	335,017	333,858	337,904	335,763
FINANCIAL POSITION:				
Assets	$ 2,552,385	$ 2,282,462	$ 1,923,628	$ 1,376,012
Long-term obligations	$ 339,470	$ 720,764	$ 514,362	$ 221,694
Shareholders' equity	$ 1,041,718	$ 861,763	$ 845,353	$ 674,406
Return on average assets	8.7%	3.4%	11.3%	12.9%
Return on average equity	22.2%	8.3%	24.6%	24.4%
OPERATING DATA:				
Retail stores at end of period	5,540	5,000	4,294	3,687
Year-end selling square feet	37,421,000	33,871,000	28,655,000	23,719,000
Highly consumable sales	58%	55%	51%	42%
Hardware and seasonal sales	17%	16%	17%	19%
Basic clothing sales	11%	12%	12%	12%
Home products sales	14%	17%	20%	27%

(a) As adjusted to give retroactive effect to all common stock splits.

* The Company has determined, as previously reported in its Annual Report on Form 10-K for the fiscal year ended February 2, 2001 filed on January 14, 2002 (the "2000 10-K"), that in light of the substantial time, effort and expense required to prepare and audit its restated financial statements for fiscal 2000, 1999 and 1998, an unreasonable further effort and expense would be required to conduct a similar process to restate its previously released financial data for fiscal 1997. Such financial data has not been restated and should not be relied upon. For a further discussion of the Company's restatement of its financial statements, see the 2000 10-K, Note 2 to the Consolidated Financial Statements.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

General

Accounting Periods. 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. There were 53 weeks in the fiscal year ended February 2, 2001. There were 52 weeks in the fiscal years ended February 1, 2002 and January 28, 2000. There will be 52 weeks in the fiscal year ended January 31, 2003. This discussion and analysis should be read with, and is qualified in its entirety by, the consolidated financial statements and the notes thereto. Please note that, by means of its Annual Report on Form 10-K for the fiscal year ended February 2, 2001 filed on January 14, 2002, the Company has restated its financial statements for fiscal years 1999 and 1998, as well as certain unaudited financial information for fiscal year 2000 that had been previously released by the Company. The following discussion reflects the results of that restatement.

Overview of 2001. During 2001, Dollar General increased its net sales by 17.0%, primarily as a result of its continued rapid pace of new store openings. From 1999 through 2001, the Company had a compound annual net sales growth rate of 18.2%. Same-store sales increased 7.3% in 2001, as compared with increases of 0.9% and 6.4% in 2000 and 1999, respectively.

As discussed further below, management believes that the Company's relatively strong operating performance in 2001 was due in part to improved in-stock conditions and various merchandising initiatives which helped generate additional sales at acceptable gross profit rates.

The year 2001 marked the fourteenth consecutive year that the Company increased its total number of store units. The Company opened 602 new stores in 2001, compared with 758 in 2000 and 646 in 1999, and remodeled or relocated 78 stores, compared with 237 in 2000 and 409 in 1999. During the last three years, the Company has opened, remodeled or relocated 2,730 stores, accounting for approximately 49% of the total stores as of February 1, 2002. The Company ended fiscal 2001 with 5,540 stores.

In 2001, new stores, remodels and relocations, net of 62 closed stores, added an aggregate of approximately 3.5 million selling square feet to the Company's total sales space. As a result, the Company had an aggregate of approximately 37.4 million selling square feet at the end of the year. The average new store opened in 2001 had approximately 6,500 selling square feet compared to approximately 6,900 selling square feet for new stores opened in 2000. Virtually all of the new stores opened in 2001 are subject to traditional operating lease arrangements. The Company opened its seventh DC in Zanesville, Ohio in April of 2001.

The Company currently expects to open approximately 600 new stores and close 60 to 80 stores in 2002, and to remodel or relocate approximately 100 stores. The Company will continue to focus on opening new stores in towns with populations of 20,000 or fewer and within 250 miles of its DCs. The Company expects its new stores to be subject to operating lease arrangements. Capital expenditures related to new store openings will be financed through a combination of operating cash flow and credit facilities.

Store investment and infrastructure upgrades continued to be priorities in 2001. At February 1, 2002, the systems to support perpetual inventories were installed in approximately 4,800 stores. Management expects to have the systems to support perpetual inventories in all stores by the end of 2002, and to begin implementation in 2003. A perpetual inventory allows the Company to track store level inventory at the SKU level, which should result in better inventory management. Additionally, management expects to enhance store communications and improve customer service through the installation of satellite communications technology. At February 1, 2002 such technology was installed in approximately 3,500 stores. The Company expects to complete the rollout of its satellite technology in all stores in 2002. The Company acquired a new merchandise planning and allocation system in 2001 that improves its ability to prepare sales, inventory and margin plans. The Company also established a business-to-business website in 2001 for use in communicating with transportation carriers to move loaded trailers to the DCs.

Critical Accounting Policies

As discussed in Note 1 to the Consolidated Financial Statements, inventories are stated at the lower of cost or market with cost determined using the retail last-in, first-out ("LIFO") method. Under the retail inventory method ("RIM"), the valuation of inventories at cost and the resulting gross margins are calculated by applying a calculated cost-to retail ratio to the retail value of inventories. 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 retail inventory method will result in valuing inventories at 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, merchandise markon, markups, markdowns, and shrinkage, which significantly impact the ending inventory valuation at cost as well as resulting gross margins. These significant estimates, coupled with the fact that the RIM is an averaging process, can, under certain circumstances, produce distorted or inaccurate 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, and applying RIM to transactions over a period of time that includes different rates of gross profit, such as those relating to seasonal merchandise. To reduce the potential of such distortions in the valuation of inventory from occurring, the Company's RIM utilizes 10 departments in which fairly homogenous classes of merchandise inventories having similar gross margins are grouped. In addition, failure to take markdowns currently can result in an overstatement of cost under the lower of cost or market principle. During fiscal 2000, the Company recorded markdowns that had not been taken and which served to reduce inventories to lower of cost or market by approximately $21.5 million.

Management believes that the Company's RIM provides an inventory valuation which reasonably approximates cost and results in carrying inventory at the lower of cost or market.

The Company is collecting SKU level inventory information at each of its stores during 2002 in an effort to establish an item-based perpetual inventory system. In conjunction with this undertaking, the Company will be expanding the number of departments it utilizes for its gross margin calculations. As noted above (see "-Overview of 2001"), management expects to implement its new inventory system in 2003. These changes may impact the RIM calculation results in fiscal 2003 and in subsequent years.

Results of Operations

The following discussion of the Company's financial performance is based on the Consolidated Financial Statements set forth herein.

Net Sales. Net sales totaled $5.32 billion for 2001, $4.55 billion for 2000 and $3.89 billion for 1999, representing annual increases of 17.0% in 2001, 17.0% in 2000 and 20.7% in 1999. The increases resulted primarily from 540 net new stores and a same-store sales increase of 7.3% in 2001; 706 net new stores and a same-store sales increase of 0.9% in 2000; and 607 net new stores and a same-store sales increase of 6.4% in 1999.

The Company tracks its sales internally by four divisions: highly consumable, hardware and seasonal, basic clothing and home products. Total sales in the highly consumable department increased by 22.5%, 26.1% and 46.4% in 2001, 2000 and 1999, respectively. Total sales in the hardware and seasonal department increased by 25.8%, 10.2%, and 6.0% in 2001, 2000 and 1999, respectively. Total sales in the basic clothing department increased by 5.0%, 14.9% and 23.2% in 2001, 2000 and 1999, respectively. Total sales in the home products department experienced annual changes of (0.6)%, 0.5% and (10.7)%, respectively.

The Company attributes the 7.3% same-store sales increase that it achieved in 2001 to a number of factors, including but not limited to: an improved in-stock position; an increase in the number of stores offering perishable products from 20 in 2000 to approximately 400 by the end of 2001; strong sales of seasonal merchandise resulting in part from additional floor space dedicated to such items as part of the store reset program, described below, that was undertaken in 2000; and expanded offerings in certain highly consumable categories including home cleaning, paper products and pet supplies.

The Company believes that the lower same store sales increase in 2000 was due primarily to the disruptive effect of a comprehensive store reset program designed to improve the product mix and appearance of its stores, which affected the vast majority of the store base. Other factors that may have had an impact on the lower same store sales increase in 2000 include a change in store ordering procedures from a manual process to a new automated system relying on the scanning of shelf tags, which may have been an additional cause of the sporadic out-of-stock conditions experienced by the Company during this period, and a general softening of economic conditions.

The relatively strong same store sales increase in 1999 was due primarily to the Company's ongoing shift in emphasis to the consumable basics segment of its business.

Gross Profit. Gross profit for 2001 was $1.51 billion, or 28.4% of sales, compared with $1.25 billion, or 27.5% of sales in 2000 and $1.09 billion, or 28.1% of sales in 1999. The improvement in the gross profit rate in 2001 as compared to 2000 is due primarily to the $21.5 million effect of a markdown recorded in 2000. As described in Note 3 to the Consolidated Financial Statements (see Item 8), the markdown in 2000 resulted from the identification by the Company of certain excess inventories that it believes will require a markdown to assist with their disposition by the conclusion of 2002. There can be no assurance that the Company will be able to sell all of this inventory by the end of 2002 without marking down the inventory at issue in amounts exceeding the markdown recorded to date. The Company also improved its initial margin on inventory purchases by 48 basis points in 2001 as compared against 2000. The Company was able to make particular improvements in its inventory margin in the housewares, seasonal and mens and boys clothing product lines.

The decline in the gross profit rate in 2000 as compared to 1999 was due primarily to the $21.5 million effect of the markdown described above.

Inventory shrinkage calculated at the retail value of the inventory, as a percentage of sales, was 2.90% in 2001, 2.80% in 2000, and 2.62% in 1999. The Company's goal is to maintain a shrink rate in the range of 1.75% to 2.00%. In 2001 the Company appointed approximately 25 financial control specialists to assist its stores with various shrinkage reduction efforts. These financial control specialists are focusing on activities such as investigating missing cash deposits and evaluating the processes in stores with consistently poor shrinkage results.

Distribution and transportation costs decreased by 35 basis points as a percentage of sales in 2001 as compared to 2000, and increased by 16 basis points in 2000 as compared to 1999. The reduction in distribution and transportation costs as a percentage of sales in 2001 is due primarily to a relatively modest increase in transportation costs during a period of increased sales. Factors contributing to this result in 2001 included the opening of the Zanesville, Ohio DC, which supported continued expansion in the number of stores with only a modest increase in store delivery miles, increased trailer utilization as a result of improved routing, and lower fuel costs. The increase in distribution and transportation costs as a percentage of sales in 2000 was due in part to the additional fixed costs associated with establishing the Fulton and Alachua distribution centers, which were opened in 1999 and 2000, respectively.

Selling, General and Administrative Expense. Total selling, general and administrative ("SG&A") expense as a percentage of net sales was 21.3% in 2001, compared with 20.5% in 2000 and 19.9% in 1999. SG&A expense for 2001 was $1.14 billion, an increase of 21.5% compared to 2000. SG&A expense in 2000 was $934.9 million, an increase of 21.0% over the 1999 total of $772.9 million.

The 80 basis point increase in SG&A expense as a percentage of net sales experienced in 2001 was due in part to $28.4 million in expenses incurred in such year, including professional service fees, related to the restatement of the Company's financial statements described above in Item 3. There were no such expenses in 2000, and such expenses were in addition to the litigation settlement expense described below that was recorded in 2000. The increase in SG&A expense in 2001 was also attributable in part to a 19.4% increase in labor expenses at the Company's retail stores, which was in excess of the Company's sales increase of 17.0%. The increased labor expenses incurred in 2001 resulted from a decision by the Company's management to spend additional funds in this area in order to attract and retain the talented employees necessary to improve store conditions. The restatement related expenses and the increased store labor costs together accounted for a 69 basis point increase in SG&A expense. Excluding the restatement-related expenses, SG&A expense in 2001 would have been $1.11 billion, or 20.8% of sales, an increase of 18.4% over the prior year.

The 66 basis point increase in SG&A expense as a percentage of net sales experienced in 2000 was due in part to the fact that store labor, store depreciation and amortization, and store utilities experienced annual increases of 22.9%, 44.4% and 27.8%, respectively, which were all in excess of the Company's sales increase of 17.0%. The increase in store labor as a percentage of sales was due principally to the additional hours required to complete the store reset program described above (see "-Net Sales"), and the general weakness of same store sales. The increase in store depreciation and amortization expense as a percentage of sales was a result of the number of new stores subject to capital leases.

Litigation Settlement Expense. The Company recorded $162.0 million in 2000 for the proposed settlement of the restatement-related shareholder class action litigation. (See Item 3). No litigation settlement expense was recorded in 2001.

Interest Expense. In 2001, interest expense was $45.8 million, compared with $45.4 million in 2000 and $25.9 million in 1999. The increase in interest expense in 2000 as compared to 1999 resulted from the net addition of $213.6 million in various long-term obligations during 2000.

The average daily total debt outstanding in 2001 was $738.8 million at an average interest rate of 6.25%. The average daily total debt outstanding in 2000 was $710.3 million at an average interest rate of 7.2%. The average total debt outstanding in 1999 was $454.0 million at an average interest rate of 6.0%.

Provision for Taxes on Income. The effective income tax rates for 2001, 2000 and 1999 were 36.7%, 35.0% and 36.7%, respectively. The reduction in the effective tax rate in 2000 was due to the 38.9% marginal tax rate applied against the litigation settlement expense. Excluding the tax impact of the litigation settlement expense, the effective tax rate in 2000 was 37.3%.

Liquidity and Capital Resources

Capital Structure. The Company has accessed capital through public debt, bank financings, long-term leases and financing obligations. In 2001, the Company financed its short-term working capital needs through cash flow from operations and existing cash balances. The Company has historically satisfied its working capital needs by utilizing seasonal lines of credit and its revolving credit agreement in addition to its existing cash balances and cash flow from operations. The Company's various seasonal lines of credit expired during 2001 and the Company elected not to renew them. At February 1, 2002 the Company had a $175 million revolving credit agreement which was not utilized during 2001. The revolving credit facility has two financial covenants, a fixed charge test and a leverage test. The leverage test was amended in 2000 to provide the Company with increased operating flexibility. As of February 1, 2002, the revolving credit facility was priced at LIBOR plus 102.5 basis points. As of February 1, 2002 the Company had no revolving loans outstanding and was in compliance with the financial covenants under the revolving credit facility. The revolving credit facility expires in September 2002. Until the restatement-related legal proceedings referred to previously and in Note 8 to the Consolidated Financial Statements are resolved, the Company may need waivers in order to draw on the revolving credit facility. The Company's total debt as of February 1, 2002 was $735.1 million, compared with $729.8 million as of February 2, 2001, and $516.2 million as of January 28, 2000.

In June 2000, the Company issued $200 million of 8 5/8% notes to repay outstanding short-term borrowings and for general corporate purposes. The notes are unsecured and guaranteed by all of the Company's subsidiaries. The notes have certain restrictive covenants, including limitations on secured indebtedness and certain sale and leaseback transactions.

As of February 1, 2002, the Company had $383 million outstanding under two synthetic lease facilities (the "Facilities") maturing in September 2002, one with $212 million in outstanding capital leases and the other with $171 million in outstanding capital leases. The leases allow for the use and occupancy of certain real property, including approximately 400 retail stores, two distribution centers and the Company's headquarters in Goodlettsville, Tennessee. The Company plans to purchase the properties from the lessor at the maturity of the Facilities. The Company is currently working on a plan to refinance the lease obligations. The Facilities have the same two financial covenants as the revolving credit facility, a fixed charge test and a leverage test. The facility with $212 million in outstanding capital leases is funded by a syndicate of financial institutions; borrowings under the facility were priced at LIBOR plus 102.5 basis points as of February 1, 2002. The pricing spread over LIBOR fluctuates based on the Company's debt ratings as published by the debt rating agencies. The Company's spread over LIBOR increased to 102.5 basis points from 15 basis points as part of the October 19, 2001, waiver and amendment as described below. The facility with $171 million in outstanding capital leases is funded by commercial paper issued at prevailing market rates by a commercial paper funding entity and is secured by a letter of credit facility.

In June 2000, distribution centers in Indianola, Mississippi and Fulton, Missouri were purchased from the Facilities and sold in sale-leaseback transactions resulting in twenty-two year, triple net leases with renewal options for an additional thirty years. These were refinanced to bolster liquidity and diversify sources of funds.

Throughout 2001, the Company obtained waivers from its lenders to, among other things, extend the requirement to deliver its audited 2000 financial statements, and unaudited 2001 quarterly financial statements, as a result of delays related to the restatement described above. The Company executed waivers with its lenders under the Facilities and revolving credit facility on May 10, 2001, June 8, 2001, and July 27, 2001, a waiver and amendment on October 19, 2001, and waivers on December 28, 2001, and January 10, 2002. The June 8, 2001, waiver prohibited the Company from repurchasing its shares and limited its capital expenditures to $160 million for the period commencing on February 2, 2001, and concluding with the delivery of the restated financial statements. The October 19, 2001, amendment increased the pricing on the synthetic lease with

$212 million in outstanding capital leases and the revolving credit facility from 15 basis points over LIBOR to 102.5 basis points over LIBOR, and accelerated the maturity of the second synthetic lease to September 2002 from June 2004. The Company executed waivers with the lenders under the Indianola, Mississippi and Fulton, Missouri distribution center leases on May 7, 2001, May 11, 2001, June 8, 2001, July 30, 2001, October 31, 2001, December 31, 2001, and January 10, 2002. In addition, the Company executed waivers with the lenders under the Ardmore and South Boston distribution center leases on January 10, 2002, and the lender under the Company's airplane lease on December 21, 2001, and January 7, 2002. The Company paid a total of approximately $1.6 million in fees for all of the waivers and amendments, which were recorded in SG&A expense.

The Company has entered into an amended settlement agreement with the lead plaintiffs in the restatement-related class action lawsuits brought against the Company and its officers and directors. See Item 3 (Restatement-Related Proceedings), above. Such agreement provides for the payment by the Company to the class action plaintiffs of $162 million. This expense was accrued by the Company in the fourth quarter of the 2000 fiscal year. The Company expects such amount will be disbursed in the second or third quarter of 2002, and will be funded out of operating cash flow, on-hand cash balances and the proceeds of insurance relating to the settlement of the class action and derivative litigation (see Note 8 to the Consolidated Financial Statements).

Cash Flow. In 2001, cash provided from operations and existing cash balances provided the resources required to support operations, capital expenditures and working capital requirements. The Company did not utilize its revolving credit facility in 2001. The Company's only borrowing in 2001 under a seasonal line of credit occurred on September 12, 2001 due to a temporary lack of access to certain of its investment accounts resulting from the events of September 11, 2001. Until the restatement-related legal proceedings referred to previously and in Note 8 to the Consolidated Financial Statements are resolved, the Company may need a waiver in order to draw on the revolving credit facility.

Net cash provided by operating activities for fiscal 2001 was $265.6 million, as compared to $215.5 million for fiscal 2000 and $196.7 million for fiscal 1999. Cash flow from operations for fiscal 2001 compared to fiscal 2000 increased by $50.1 million due principally to the improvement in operating performance in 2001 as described above (see "-Net Sales"). Cash flow from operations for fiscal 2000 compared to fiscal 1999 increased by $18.8 million due principally to a reduction in the amount of cash used to purchase inventory and an increase in accrued expenses and other.

Net cash flows used in investing activities was $124.1 million in 2001, versus $119.0 million in 2000 and $139.0 million in 1999. Capital expenditures for 2001 totaled $125.4 million, compared with $216.6 million for 2000 and $142.1 million for 1999. The Company opened 602 new stores and relocated or remodeled 78 stores at a cost of $55.8 million in 2001, compared with opening 758 new stores and relocating or remodeling 237 stores at a cost of $112.7 million in 2000. The decrease in 2001 in store-related capital expenditures was due to the smaller number of projects completed in 2001 and the construction of approximately 72 Company-owned stores in 2000 versus no such construction in 2001. Capital expenditures for new, relocated and remodeled stores totaled $72.7 million in 1999.

The Company spent approximately $31.7 million on systems-related capital projects in 2001 including $10.0 million for satellite technology and $8.3 million for new point-of-sale cash registers.

The Company spent approximately $6.6 million on distribution-related capital expenditures in 2001 as compared to $49.3 million in 2000 and $43.2 million in 1999. The 2000 expenditures related primarily to costs associated with the new DCs in Alachua, Florida, and Zanesville, Ohio. The 1999 expenditures resulted primarily from costs associated with the expansion of the Ardmore, Oklahoma DC and the purchase of new delivery trailers.

Capital expenditures during 2002 are projected to be approximately $150 million. The Company anticipates funding its 2002 capital requirements with cash flow from operations.

Net cash provided by / (used in) financing activities was $(42.3) million, $11.0 million and $(30.6) million in fiscal 2001, 2000 and 1999 respectively. Cash used in fiscal 2001 from financing activities primarily reflected the payment of $42.5 million of cash dividends. Cash provided in fiscal 2000 from financing activities reflected the $200 million of notes issued in June 2000, partially offset by the payment of $42.2 million of cash dividends, the repurchase of $63.0 million of common stock, and the repayment of $112.3 million of long-term obligations related primarily to two of the Company's DCs. Cash used in fiscal 1999 by financing activities reflected the repurchase of $50.8 million of common stock and the payment of $33.8 million of dividends, offset partially by $38.8 million of cash proceeds from the exercise of stock options.

As noted above, in September 2002 the Company's synthetic leases, in the amount of $383 million, will mature and the Company's $175 million revolving credit facility will expire. The Company expects to refinance the synthetic lease obligations and to replace the revolving credit facility prior to such date. The Company also expects to fund in the second or third quarter of 2002 $162 million in settlement of the class action litigation, as further discussed above. The Company believes that its existing cash balances, cash flow from operations and its ongoing access to the capital markets will provide sufficient financing to meet these obligations, as well as the Company's other foreseeable liquidity and capital resource needs. However, there can be no assurance that the Company will be able to obtain financing in the amounts that it requires or that the terms of such financing will be as attractive as the terms on which the Company has obtained financing in the past. Please refer to "Forward Looking Statements / Risk Factors" for a discussion of issues that could adversely impact the Company's financial position or its ability to obtain financing.

The following table summarizes the Company's significant contractual obligations and estimated litigation settlement payable as of February 1, 2002, which excludes the effect of imputed interest (in thousands):

		Payments Due by Period			
Contractual obligations	Total	Less than 1 yr	1-3 yrs	4-5 yrs	Greater than 5 yrs
Long-term debt	$ 200,052	$ 52	$ -	$ -	$ 200,000
Capital lease obligations	460,807	406,085	30,957	17,537	6,228
Financing obligations	210,910	9,283	18,566	18,566	164,495
Operating leases	701,808	177,948	250,186	103,426	170,248
Litigation settlement	162,000	162,000	-	-	-
Capital expenditures	30,000	30,000	-	-	-
Total contractual cash obligations	$ 1,765,577	$ 785,368	$ 299,709	$ 139,529	$ 540,971

See Note 2 to the Consolidated Financial Statements for a discussion of amounts outstanding under commercial letters of credit.

Effects of Inflation and Changing Prices

The Company believes that inflation and/or deflation had a minimal impact on its overall operations during 2001, 2000 and 1999.

Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board (the "FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets." Under the new rules, goodwill and indefinite lived intangible assets are no longer amortized but are reviewed annually for impairment. Separable intangible assets that are not deemed to have an indefinite life will continue to be amortized over their useful lives. The Company began applying the new accounting rules on February 2, 2002. The adoption of SFAS No. 141 and No. 142 will not have a material impact on the Company's financial position or results of operations.

The FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations" in June 2001. SFAS No. 143 applies to legal obligations associated with the retirement of certain tangible long-lived assets. This statement is effective for fiscal years beginning after June 15, 2002. Accordingly, the Company will adopt this statement on February 1, 2003. The Company believes the adoption of SFAS 143 will not have a material impact on its Consolidated Financial Statements.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 is effective for fiscal years beginning after December 15, 2001, and interim periods within those fiscal years. The Company adopted this statement on February 2, 2002. This statement addresses financial accounting and reporting for the impairment or disposal of long-lived assets. It supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of." The Company believes the adoption of SFAS No. 144 will not have a material impact on its Consolidated Financial Statements.

Forward Looking Statements / Risk Factors

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, the following:

THE COMPANY'S REPUTATION AND FINANCIAL CONDITION COULD BE AFFECTED BY THE RESTATEMENT. As previously described in the Company's Annual Report on Form 10-K for the 2000 fiscal year, 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 1998 and 1999, and to revise the unaudited financial information for the 2000 fiscal year that had been previously released by the Company. Following this announcement, 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. 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 against certain current and former Company directors and officers alleging that they breached their fiduciary duties to the Company. The Company has also been notified that the SEC is conducting an investigation into the circumstances that gave rise to the Company's April 30, 2001, announcement.

As discussed above, the Company has entered into settlement agreements with the purported class action plaintiffs and with the lead counsel in the lead shareholders derivative action. However, such settlement agreements are subject to conditions, including the completion of confirmatory due diligence and court approval. In the event that these settlement agreements do not become effective, the Company will incur additional significant expenditures in defending itself and the Company may be exposed to financial losses in excess of the amounts that the Company has agreed to pay in the settlement agreements. In addition, the publicity surrounding the litigation and the SEC investigation could affect the Company's reputation and have an impact on its financial condition.

THE COMPANY'S BUSINESS IS MODESTLY SEASONAL WITH THE HIGHEST SALES OCCURRING DURING THE FOURTH QUARTER, AND ADVERSE EVENTS DURING THE FOURTH QUARTER COULD THEREFORE AFFECT THE COMPANY'S FINANCIAL CONDITION. The Company realizes a large 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 unbudgeted markdowns.

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

COMPETITION IN THE RETAIL INDUSTRY COULD LIMIT THE COMPANY'S GROWTH OPPORTUNITIES AND REDUCE ITS PROFITABILITY. The Company competes in the discount retail merchandise business, which is highly competitive. This competitive environment subjects the Company to the risk of reduced profitability resulting from reduced margins required to maintain the Company's competitive position. The Company competes with discount stores and with many other retailers, including mass merchandise, grocery, drug, convenience, variety and other specialty stores. Some of the nation's largest retail companies operate stores in areas where the Company operates. The Company's direct competitors in the dollar store retail category include Family Dollar, Dollar Tree, Fred's, and various local, independent operators. Competitors from other retail categories include CVS, Rite Aid, Walgreens, Eckerds, 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 and Kmart, 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. The

Company expects a further increase in competition from these national discount retailers.

THE COMPANY'S FINANCIAL PERFORMANCE IS SENSITIVE TO CHANGES IN OVERALL ECONOMIC CONDITIONS THAT MAY IMPACT CONSUMER SPENDING. The 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. Future 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.

THE COMPANY'S BUSINESS IS DEPENDENT ON ITS VENDORS. 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.

THE EFFICIENT OPERATION OF THE COMPANY'S BUSINESS IS HEAVILY DEPENDENT ON ITS INFORMATION SYSTEMS. As part of its technology update, the Company installed new flatbed scanners in all of its stores and is in the process of installing new IBM registers and checkouts. The Company depends on a variety of other 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 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.

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 may utilize a credit facility to fund working capital requirements, which is comprised of variable rate debt. See "Item 7A - Quantitative and Qualitative Disclosures About Market Risk."

THE COMPANY IS DEPENDENT UPON THE SMOOTH FUNCTIONING OF ITS DISTRIBUTION NETWORK. The Company relies upon the ability to replenish depleted inventory through deliveries to its distribution centers from vendors, and from the distribution centers to its stores by various means of transportation, including shipments by air, sea and truck on the roads and highways of the United States. Long-term disruptions to the national and international transportation infrastructure that lead to delays or interruptions of service will adversely affect the Company's business.

THE COMPANY IS DEPENDENT ON THE CONTINUED AVAILABILITY OF CAPITAL TO SUPPORT ITS BUSINESS. As discussed above, in September 2002 the Company's synthetic leases, in the amount of $383 million, will mature and the Company's $175 million revolving credit facility will expire. The Company also expects to fund in the second or third quarter of 2002 $162 million in settlement of the class action litigation, as further discussed above. In addition, the Company will continue to need capital to support its plans for future growth. A decline in the Company's generation of cash flow or the inability of the Company to obtain financing from third parties would have a material adverse effect on the Company.

On October 2, 2001, Standard & Poor's lowered the Company's corporate credit, senior unsecured debt and senior unsecured bank loan ratings from BBB+ to BBB-; as the date hereof, these ratings remain on CreditWatch with negative implications. On October 2, 2001, Moody's Investors Service, Inc. also lowered the Company's senior unsecured credit rating, from Baa2 to Ba1, which rating is on review for further possible downgrades. Credit ratings are generally used by investors to assess the ability of a company to meet its obligations. The downgrade in the Company's credit ratings may affect the Company's ability to obtain financing in the future, and will also affect the terms of any such financing.

Moreover, in order to issue debt securities to the public, the Company will have to comply with the registration requirements of the Securities and Exchange Commission, including among other things the requirement that the Company disclose "Selected Financial Information" for a period of five fiscal years. This may require the Company to restate its financial statements for periods prior to the 1998 fiscal year. Unless and until it is able to do so, the Company will not be able to access the public capital markets and as a result will be limited to non-public sources of financing, which may result in increased costs, less favorable terms, and/or lesser availability than might be obtainable in the public capital markets.

CAUTION SHOULD BE TAKEN NOT TO PLACE UNDUE RELIANCE ON FORWARD-LOOKING STATEMENTS MADE HEREIN, SINCE THE STATEMENTS SPEAK ONLY AS OF THE DATE THEY ARE MADE. THE COMPANY UNDERTAKES NO OBLIGATION TO PUBLICLY RELEASE ANY REVISIONS TO ANY FORWARD-LOOKING STATEMENTS CONTAINED HEREIN TO REFLECT EVENTS OR CIRCUMSTANCES OCCURRING AFTER THE DATE OF THIS REPORT OR TO REFLECT THE OCCURRENCE OF UNANTICIPATED EVENTS.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Financial Risk Management

The Company is exposed to market risk primarily from adverse changes in interest rates. To minimize such risk, the Company may periodically use financial instruments, including derivatives. As a matter of policy, the Company does not buy or sell financial instruments for speculative or trading purposes and all financial instrument transactions must be authorized and executed pursuant to Board of Directors approval. All financial instrument positions taken by the Company are used to reduce risk by hedging an underlying economic exposure. Because of high correlation between the financial instrument and the underlying exposure being hedged, fluctuations in the value of the financial instruments are generally offset by reciprocal changes in the value of the underlying economic exposure. The financial instruments used by the Company are straightforward instruments with liquid markets.

The Company has cash flow exposure relating to variable interest rates, primarily associated with its revolving line of credit and certain lease obligations, and seeks to manage this risk through the use of interest rate swaps. The primary interest rate exposure on variable rate obligations is based on the London Interbank Offered Rate ("LIBOR").

At February 1, 2002, and February 2, 2001, the fair value of the Company's debt, excluding capital lease obligations, was estimated at approximately $260.0 million and $295.9 million, respectively, based on the estimated market value of the debt at those dates. Such fair value is less than the carrying value of the debt at February 1, 2002, and February 2, 2001, by approximately $35.6 million and $0.7 million, respectively.

At February 1, 2002, 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 its 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% and will receive a floating rate (LIBOR) on the $100 million notional amount through September 1, 2002. The fair value of the interest rate swap agreement was $(2.6) million at February 1, 2002. The counterparty to the Company's interest rate swap agreement was a major financial institution. The Company is exposed to credit risk in the event of non-performance by such counterparty, the amount of which exposure is limited to the unpaid portion of amounts due to the Company pursuant to the interest rate swap agreement, if any. Although there are no collateral requirements if a downgrade in the credit rating of the counterparty occurs, the Company believes that its exposure is mitigated by provisions in the interest rate swap agreement that allow the Company to offset any amounts payable by the Company to the counterparty with any amounts due to the Company from the counterparty.

At February 2, 2001, the Company was party to the same interest rate swap agreement with a notional amount of $100 million. Under the terms of the agreement, the Company paid the same fixed rate of 5.60% and received the same floating rate (LIBOR) on the $100 million notional amount. The fair value of the interest rate swap agreement was $(0.4) million at February 2, 2001.

In fiscal 2001, as required by SFAS 133, the Company recorded the fair value of the interest rate swap in the balance sheet, with the offsetting, effective portion of the change in fair value recorded in Other Comprehensive Income, a separate component of Shareholders' Equity. Amounts recorded in Other Comprehensive Income were reclassified into earnings, as an adjustment to interest expense, in the same period during which the hedged synthetic lease agreements affected earnings. In fiscal 2000, as required by the accounting literature for derivatives and hedging instruments in effect at that time, the Company recognized any differences paid or received on interest rate swap agreements as adjustments to interest expense.

Based upon the Company's variable rate borrowing levels, a 1% change in interest rates would have resulted in a pre-tax loss in earnings and cash flows of approximately $2.8 million and $2.6 million, including the effects of interest rate swaps, in 2001 and 2000, respectively. In 2002, the Company does not anticipate the potential loss due to a 1% change in interest rates to vary materially from the estimated impact in 2001.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

CONSOLIDATED BALANCE SHEETS
(Dollars in thousands except per share amounts)

	February 1, 2002	February 2, 2001
ASSETS		
Current assets:		
Cash and cash equivalents	$ 261,525	$ 162,310
Merchandise inventories	1,131,023	896,235
Deferred income taxes	105,091	21,514
Other current assets	58,408	44,868
Total current assets	1,556,047	1,124,927
Property and equipment, at cost:		
Land	144,490	119,410
Buildings	331,795	286,476
Furniture, fixtures and equipment	988,074	823,234
Construction in progress	9,334	110,434
	1,473,693	1,339,554
Less accumulated depreciation and amortization	484,778	366,460
Net property and equipment	988,915	973,094
Merchandise inventories	--	116,000
Deferred income taxes	--	52,708
Other assets, net	7,423	15,733
Total assets	$ 2,552,385	$ 2,282,462
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term obligations	$ 395,675	$ 9,035
Accounts payable	322,463	297,262
Accrued expenses and other	242,780	214,192
Litigation settlement payable	162,000	--
Income taxes	10,633	17,446
Total current liabilities	1,133,551	537,935
Long-term obligations	339,470	720,764
Deferred income taxes	37,646	--
Litigation settlement payable	--	162,000
Commitments and contingencies		
Shareholders' equity:		
Series B junior participating preferred stock, stated value $0.50 per share; Shares authorized: 10,000,000; Issued: None	--	--
Common stock, par value $0.50 per share; Shares authorized: 500,000,000; Issued: 2001-332,718,000; 2000-331,292,000	166,359	165,646
Additional paid-in capital	301,848	283,925
Retained earnings	579,265	414,318
Accumulated other comprehensive loss	(3,228)	--
	1,044,244	863,889
Less common stock purchased by employee deferred compensation trust: 2001-112,000; 2000-94,000	2,395	2,126
Less unearned compensation related to outstanding restricted stock	131	--
Total shareholders' equity	1,041,718	861,763
Total liabilities and shareholders' equity	$ 2,552,385	$ 2,282,462

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME

(Dollars in thousands except per share amounts)

	For the years ended					
	February 1, 2002		February 2, 2001		January 28, 2000	
	Amount	% of Net Sales	Amount	% of Net Sales	Amount	% of Net Sales
Net sales	$5,322,895	100.00%	$4,550,571	100.00%	$3,887,964	100.00%
Cost of goods sold	3,813,483	71.64	3,299,668	72.51	2,794,466	71.87
Gross profit	1,509,412	28.36	1,250,903	27.49	1,093,498	28.13
Selling, general and administrative	1,135,801	21.34	934,899	20.54	772,928	19.88
Litigation settlement expense	--	--	162,000	3.56	--	--
Operating profit	373,611	7.02	154,004	3.39	320,570	8.25
Interest expense	45,789	0.86	45,357	1.00	25,873	0.67
Income before taxes on income	327,822	6.16	108,647	2.39	294,697	7.58
Provisions for taxes on income	120,309	2.26	38,005	0.84	108,024	2.78
Net income	$ 207,513	3.90%	$ 70,642	1.55%	$ 186,673	4.80%
Diluted earnings per share	$ 0.62		$ 0.21		$ 0.55	
Weighted average diluted shares (000)	335,017		333,858		337,904	
Basic earnings per share	$ 0.63		$ 0.21		$ 0.61	

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

For the years ended February 1, 2002, February 2, 2001 and January 28, 2000

(Dollars in thousands except per share amounts)

	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Restricted Stock	Total
Balances January 29, 1999	$ 858	$ 164,073	$ 363,212	$ 346,790	$ -	$ (200,527)	$ -	$ 674,406
Net income	-	-	-	186,673	-	-	-	186,673
Cash dividends, $0.10 per common share	-	-	-	(32,879)	-	-	-	(32,879)
Cash dividends, $0.69 per preferred share	-	-	-	(1,178)	-	-	-	(1,178)
Issuance of common stock under stock incentive plans (5,442,000 shares)	-	2,721	36,076	-	-	-	-	38,797
Tax benefit from exercise of options	-	-	30,287	-	-	-	-	30,287
Repurchase of common stock (2,766,000 shares)	-	(1,383)	-	(49,370)	-	-	-	(50,753)
Conversion of preferred to common (51,133,000 shares)	(858)	-	(199,669)	-	-	200,527	-	-
Balances, January 28, 2000	$ -	$ 165,411	$ 229,906	$ 450,036	$ -	$ -	$ -	$ 845,353
Net income	-	-	-	70,642	-	-	-	70,642
Cash dividends, $0.12 per common share	-	-	-	(42,266)	-	-	-	(42,266)
Issuance of common stock under stock incentive plans (4,103,000 shares)	-	2,052	32,078	-	-	-	-	34,130
Tax benefit from exercise of options	-	-	19,018	-	-	-	-	19,018
Repurchase of common stock, net (3,634,000 shares)	-	(1,817)	2,923	(64,094)	-	-	-	(62,988)
Purchase of common stock by employee deferred compensation trust (94,000 shares)	-	-	-	-	-	(2,126)	-	(2,126)
Balances, February 2, 2001	$ -	$ 165,646	$ 283,925	$414,318	$ -	$ (2,126)	$ -	$ 861,763
Comprehensive income:								
Net income	-	-	-	207,513	-	-	-	207,513
Cumulative effect of SFAS No. 133	-	-	-	-	(2,044)	-	-	(2,044)
Net change in fair value of derivatives	-	-	-	-	(2,285)	-	-	(2,285)
Net loss on derivatives	-	-	-	-	1,101	-	-	1,101
Comprehensive income								204,285
Cash dividends, $0.13 per common share	-	-	-	(42,566)	-	-	-	(42,566)

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

For the years ended February 1, 2002, February 2, 2001 and January 28, 2000

(Dollars in thousands except per share amounts)

	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Restricted Stock	Total
Issuance of common stock under stock incentive plans (1,395,000 shares)	-	697	11,571	-	-	-	-	12,268
Tax benefit from exercise of options	-	-	5,819	-	-	-	-	5,819
Purchase of common stock by employee deferred compensation trust (18,000 shares)	-	-	-	-	-	(269)	-	(269)
Issuance of restricted stock (32,000 shares)	-	16	533	-	-	-	(131)	418
Balances, February 1, 2002	$ -	$ 166,359	$ 301,848	$ 579,265	$ (3,228)	$ (2,395)	$ (131)	$1,041,718

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)

	For the years ended		
	February 1, 2002	February 2, 2001	January 28, 2000
Cash flows from operating activities:			
Net income	$ 207,513	$ 70,642	$ 186,673
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	122,967	111,399	79,707
Deferred income taxes	6,777	(77,942)	(2,261)
Tax benefit from stock option exercises	5,819	19,018	30,287
Litigation settlement	-	162,000	-
Change in operating assets and liabilities:			
Merchandise inventories	(118,788)	(59,803)	(158,836)
Other current assets	(13,540)	4,650	(15,351)
Accounts payable	25,201	(47,336)	78,002
Accrued expenses and other	25,907	39,391	(2,144)
Income taxes	(4,941)	(9,545)	4,125
Other	8,713	3,031	(3,480)
Net cash provided by operating activities	265,628	215,505	196,722
Cash flows from investing activities:			
Purchase of property and equipment	(125,365)	(216,584)	(142,070)
Proceeds from sale of property and equipment	1,293	97,612	3,051
Net cash used in investing activities	(124,072)	(118,972)	(139,019)
Cash flows from financing activities:			
Issuance of short-term borrowings	-	220,000	295,324
Repayments of short-term borrowings	-	(220,000)	(295,324)
Issuance of long-term obligations	-	199,595	22,848
Repayments of long-term obligations	(11,823)	(112,276)	(7,705)
Payment of cash dividends	(42,517)	(42,237)	(33,791)
Proceeds from exercise of stock options	12,268	34,130	38,797
Repurchase of common stock, net	-	(62,988)	(50,753)
Purchase of common stock by employee deferred compensation trust	(269)	(2,126)	-
Settlement of derivative financial instruments	-	(3,063)	-
Net cash provided by / (used in) financing activities	(42,341)	11,035	(30,604)
Net increase in cash and cash equivalents	99,215	107,568	27,099
Cash and cash equivalents, beginning of year	162,310	54,742	27,643
Cash and cash equivalents, end of year	$ 261,525	$ 162,310	$ 54,742
Supplemental cash flow information:			
Cash paid during year for:			
Interest	$ 50,297	$ 50,027	$ 28,026
Income taxes	$ 110,944	$ 104,311	$ 77,038
Supplemental schedule of noncash investing and financing activities:			
Purchase of property and equipment under capital lease obligations	$ 17,169	$ 126,290	$ 272,233
Conversion of preferred stock to common stock	$ -	-	$ 200,527

The accompanying notes are an integral part of the consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of presentation and accounting policies

Basis of presentation

These notes contain references to the years 2002, 2001, 2000 and 1999, which represent fiscal years ended January 31, 2003, February 1, 2002, February 2, 2001 and January 28, 2000, respectively. The Company's fiscal year ends on the Friday closest to January 31. There will be 52 weeks in the fiscal year ended January 31, 2003, and there were 52 weeks in the fiscal years ended February 1, 2002, and January 28, 2000. There were 53 weeks in the fiscal year ended February 2, 2001. The consolidated financial statements include all subsidiaries. Intercompany transactions have been eliminated.

The Company sells general merchandise on a retail basis through 5,540 stores (as of February 1, 2002) located predominantly in small towns in the Southeastern and Midwestern United States. The Company has Distribution Centers ("DCs") in Scottsville, Kentucky; Ardmore, Oklahoma; South Boston, Virginia; Indianola, Mississippi; Fulton, Missouri; Alachua, Florida and Zanesville, Ohio.

All share and per share data reflect the effect of common stock splits.

Restatement

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 restate the unaudited financial information for fiscal year 2000 that had been previously released by the Company. The Company subsequently restated such financial statements and financial information by means of its Form 10-K for the fiscal year ended February 2, 2001, which was filed on January 14, 2002.

Cash and cash equivalents

Cash and cash equivalents include highly liquid investments with original maturities of three months or less when purchased.

Inventories

Inventories are stated at the lower of cost or market with cost determined using the retail last-in, first-out ("LIFO") method. The excess of current cost over LIFO cost was approximately $14.8 million at February 1, 2002, $18.3 million at February 2, 2001 and $18.7 million at January 28, 2000. Current cost is determined using the retail first-in first-out method. LIFO reserves decreased $3.5 million in 2001, decreased $0.4 million in 2000 and increased $0.2 million in 1999. Costs directly associated with warehousing and distribution are capitalized into inventory.

Pre-opening costs

Pre-opening costs for new stores are expensed as incurred.

Property and equipment

Property and equipment are recorded at cost. The Company provides for depreciation on a straight-line basis over the following estimated useful lives:
40 years for buildings and 3 to 10 years for furniture, fixtures and equipment. Amortization of capital lease assets is included in depreciation expense. Depreciation expense related to property and equipment was approximately $122.3 million in 2001, $110.9 million in 2000 and $79.4 million in 1999.

Software costs

Costs associated with the application development stage of significant new computer software applications for internal use are deferred and amortized over periods ranging from three to five years. Costs associated with the preliminary and post-implementation stages of these projects are expensed as incurred.

Impairment

When indicators of impairment are present, the Company evaluates the carrying value of property and equipment and intangibles in relation to the operating performance and future undiscounted cash flows of the underlying assets. The Company adjusts the net book value of the underlying assets if the sum of expected future cash flows is less than the book value. Assets to be disposed of are adjusted to the fair value less the cost to sell if less than the book value. In 2001, the Company recorded an approximate $1.1 million impairment charge to reduce the carrying value of the closed Homerville, Georgia
DC. In 2000, the Company recorded an approximate $3.6 million impairment charge to reduce the carrying value of the closed Homerville, Georgia DC that is included in SG&A expense.

Other assets

Other assets consist primarily of debt issuance costs and deferred finance charges which are amortized over the life of the related obligation.

Insurance claims provisions

The Greater Cumberland Insurance Company, a Vermont-based, wholly-owned captive insurance subsidiary, charges Dollar General's subsidiary companies competitive premium rates to insure workers' compensation and non-property general liability claims risk. The insurance company currently insures no unrelated third-party risk.

The Company retains a significant portion of the risk for its workers' compensation, employee health insurance, general liability, property and automobile coverage. Accordingly, provisions are made for the Company's actuarially determined estimates of undiscounted future claim costs for such risks. To the extent that subsequent claim costs vary from those estimates, future earnings will be affected.

Fair value of financial instruments

The carrying amounts reflected in the consolidated balance sheets for cash, cash equivalents, receivables and payables approximate their respective fair values. At February 1, 2002 and February 2, 2001, the fair value of the Company's debt, excluding capital lease obligations, was approximately $260.0 million and $295.9 million, respectively, based upon the estimated market value of the debt at those dates. Such fair value is less than the carrying value of the debt at February 1, 2002 and February 2, 2001, by approximately $35.6 million and $0.7 million, respectively. Fair values are based primarily on quoted prices for those or similar instruments. A discussion of the carrying value and fair value of the Company's derivative financial instruments is included in the section entitled "Derivative financial instruments" in Note 1.

Derivative financial instruments

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 and interpreted by numerous Financial Accounting Standards Board Issues. 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 2001 consolidated financial statements include the provisions required by SFAS No. 133, while the 2000 consolidated financial statements were prepared in accordance with the applicable professional literature for derivatives and hedging instruments in effect at that time.

The adoption of SFAS No. 133 resulted in the Company recording a cumulative after tax decrease to OCI of approximately $2.0 million. This 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 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 the Company's 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 other exposures and to the overall reduction in the Company's risk relating to adverse fluctuations in interest rates and other market factors. In addition, the earnings impact resulting from the Company's derivative instruments is recorded in the same line item within the 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 February 1, 2002, 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% and will receive a floating rate (LIBOR) on the $100 million notional amount through September 1, 2002.

At February 2, 2001, the Company was party to the same 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 its synthetic lease agreements. Under the terms of the agreement, the Company paid the same fixed rate of 5.60% and received the same floating rate (LIBOR) on the $100 million notional amount. The fair value of the interest rate swap agreement was $(0.4) million at February 2, 2001. In fiscal 2000, as required by the accounting literature for derivatives and hedging instruments in effect at that time, the Company recognized any differences paid or received on interest rate swap agreements as adjustments to interest expense. In addition, during fiscal 2000, gains and losses on terminations of interest rate swap agreements were deferred and amortized to interest expense over the shorter of the original term of the agreements or the remaining life of the associated outstanding commitment. Approximately $2.9 million of realized losses relating to early termination of interest rate derivatives were deferred at February 2, 2001.

During 2001, the Company recorded an additional $1.2 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 twelve months approximately $1.9 million of the net amount recorded in OCI as of February 1, 2002. The Company did not discontinue any fair value or cash flow hedge relationships during fiscal year 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 February 1, 2002 (in thousands):

	Before-Tax Amount	Income Tax	After-Tax Amount
Cumulative effect of adopting SFAS No. 133, net	$ (3,229)	$ 1,185	$ (2,044)
Net changes in fair value of derivatives	(3,611)	1,326	(2,285)
Net losses reclassified from OCI into earnings	1,740	(639)	1,101
Accumulated net losses as of February 1, 2002	$ (5,100)	$ 1,872	$ (3,228)

Stock-based compensation

The Company grants stock options having a fixed number of shares and an exercise price equal to the fair value of the stock on the date of grant to certain executive officers, directors and key employees. 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 because the Company believes the alternative fair value accounting provided for under Statement of Financial Accounting Standards ("SFAS") Statement No. 123, "Accounting for Stock-Based Compensation" (SFAS No. 123), requires the use of option valuation models that were not developed for use in valuing employee stock options. 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.

The Company has historically permitted employees to use shares acquired through the exercise of stock options to satisfy tax-withholding requirements in excess of minimum employer statutory withholding rates. The Company recognizes compensation expense for such stock option exercises and grants in accordance with the provisions of EITF 87-6, "Adjustments Relating to Stock Compensation Plans," and FIN No. 44, "Accounting for Certain Transactions Involving Stock Compensation - An Interpretation of APB 25," as applicable. On December 17, 2001, the Company modified its personnel policies to eliminate the employee excess tax-withholding option.

During fiscal year 2001, the Company modified its stock incentive plans to extend the exercise period for outstanding stock option grants from one to three years for estates of deceased employees, to the extent that the stock options were fully vested at the date of death. However, this modification did not extend the ten-year maximum contractual exercise term following the date of grant. In accordance with the provisions of APB 25, as interpreted, this modification will result in the recording of compensation expense, using the intrinsic-value based method of accounting, only for those stock options exercised by estates of employees which benefit from the extended exercise period. On the modification date, the Company could not estimate whether and to what extent estates of deceased employees will benefit from this modification and, accordingly, no compensation expense was recorded during fiscal year 2001. However, in future periods, the Company will recognize compensation expense for those estates of deceased employees that benefit from the extended exercise period, and, it is possible that such compensation expense could materially affect the consolidated financial statements.

The Company recognized compensation expense relating to its stock option plans of approximately \$0.1 million, \$1.9 million and \$3.0 million in 2001, 2000 and 1999, respectively.

The Company also awards shares of restricted stock having a fixed number of shares at a purchase price that is set by the Corporate Governance and Compensation Committee of the Company's Board of Directors, which purchase price may be set at zero, to certain executive officers, directors and key employees. The Company also accounts for restricted stock grants in accordance with APB No. 25 and related interpretations. Under APB No. 25, the Company calculates compensation expense as the difference between the market price of the underlying stock on the date of grant and the purchase price, if any, and recognizes such amount on a straight-line basis over the restriction period in which the restricted stock award is earned by the recipient. The Company recognized compensation expense relating to its restricted stock awards of approximately $0.4 million in 2001.

Revenue recognition

The Company recognizes sales at the time the sale is made to the customer.

Advertising costs

Advertising costs are expensed as incurred and were $6.6 million, $7.0 million and $6.8 million in 2001, 2000 and 1999, respectively.

Interest during construction

To assure that interest costs properly reflect only that portion relating to current operations, interest on borrowed funds during the construction of property and equipment is capitalized. Interest costs capitalized were approximately $1.3 million, $6.7 million and $3.1 million in 2001, 2000 and 1999, respectively.

Income taxes

The Company reports income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes." Under SFAS No. 109, the asset and liability method is used for computing future income tax consequences of events, which have been recognized in the Company's consolidated financial statements or income tax returns. Deferred income tax expense or benefit is the net change during the year in the Company's deferred income tax assets and liabilities.

Management estimates

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

At February 2, 2001, a portion of the Company's merchandise inventory was in excess of the amounts that management believed would be sold in the next fiscal year. Management has developed a program to sell this inventory during 2002. See Note 3, Inventory Markdown. However, 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 is exposed to losses as a result of various lawsuits (see Note 8 Commitments and Contingencies) related to the restatement. The Company has entered into a settlement agreement with the lead plaintiffs in the shareholder class action, as a result of which the Company has recognized an expense of $162.0 million in the fourth quarter of 2000 for the estimated costs of resolving this action. The Company intends to assert defenses against these suits in the event that the settlement agreements that have been reached to date do not successfully resolve these matters. As these cases are at an early stage, the amount of potential loss, if any, should the settlement agreements not become effective cannot be reasonably estimated.

The Company records gain contingencies when realized.

Accounting pronouncements

In June 2001, the Financial Accounting Standards Board (the "FASB") issued SFAS No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets." Under the new rules, goodwill and indefinite lived intangible assets are no longer amortized but are reviewed annually for impairment. Separable intangible assets that are not deemed to have an indefinite life will continue to be amortized over their useful lives. The Company began to apply the new accounting rules on February 2, 2002. The adoption of SFAS No. 141 and No. 142 will not have a material impact on the Company's financial position or results of operations.

The FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations" in June 2001. SFAS No. 143 applies to legal obligations associated with the retirement of certain tangible long-lived assets. This statement is effective for fiscal years beginning after June 15, 2002. Accordingly, the Company will adopt this statement on February 1, 2003. The Company believes the adoption of SFAS No. 143 will not have a material impact on its Consolidated Financial Statements.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 is effective for fiscal years beginning after December 15, 2001, and interim periods within those fiscal years. The Company adopted this statement on February 2, 2002. This statement addresses financial accounting and reporting for the impairment or disposal of long-lived assets. It supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of." The Company believes the adoption of SFAS No. 144 will not have a material impact on its Consolidated Financial Statements.

2. Cash and short-term borrowings

The Company's cash management system provides for daily investment of available balances and the funding of outstanding checks when presented for payment. Outstanding but unpresented checks totaling approximately $74.6 million and $84.3 million at February 1, 2002 and February 2, 2001, respectively, have been included in accounts payable. Upon presentation for payment, they will be funded through available cash balances or the Company's revolver.

The Company chose not to renew its seasonal lines of credit during 2001. The Company had $80 million in seasonal lines of credit at February 2, 2001. There were no borrowings outstanding under these lines of credit at February 2, 2001. The Company also has a $175.0 million revolver that expires in September 2002. There were no borrowings outstanding under the revolver at February 1, 2002, or February 2, 2001. Until the restatement-related legal proceedings referred to below in Note 8 are resolved, the Company may need waivers in order to draw on the revolver.

The weighted average interest rates for all short-term borrowings were 4.0% and 6.6% for 2001 and 2000, respectively. The revolver contains certain restrictive covenants. At February 1, 2002, the Company was in compliance with all such covenants (see Note 6).

At February 1, 2002, and February 2, 2001, the Company had outstanding commercial letters of credit totaling $72.9 million and $60.8 million, respectively. Total amounts available for the issuance of commercial letters of credit were $210.0 million at February 1, 2002, and $210.0 million at February 2, 2001.

3. Inventory markdown

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. Accordingly, the Company recorded a markdown which had the impact of reducing inventory at cost at February 2, 2001, and increasing cost of goods sold in the fourth quarter of 2000 by approximately $21.5 million. The Company believes that this markdown will be adequate to sell the excess inventory during fiscal 2002. However, 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 moved $116.0 million of inventory out of current assets at February 2, 2001, that it did not expect to sell during 2001.

4. Accrued expenses and other

Accrued expenses and other consist of the following:

(In thousands)	2001	2000
Compensation and benefits	$ 69,100	$ 54,559
Insurance	58,007	46,238
Taxes (other than taxes on income)	26,313	27,507
Dividends	10,647	10,598
Freight	7,768	14,367
Other	70,945	60,923
	$ 242,780	$ 214,192

5. Income taxes

The provision for taxes on income consists of the following:

(In thousands)	2001	2000	1999
Current:			
Federal	$ 103,988	$ 103,158	$ 100,367
State	8,578	12,789	9,918
	112,566	115,947	110,285
Deferred:			
Federal	5,823	(66,781)	(965)
State	1,920	(11,161)	(1,296)
	7,743	(77,942)	(2,261)
	$ 120,309	$ 38,005	$ 108,024

A reconciliation between actual income taxes and amounts computed by applying the federal statutory rate to income before income taxes is summarized as follows (in thousands):

	2001		2000		1999	
U.S. Federal statutory rate on earnings before income taxes	$ 114,735	35.0%	$ 38,026	35.0%	$ 103,144	35.0%
State income taxes, net of federal income tax benefit	6,590	2.0%	402	0.4%	4,759	1.6%
Jobs credits, net of federal income tax benefit	(1,480)	(0.5)%	(1,123)	(0.9)%	(755)	(0.2)%
Increase in valuation allowance	233	0.1%	657	0.5%	844	0.3%
Other	231	0.1%	43	0.0%	32	0.0%
	$ 120,309	36.7%	$ 38,005	35.0%	$108,024	36.7%

Sources of deferred tax assets and deferred tax liabilities are as follows (in thousands):

	2001	2000
Deferred tax assets:		
Inventories	$ -	$ 1,897
Deferred compensation expense	17,698	3,437
Accrued expenses and other	9,431	8,451
Workers compensation-related insurance reserves	5,592	4,003
Deferred gain on sale/leasebacks	3,067	3,702
Litigation settlement	63,000	63,000
Other	4,010	2,839
State tax net operating loss carryforwards	2,277	2,506
State tax credit carryforwards	625	813
	105,700	90,648
Less valuation allowance	(2,350)	(2,117)
Total deferred tax assets	103,350	88,531
Deferred tax liabilities:		
Property and equipment	(33,758)	(9,968)
Inventories	(1,191)	-
Other	(956)	(4,341)
Total deferred tax liabilities	(35,905)	(14,309)
Net deferred tax assets	$ 67,445	$ 74,222

State net operating loss carryforwards as of February 1, 2002, totaled approximately $74.0 million and will expire between 2002 and 2021. The valuation allowance has been provided for certain state loss carryforwards and state tax credits. The change in the valuation allowance was $233,000, $657,000 and $844,000 in 2001, 2000 and 1999, respectively. Based upon expected future income, management believes that it is more likely than not that the results of operations will generate sufficient taxable income to realize the deferred tax assets after giving consideration to the valuation allowance.

6. Long-term obligations

Long-term obligations consist of the following (in thousands):

	February 1, 2002	February 2, 2001
8 5/8% Notes due June 15, 2010, net of discount of $362 and $405, at February 1, 2002 and February 2, 2001, respectively	$ 199,638	$ 199,595
Capital lease obligations	439,476	433,099
Financing obligations (see Note 8)	95,979	97,002
Other notes payable, weighted average fixed interest rate of 10.5% at February 2, 2001 payable in monthly installments to January 2003	52	103
	735,145	729,799
Less: current portion	(395,675)	(9,035)
Long-term portion	$ 339,470	$ 720,764

On June 21, 2000, the Company sold $200 million principal amount of 8 5/8% Notes due June 2010 (the "Old Notes") in a private offering under Rule 144A of the Securities Act of 1933. Subsequent to the offering, the Company and its guarantor subsidiaries filed a registration statement on Form S-4 enabling the Company to exchange its 8 5/8% Exchange Notes due June 2010 (the "New Notes" and, together with the Old Notes, the "Notes") for all outstanding Old Notes.

The Notes require semi-annual interest payments in June and December of each year through June 15, 2010, at which time the entire balance becomes due and payable. In addition, the Notes may be redeemed by the holders thereof at 100% of the principal amount, plus accrued and unpaid interest, on June 15, 2005. The Notes contain certain restrictive covenants. At February 1, 2002, the Company was in compliance with all such covenants.

As of February 1, 2002, the Company had $383.1 million outstanding under two synthetic lease facilities (the "Facilities") maturing in September 2002, one with $212.4 million in outstanding capital leases and the other with $170.7 million in outstanding capital leases. The leases allow for the use and occupancy of certain real property, including approximately 400 retail stores, two distribution centers and the Company's headquarters in Goodlettsville, Tennessee. The Company plans to purchase the properties from the lessor at the maturity of the Facilities. The Company is currently working on a plan to refinance the lease obligations. The Facilities have the same two financial covenants as the revolving credit facility, a fixed charge test and a leverage test. The facility with $212.4 million in outstanding capital leases is funded by a syndicate of financial institutions; borrowings under the facility were priced at LIBOR plus 102.5 basis points as of March 15, 2002. The pricing spread over LIBOR fluctuates based on the Company's debt ratings as published by the debt rating agencies. The Company's spread over LIBOR increased to 102.5 basis points from 15 basis points as part of the October 19, 2001 waiver and amendment as described below. The facility with $170.7 million in outstanding capital leases is funded by commercial paper issued at prevailing market rates by a commercial paper funding entity and is secured by a letter of credit facility.

In June 2000, distribution centers in Indianola, Mississippi and Fulton, Missouri were purchased from the Facilities and sold in sale-leaseback transactions resulting in twenty-two year, triple net leases with renewal options for an additional thirty years. These were refinanced to bolster liquidity and diversify sources of funds.

Throughout 2001, the Company obtained waivers from its lenders to extend the requirement to deliver its audited 2000 financial statements, and unaudited 2001 quarterly financial statements, as a result of delays related to the restatement described in the Company's Form 10-K for the 2000 fiscal year. The Company executed waivers with its lenders under the Facilities and revolving credit facility on May 10, 2001, June 8, 2001, and July 27, 2001, a waiver and amendment on October 19, 2001, and waivers on December 28, 2001, and January 10, 2002. The June 8, 2001 waiver prohibited the Company from repurchasing its shares and limited its capital expenditures to $160 million for the period commencing on February 2, 2001, and concluding with the delivery of the restated financial statements. The October 19, 2001, amendment increased the pricing on the synthetic lease with $212 million in outstanding capital leases and the revolving credit facility from 15 basis points over LIBOR to 102.5 basis points over LIBOR, and accelerated the maturity of the second synthetic lease to September 2002 from June 2004. The Company executed waivers with the lenders under the Indianola, Mississippi and Fulton, Missouri distribution center leases on May 7, 2001, May 11, 2001, June 8, 2001, July 30, 2001, October 31, 2001, December 31, 2001, and January 10, 2002. In addition, the Company executed waivers with the lenders under the Ardmore and South Boston distribution center leases on January 10, 2002, and the lender under the Company's airplane lease on December 21, 2001, and January 7, 2002. The Company paid a total of approximately $1.6 million in fees for all of the waivers and amendments, which are included in SG&A expenses.

7. Earnings per share

Amounts are in thousands except per share data, and shares have been adjusted to give retroactive effect to all common stock splits.

	2001		
	Income	Shares	Per Share Amount
Net income	$ 207,513		
Basic earnings per share			
Income available to common shareholders	207,513	332,263	$ .63
Stock options		2,754	
Diluted earnings per share			
Income available to common shareholders plus assumed conversions	$ 207,513	335,017	$ .62

	2000		
	Income	Shares	Per Share Amount
Net income	$ 70,642		
Basic earnings per share			
Income available to common shareholders	70,642	329,741	$ 0.21
Stock options		4,117	
Diluted earnings per share			
Income available to common shareholders plus assumed conversions	$ 70,642	333,858	$ 0.21

	1999		
	Income	Shares	Per Share Amount
Net income	$ 186,673		
Less: preferred stock dividends	1,178		
Basic earnings per share			
Income available to common shareholders	185,495	302,251	$ 0.61
Stock options		6,716	
Convertible preferred stock	1,178	28,937	
Diluted earnings per share			
Income available to common shareholders plus assumed conversions	$ 186,673	337,904	$ 0.55

Basic earnings per share was computed by dividing income available to common shareholders by the weighted average number of shares of common stock outstanding during the year. Diluted earnings per share was determined based on the assumption that the convertible preferred stock was converted upon issuance on August 22, 1994, and for the dilutive effect of stock options using the treasury stock method.

Options to purchase shares of common stock that were outstanding at the end of the respective fiscal year (but were not included in the computation of diluted earnings per share because the options' exercise prices were greater than the average market price of the common shares) were 14.4 million, 10.2 million and 4.8 million in 2001, 2000 and 1999, respectively.

8. Commitments and contingencies

Leases

As of February 1, 2002, the Company and certain subsidiaries were committed under capital and operating lease agreements and financing obligations for retail stores, DCs and administrative office space as well as for certain furniture, fixtures and equipment. Most of the stores are operated under operating leases that include renewal options for periods ranging from two to five years and provisions for contingent rentals based upon a percentage of defined sales volume. Certain leases contain restrictive covenants. As of February 1, 2002, the Company was in compliance with such covenants.

In January 1999 and April 1997, the Company sold its DCs located in Ardmore, Oklahoma and South Boston, Virginia, respectively, for 100% cash consideration. Concurrent with the sale transactions, the Company leased the properties back for periods of 25 and 23 years, respectively. The transactions have been recorded as financing obligations rather than sales as a result of, among other things, the lessor's ability to put the properties back to the Company under certain circumstances. The property and equipment, along with the related lease obligations, associated with these transactions will continue to be recorded in the accompanying financial statements.

Future minimum payments as of February 1, 2002, for capital leases, operating leases and financing obligations, are as follows:

(in thousands)	Capital leases	Financing obligations	Operating leases
2002	$ 406,085	$ 9,283	$ 177,948
2003	15,532	9,283	146,338
2004	15,425	9,283	103,848
2005	11,392	9,283	64,612
2006	6,145	9,283	38,814
Thereafter	6,228	164,495	170,248
Total minimum payments	460,807	210,910	$ 701,808
Less: Imputed interest	(21,331)	(114,931)	
Present value of net minimum lease payments	439,476	95,979	
Less: current portion	(394,132)	(1,491)	
Long-term portion	$ 45,344	$ 94,488	

Capitalized leases were discounted at an effective interest rate of approximately 3.95% at February 1, 2002. The gross amount of property and equipment recorded under capital leases or financing obligations at February 1, 2002 and February 2, 2001, was $556.9 million and $539.8 million, respectively.

Rent expense under all operating leases was as follows:

(In thousands)	2001	2000	1999
Minimum rentals	$ 173,060	$ 141,627	$ 117,378
Contingent rentals	12,774	12,584	13,817
	$ 185,834	$ 154,211	$ 131,195

Legal proceedings

Restatement-Related Proceedings. Following the April 30, 2001, announcement regarding the restatement of certain previously released financial information referred to in Note 1, 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.

On January 3, 2002, the Company reached a settlement agreement with the putative class action plaintiffs, pursuant to which the Company agreed to pay at least $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 was subject to confirmatory discovery, to the final approval of the Company's Board of Directors, and to court approval. Under such settlement agreement, the plaintiffs had the right, following the completion of confirmatory discovery, to amend their complaint 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.

On April 1, 2002, following the completion of such confirmatory discovery, the Company and the putative class action plaintiffs amended their settlement agreement. Pursuant to such amended settlement agreement, the Company has agreed to pay $162 million to such plaintiffs in settlement for their claims and to implement certain enhancements to its corporate governance and internal control procedures. Such amended agreement is subject to the final approval of the Company's Board of Directors and to court approval.

The Company recognized an expense of $162 million in the fourth quarter of 2000 in respect of the class action settlement, which the Company expects to disburse in the second or third quarter of 2002. The Company expects to receive from its insurers approximately $4.5 million in respect of such 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 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 2001, 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.

9. Employee benefits

Effective January 1, 1998, the Company established a 401(k) savings and retirement plan. All employees who complete 12 months of service, work 1,000 hours, and are at least 21 years of age are eligible to participate in the plan. Employee contributions, up to 6% of annual compensation, are matched by the Company at the rate of $0.50 on the dollar. The Company also contributes a discretionary amount annually to the plan equal to 2% of each employee's annual compensation. Expense for this plan was approximately $7.4 million in 2001, $7.2 million in 2000 and $6.6 million in 1999.

Effective January 1, 1998, the Company also established a supplemental retirement plan and a compensation deferral plan for a select group of management and highly compensated employees. The supplemental retirement plan is a noncontributory defined contribution plan with annual Company contributions ranging from 2% to 12% of base pay plus bonus depending upon age plus years of service and salary level. Under the compensation deferral plan, participants may defer up to 100% of base pay and 100% of bonus pay. Effective January 1, 2000, both the supplemental retirement plan and compensation deferral plan were amended and restated so that such plans were combined into one master plan document. An employee may be designated for participation in one or both of the plans, according to the eligibility requirements of the plans. Expense for these plans was approximately $0.1 million in 2001, $0.1 million in 2000 and $1.1 million in 1999.

In September 2000, the supplemental retirement plan and compensation deferral plan assets were invested in Company stock and mutual funds as designated by the plan participants and placed in a rabbi trust. The mutual funds are stated at fair market value, which is based on quoted market prices, and are included in other current assets. In accordance with EITF No. 97-14 "Accounting for Deferred Compensation Arrangements Where Amounts Earned Are Held in a Rabbi Trust and Invested," the Company's stock held in the trust is recorded at historical cost and classified as treasury stock. Pursuant to the terms of the plan, a participant's account balance will be paid in cash by (a) lump sum, (b) monthly installments over a 5, 10 or 15 year period or (c) a combination of lump sum and installments. The deferred compensation liability is recorded at the fair value of the investments held in the trust and is included in accrued expenses.

10. Capital stock

In 1994, the Company exchanged 1.7 million shares of Series A Convertible Junior Preferred Stock for the 8.6 million shares of Dollar General common stock owned by C.T.S., Inc., a personal holding company controlled by members of the Turner family, the founders of Dollar General. The Series A Convertible Junior Preferred Stock was authorized by the Board of Directors out of the authorized but unissued preferred stock approved by the Company's shareholders in 1992. On August 23, 1999, the holders of all of the Company's 1.7 million shares of Series A Convertible Junior Preferred Stock converted their shares to 51.1 million split-adjusted shares of Dollar General Common Stock in accordance with the relevant provisions of the Company's charter. Consequently, preferred stock and treasury stock balances were reduced to zero and Series A Convertible Junior Preferred Stock is no longer outstanding or authorized for issuance.

The Company has a Shareholder Rights Plan (the "Plan") under which Series B Junior Participating Preferred Stock Purchase Rights (the "Rights") were issued for each outstanding share of common stock. The Rights were attached to all common stock outstanding as of March 10, 2000, and will be attached to all additional shares of common stock issued prior to the Plan's expiration on February 28, 2010, or such earlier termination, if applicable. The Rights entitle the holders to purchase from the Company one one-hundredth of a share (a "Unit") of Series B Junior Participating Preferred Stock (the "Preferred Stock"), no par value, at a purchase price of $100 per Unit, subject to adjustment. Initially, the Rights will attach to all certificates representing shares of outstanding Common Stock, and no separate Rights Certificates will be distributed. The Rights will become exercisable upon the occurrence of a triggering event as defined in the Plan.

The Company has 5 million shares of common stock available for repurchase through August 2002 under its authorized repurchase program.

11. Stock incentive plans

The Company has established stock incentive plans under which restricted stock awards and stock options to purchase common stock may be granted to executive officers, directors and key employees.

In 2001, the Company awarded a total of 32,000 shares of restricted stock to certain executive officers at a weighted average fair value of $17.20 per share. The difference between the market price of the underlying stock and the purchase price, which was set as zero for all restricted stock awards in 2001, on the date of grant was recorded as a reduction of shareholders' equity as unearned compensation expense and will be amortized to expense on a straight line basis over the restriction period, which was set at one year for all restricted stock awards in 2001. Under the terms of the Company's 1998 Stock Incentive Plan, recipients are entitled to receive cash dividends and to vote their respective shares, but are prohibited from selling or transferring shares prior to vesting. In addition, the maximum number of shares eligible for issuance under the terms of the Company's restricted stock award plans has been capped at 100,000. At February 1, 2002, 68,000 shares were available for grant under the Company's restricted stock award plan.

All stock options granted in 2001, 2000 and 1999 under the 1998 Stock Incentive Plan, the 1995 Employee Stock Incentive Plan, the 1993 Employee Stock Incentive Plan and the 1995 Outside Directors Stock Option Plan, were non-qualified stock options issued at a price equal to the fair market value of the Company's common stock on the date of grant. Non-qualified options granted under these plans have expiration dates no later than 10 years following the date of grant.

Under the plans, stock option grants are made to key management employees ranging from executive officers to store managers and assistant store managers, as well as other employees as prescribed by the Company's Corporate Governance and Compensation Committee of the Board of Directors. The number of options granted and the vesting schedules of those options are directly linked to the employee's performance, Company performance and employee tenure depending on the employee's position within the Company.

The plans also provide for annual stock option grants to non-employee directors according to a non-discretionary formula. The number of shares granted is dependent upon current director compensation levels and the fair market value of the stock on the grant date.

The Company applies APB 25, and related interpretations in accounting for its plans. Under this intrinsic-value based method of accounting, compensation expense is generally not recognized for stock option grants 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 123, net income and earnings per share would have been reduced to the pro forma amounts indicated in the following table.

(Amounts in thousands except per share data)	2001	2000	1999
Net income - as reported	$ 207,513	$ 70,642	$ 186,673
Net income - pro forma	$ 196,052	$ 50,805	$ 164,260
Earnings per share - as reported			
Basic	$ 0.63	$ 0.21	$ 0.61
Diluted	$ 0.62	$ 0.21	$ 0.55
Earnings per share - pro forma			
Basic	$ 0.59	$ 0.15	$ 0.54
Diluted	$ 0.59	$ 0.15	$ 0.49

Earnings per share have been adjusted to give retroactive effect to all common stock splits.

The pro forma effects on net income for 2001, 2000 and 1999 are not representative of the pro forma effect on net income in future years because they do not take into consideration pro forma compensation expense related to grants made prior to 1995. The fair value of options granted during 2001, 2000 and 1999 is $6.77, $10.76 and $9.26, respectively.

The fair value of each stock option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

	2001	2000	1999
Expected dividend yield	0.8%	0.7%	0.7%
Expected stock price volatility	35.3%	49.0%	48.0%
Weighted average risk-free interest rate	4.8%	6.2%	5.3%
Expected life of options (years)	6.0	6.8	4.5

The Black-Scholes option model was developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

A summary of the balances and activity for all of the Company's stock option awards for the last three fiscal years is presented below:

	Shares Under Plans	Weighted Average Exercise Price
Balance, January 29, 1999	23,572,124	$ 9.06
Granted	5,968,592	21.24
Exercised	(5,442,217)	6.46
Canceled	(1,432,590)	13.35
Balance, January 28, 2000	22,665,909	12.62
Granted	5,795,360	19.75
Exercised	(4,102,739)	7.17
Canceled	(2,267,402)	17.30
Balance, February 2, 2001	22,091,128	15.02
Granted	7,201,728	17.20
Exercised	(1,322,511)	9.75
Canceled	(1,999,583)	18.07
Balance, February 1, 2002	25,970,762	$ 15.65

The following table summarizes information about stock options outstanding at February 1, 2002:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Exercise Price
$ 1.68 - $10.00	4,193,977	3.19	$ 5.25	3,186,394	$ 5.64
$ 10.01 - $20.00	15,312,708	7.97	15.97	6,997,316	15.70
$ 20.01 - $23.90	6,464,077	7.66	21.64	1,449,082	22.03
$ 1.68 - $23.90	25,970,762	7.12	$ 15.65	11,632,792	$ 13.73

At February 1, 2002, there were approximately 20 million shares available for granting of stock options under the Company's stock option plans.

12. Segment reporting

The Company manages its business on the basis of one reportable segment. See Note 1 for a brief description of the Company's business. As of February 1, 2002, all of the Company's operations were located within the United States. The following data is presented in accordance with SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information."

(In thousands)	2001	2000	1999
Classes of similar products:			
Net sales:			
Highly consumable	$ 3,085,112	$ 2,518,052	$ 1,996,454
Hardware and seasonal	888,263	706,140	640,791
Basic clothing	581,800	554,117	482,390
Home products	767,720	772,262	768,329
	$ 5,322,895	$ 4,550,571	$ 3,887,964

13. Quarterly financial data (unaudited)

The following is selected unaudited quarterly financial data for the fiscal years ended February 1, 2002 and February 2, 2001. Amounts are in thousands except per share data. Per share data has been adjusted for all common stock splits.

Quarter	First	Second	Third	Fourth (A)
2001:				
Net sales	$ 1,202,504	$ 1,225,254	$ 1,309,125	$ 1,586,012
Gross profit	321,425	331,283	381,181	475,523
Net income	36,233	27,100	46,737	97,443
Diluted earnings per share	$ 0.11	$ 0.08	$ 0.14	$ 0.29
Basic earnings per share	$ 0.11	$ 0.08	$ 0.14	$ 0.29
2000:				
Net sales	$ 997,079	$ 1,017,418	$ 1,094,360	$ 1,441,714
Gross profit	269,407	284,050	318,344	379,102
Net income	29,335	27,786	45,676	(32,155)
Diluted earnings per share	$ 0.09	$ 0.08	$ 0.14	$ (0.10)
Basic earnings per share	$ 0.09	$ 0.08	$ 0.14	$ (0.10)

(A) The fourth quarter of the 2000 fiscal year contains the markdown described in Note 3, which increased cost of goods sold by $21.5 million, and also includes the litigation settlement expense of $162.0 million described in Note 8.

14. 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 described in Note 6. 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. The following consolidating schedules present condensed financial information on a combined basis. Dollar amounts are in thousands.

	As of February 1, 2002			
	DOLLAR GENERAL CORPORATION	GUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTAL
BALANCE SHEET DATA:				
ASSETS				
Current assets:				
Cash and cash equivalents	$ 217,539	$ 43,986	$ -	$ 261,525
Merchandise inventories	-	1,131,023	-	1,131,023
Deferred income taxes	79,203	25,888	-	105,091
Other current assets	15,406	913,082	(870,080)	58,408
Total current assets	312,148	2,113,979	(870,080)	1,556,047
Property and equipment, at cost	158,347	1,315,346	-	1,473,693
Less accumulated depreciation and amortization	51,832	432,946	-	484,778
Net property and equipment	106,515	882,400	-	988,915
Other assets, net	2,079,572	2,022	(2,074,171)	7,423
Total assets	$ 2,498,235	$ 2,998,401	$ (2,944,251)	$ 2,552,385
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities:				
Current portion of long-term obligations	$ 65,682	$ 329,993	$ -	$ 395,675
Accounts payable	944,830	247,713	(870,080)	322,463
Accrued expenses and other	66,033	176,747	-	242,780
Litigation settlement payable	162,000	-	-	162,000
Income taxes	10,493	140	-	10,633
Total current liabilities	1,249,038	754,593	(870,080)	1,133,551
Long-term obligations	200,460	830,881	(691,871)	339,470
Deferred income taxes	7,019	30,627	-	37,646
Shareholders' equity:				
Preferred stock	-	-	-	-
Common stock	166,359	23,853	(23,853)	166,359
Additional paid-in capital	301,848	929,680	(929,680)	301,848
Accumulated other comprehensive loss	(3,228)	-	-	(3,228)
Retained earnings	579,265	428,767	(428,767)	579,265
	1,044,244	1,382,300	(1,382,300)	1,044,244
Less: Common stock purchased by employee deferred compensation trust and restricted stock	2,526	-	-	2,526
Total shareholders' equity	1,041,718	1,382,300	(1,382,300)	1,041,718
Total liabilities and shareholders' equity	$ 2,498,235	$ 2,998,401	$ (2,944,251)	$ 2,552,385

	As of 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

	For the year ended February 1, 2002			
	DOLLAR GENERAL CORPORATION	GUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTAL
STATEMENTS OF INCOME DATA:				
Net sales	$ 173,070	$ 5,322,895	$ (173,070)	$ 5,322,895
Cost of goods sold	-	3,813,483	-	3,813,483
Gross profit	173,070	1,509,412	(173,070)	1,509,412
Selling, general, and administrative	154,362	1,154,509	(173,070)	1,135,801
Operating profit	18,708	354,903	-	373,611
Interest expense	18,913	26,876	-	45,789
Income before taxes on income	(205)	328,027	-	327,822
Provisions for taxes on income	(26)	120,335	-	120,309
Equity in subsidiaries' earnings, net of taxes	207,692	-	(207,692)	-
Net income	$ 207,513	$ 207,692	$ (207,692)	$ 207,513

	For the year ended February 2, 2001			
	DOLLAR GENERAL CORPORATION	GUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTAL
STATEMENTS OF INCOME DATA:				
Net sales	$ 150,932	$ 4,550,571	$ (150,932)	$ 4,550,571
Cost of goods sold	-	3,299,668	-	3,299,668
Gross profit	150,932	1,250,903	(150,932)	1,250,903
Selling, general, and administrative	101,906	983,925	(150,932)	934,899
Litigation settlement expense	162,000	-	-	162,000
Operating profit (loss)	(112,974)	266,978	-	154,004
Interest expense	18,372	26,985	-	45,357
Income before taxes on income	(131,346)	239,993	-	108,647
Provisions for taxes on income	(51,562)	89,567	-	38,005
Equity in subsidiaries' earnings, net of taxes	150,426	-	(150,426)	-
Net income	$ 70,642	150,426	$ (150,426)	$ 70,642

	For the year ended January 28, 2000			
	DOLLAR GENERAL CORPORATION	GUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTAL
STATEMENTS OF INCOME DATA:				
Net sales	$ 177,960	$ 3,887,964	$ (177,960)	$ 3,887,964
Cost of goods sold	-	2,794,466	-	2,794,466
Gross profit	177,960	1,093,498	(177,960)	1,093,498
Selling, general, and administrative	103,673	847,215	(177,960)	772,928
Operating profit	74,287	246,283	-	320,570
Interest expense	9,324	16,549	-	25,873
Income before taxes on income	64,963	229,734	-	294,697
Provisions for taxes on income	23,809	84,215	-	108,024
Equity in subsidiaries' earnings, net of taxes	145,519	-	(145,519)	-
Net income	$ 186,673	$ 145,519	$ (145,519)	$ 186,673

	For the year ended February 1, 2002			
	DOLLAR GENERAL CORPORATION	GUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTAL
STATEMENTS OF CASH FLOWS DATA:				
Cash flows from operating activities:				
Net income	$ 207,513	$ 207,692	$ (207,692)	$ 207,513
Adjustments to reconcile net income to net cash				
Provided by / (used in) operating activities:				
Depreciation and amortization	14,968	107,999	-	122,967
Deferred income taxes	(7,858)	14,635	-	6,777
Tax benefit from stock option exercises	5,819	-	-	5,819
Change in operating assets and liabilities:				
Merchandise inventories	-	(118,788)	-	(118,788)
Other current assets	250	(307,082)	293,292	(13,540)
Accounts payable	281,457	37,036	(293,292)	25,201
Accrued expenses and other	9,063	16,844	-	25,907
Income taxes	5,490	(10,431)	-	(4,941)
Other	(201,988)	3,009	207,692	8,713
Net cash provided by / (used in) operating activities	314,714	(49,086)	-	265,628
Cash flows from investing activities:				
Purchase of property and equipment	(14,098)	(111,267)	-	(125,365)
Proceeds from sale of property and equipment	925	368	-	1,293
Issuance of long-term notes receivable	(173,070)	-	173,070	-
Net cash used in investing activities	(186,243)	(110,899)	173,070	(124,072)
Cash flows from financing activities:				
Issuance of long-term obligations	-	173,070	(173,070)	-
Repayments of long-term obligations	(1,057)	(10,766)	-	(11,823)
Payment of cash dividends	(42,517)	-	-	(42,517)
Proceeds from exercise of stock options	12,268	-	-	12,268
Purchase of common stock by employee deferred compensation trust	(269)	-	-	(269)
Net cash provided by / (used in) financing activities	(31,575)	162,304	(173,070)	(42,341)
Net increase in cash and cash equivalents	96,896	2,319	-	99,215
Cash and cash equivalents, beginning of year	120,643	41,667	-	162,310
Cash and cash equivalents, end of year	217,539	$ 43,986	-	$ 261,525

	For the year ended February 2, 2001			
	DOLLAR GENERAL CORPORATION	GUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTAL
STATEMENTS OF CASH FLOWS DATA:				
Cash flows from operating activities:				
Net income	$ 70,642	$ 150,426	$ (150,426)	$ 70,642
Adjustments to reconcile net income to net cash provided by / (used in) operating activities:				
Depreciation and amortization	13,144	98,255	-	111,399
Deferred income taxes	(63,911)	(14,031)	-	(77,942)
Tax benefit from stock option exercises	19,018	-	-	19,018
Litigation settlement	162,000	-	-	162,000
Change in operating assets and liabilities:				
Merchandise inventories	-	(59,803)	-	(59,803)
Other current assets	12,206	236,946	(244,502)	4,650
Accounts payable	(286,541)	(5,297)	244,502	(47,336)
Accrued expenses and other	4,562	34,829	-	39,391
Income taxes	2,485	(12,030)	-	(9,545)
Other	(154,550)	7,155	150,426	3,031
Net cash provided by / (used in) operating activities	(220,945)	436,450	-	215,505
Cash flows from investing activities:				
Purchase of property and equipment	(15,035)	(201,549)	-	(216,584)
Proceeds from sale of property and equipment	165	97,447	-	97,612
Issuance of long-term notes receivable	(150,932)	-	150,932	-
Receipt of dividends	343,515	-	(343,515)	-
Contribution of capital	(873)	-	873	-
Net cash used in investing activities	176,840	(104,102)	(191,710)	(118,972)
Cash flows from financing activities:				
Issuance of short-term borrowings	220,000	-	-	220,000
Repayments of short-term borrowings	(220,000)	-	-	(220,000)
Issuance of long-term obligations	199,595	150,932	(150,932)	199,595
Repayments of long-term obligations	(1,251)	(111,025)	-	(112,276)
Payment of cash dividends	(42,237)	(343,515)	343,515	(42,237)
Proceeds from exercise of stock options	34,130	-	-	34,130
Repurchase of common stock, net	(62,988)	-	-	(62,988)
Issuance of common stock, net	-	873	(873)	-
Purchase of common stock by employee deferred compensation trust	(2,126)	-	-	(2,126)
Settlement of derivative financial instruments	(3,063)	-	-	(3,063)
Net cash provided by / (used in) financing activities	122,060	(302,735)	191,710	11,035
Net increase in cash and cash equivalents	77,955	29,613	-	107,568
Cash and cash equivalents, beginning of year	42,688	12,054	-	54,742
Cash and cash equivalents, end of year	$ 120,643	$ 41,667	$ -	$ 162,310

	For the year ended January 28, 2000			
	DOLLAR GENERAL CORPORATION	GUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTAL
STATEMENTS OF CASH FLOWS DATA:				
Cash flows from operating activities:				
Net income	$ 186,673	$ 145,519	$ (145,519)	$ 186,673
Adjustments to reconcile net income to net cash provided by / (used in) operating activities:				
Depreciation and amortization	8,445	71,262	-	79,707
Deferred income taxes	(20)	(2,241)	-	(2,261)
Tax benefit from stock option exercises	30,287	-	-	30,287
Change in operating assets and liabilities:				
Merchandise inventories	-	(158,836)	-	(158,836)
Other current assets	(19,847)	(416,626)	421,122	(15,351)
Accounts payable	424,770	74,354	(421,122)	78,002
Accrued expenses and other	13,129	(15,273)	-	(2,144)
Income taxes	2,072	2,053	-	4,125
Other	(149,396)	397	145,519	(3,480)
Net cash provided by / (used in) operating activities	496,113	(299,391)	-	196,722
Cash flows from investing activities:				
Purchase of property and equipment	(24,624)	(117,446)	-	(142,070)
Proceeds from sale of property and equipment	335	2,716	-	3,051
Issuance of long-term notes receivable	(177,960)	-	177,960	-
Contribution of capital	(207,476)	-	207,476	-
Net cash used in investing activities	(409,725)	(114,730)	385,436	(139,019)
Cash flows from financing activities:				
Issuance of short-term borrowings	295,324	-	-	295,324
Repayments of short-term borrowings	(295,324)	-	-	(295,324)
Issuance of long-term obligations	2,351	198,457	(177,960)	22,848
Repayments of long-term obligations	(2,182)	(5,523)	-	(7,705)
Payment of cash dividends	(33,791)	-	-	(33,791)
Proceeds from exercise of stock options	38,797	-	-	38,797
Repurchase of common stock, net	(50,753)	-	-	(50,753)
Issuance of common stock, net	-	207,476	(207,476)	-
Net cash provided by / (used in) financing activities	(45,578)	400,410	(385,436)	(30,604)
Net increase / (decrease) in cash and cash equivalents	40,810	(13,711)	-	27,099
Cash and cash equivalents, beginning of year	1,878	25,765	-	27,643
Cash and cash equivalents, end of year	$ 42,688	$ 12,054	$ -	$ 54,742

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of Dollar General Corporation
Goodlettsville, Tennessee

We have audited the accompanying consolidated balance sheets of Dollar General Corporation and subsidiaries as of February 1, 2002 and February 2, 2001, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended February 1, 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Dollar General Corporation and subsidiaries as of February 1, 2002 and February 2, 2001, and the consolidated results of their operations and their cash flows for each of the three years in the period ended February 1, 2002, in conformity with accounting principles generally accepted in the United States.

/s/ Ernst & Young LLP

Ernst & Young LLP

Nashville, Tennessee
March 18, 2002, except for the seventh paragraph of Note 8, as to which the date is April 1, 2002

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS AND FINANCIAL DISCLOSURE

Not Applicable.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by Item 10 is contained under the captions "Election of Directors," "Executive Officers" and "Section 16(a) Beneficial Ownership Reporting Compliance" in the Registrant's definitive Proxy Statement to be filed for its 2002 Annual Meeting of Shareholders to be held on June 3, 2002 ("2002 Proxy Statement"), which information under such captions is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information required by Item 11 is contained under the captions "Election of Directors," "Executive Compensation," "Options Granted in Last Fiscal Year," "Aggregated Option Exercises in the Last Fiscal Year and Year-End Values," "Employee Retirement Plan," "Other Executive Benefits," "Report of the Executive Compensation and Corporate Governance Committee of the Board of Directors on Executive Compensation," and "Common Stock Performance" in the 2002 Proxy Statement, which information under such captions is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by Item 12 is contained under the caption "Security Ownership of Certain Beneficial Owners" and "Security Ownership by Officers and Directors" in the 2002 Proxy Statement, which information under such captions is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by Item 13 is contained under the caption "Transactions with Management and Others; Advance for Expenses" in the 2002 Proxy Statement, which information under such caption is incorporated herein by reference.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) (1) Consolidated Financial Statements: See Item 8.

(2) All schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are not required under the related instructions, are inapplicable or the information is included in the Consolidated Financial Statements, and therefore, have been omitted.

(3) Exhibits: See Index to exhibits immediately following the signature page.

(b) (1) A Current Report on Form 8-K, dated November 9, 2001, was filed with the SEC in connection with an announcement about October 2001 sales results and November 2001 sales expectations.

(2) A Current Report on Form 8-K, dated December 7, 2001, was filed with the SEC in connection with an announcement about November 2001 sales results and December 2001 sales expectations.

(3) A Current Report on Form 8-K, dated January 11, 2002, was filed with the SEC in connection with an announcement about December 2001 sales results and January 2002 sales expectations.

(4) A Current Report on Form 8-K, dated January 14, 2002, was filed with the SEC in connection with a conference call held to discuss the Company's audited financial results for its 2000 fiscal year, audited restated financial results for its 1998 and 1999 fiscal years, and unaudited results for the first three quarters of its 2001 fiscal year.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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

Date: April 1, 2002 *By: /s/ Cal Turner*

CAL TURNER, CHIEF EXECUTIVE OFFICER

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Name	Title	Date
/s/ Cal Turner ------------- CAL TURNER	Chairman and Chief Executive Officer (Principal Executive Officer)	April 1, 2002
/s/ James J. Hagan ------------------ JAMES J. HAGAN	Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	April 1, 2002
/s/ Dennis C. Bottorff ---------------------- DENNIS C. BOTTORFF	Director	April 1, 2002
/s/ Barbara L. Bowles --------------------- BARBARA L. BOWLES	Director	April 1, 2002
/s/ James L. Clayton -------------------- JAMES L. CLAYTON	Director	April 1, 2002
/s/ Reginald D. Dickson ----------------------- REGINALD D. DICKSON	Director	April 1, 2002

/s/ E. Gordon Gee ---------------- E. GORDON GEE	Director	April 1, 2002
/s/ John B. Holland ------------------- JOHN B. HOLLAND	Director	April 1, 2002
/s/ Barbara M. Knuckles ----------------------- BARBARA M. KNUCKLES	Director	April 1, 2002
/s/ James D. Robbins -------------------- JAMES D. ROBBINS	Director	April 1, 2002
/s/ David M. Wilds ------------------ DAVID M. WILDS	Director	April 1, 2002
/s/ William S. Wire, II ----------------------- WILLIAM S. WIRE, II	Director	April 1, 2002

INDEX TO EXHIBITS

3.1	Restated Charter (incorporated by reference to the Company's Current Report on Form 8-K filed February 29, 2000).
3.2	Bylaws (incorporated by reference to the Company's Proxy Statement for the June 1, 1998, Annual Meeting of Shareholders).
4.1	Sections 7, 8, 9, 10 and 12 of the Company's Restated Charter (included in Exhibit 3.1).
4.2	Rights Agreement dated as of February 29, 2000, between Dollar General Corporation and Registrar and Transfer Company (incorporated by reference to the Company's Current Report on Form 8-K filed February 29, 2000).
10.1	Indenture, dated as of June 21, 2000, by and among Dollar General Corporation, the guarantors named therein, as guarantors, and First Union National Bank, as trustee (incorporated by reference to the Company's Registration Statement on Form S-4 filed August 1, 2000), as amended by the First Supplemental Indenture, dated as of July 28, 2000, by and among Dollar General Corporation, the guarantors named therein, as guarantors, and First Union National Bank, as trustee.
10.2	Master Agreement, dated as of June 11, 1999, by and among Dollar General Corporation; Certain Subsidiaries of Dollar General Corporation; Atlantic Financial Group, Ltd.; Three Pillars Funding Corporation; Certain Financial Institutions Parties Hereto; SunTrust Bank, Nashville N.A.; First Union National Bank, Bank of American National Trust and Savings Bank; The First National Bank of Chicago and Wachovia Bank, N.A.; and SunTrust Equitable Securities Corporation (incorporated by reference to the Company's Amended Quarterly Report for the quarter ended July 30, 1999, on Form 10-Q/A filed April 25, 2000).
10.3	Master Lease Agreement, dated as of June 11, 1999, between Atlantic Financial Group, Ltd. and Dollar General Corporation and Certain Subsidiaries of Dollar General Corporation (incorporated by reference to the Company's Amended Quarterly Report for the quarter ended July 30, 1999, on Form 10-Q/A filed April 25, 2000).
10.4	Guaranty Agreement dated as of June 11, 1999, by Dollar General Corporation (incorporated by reference to the Company's Amended Quarterly Report for the quarter ended July 30, 1999, on Form 10-Q/A filed April 25, 2000).
10.5	Subsidiary Guarantee dated as of June 11, 1999, by Dolgencorp, Inc., Dolgencorp of Texas, Inc., Dade Lease Management, Inc., Dollar General Financial, Inc. and Dollar General Partners (incorporated by reference to the Company's Amended Quarterly Report for the quarter ended July 30, 1999, on Form 10-Q/A filed April 25, 2000).

10.6 Credit Agreement dated as of September 2, 1997, by and among Dollar General Corporation and SunTrust Bank, Nashville, N.A. (incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended October 31, 1997).

10.7 Master Agreement dated as of September 2, 1997, by and among Dollar General Corporation, Certain Subsidiaries of Dollar General Corporation, Atlantic Financial Group, Ltd., Certain Financial Institutions Parties hereto at SunTrust Bank, Nashville, N.A. (incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended October 31, 1997).

10.8 Dollar General Corporation 1988 Outside Directors' Stock Option Plan, as amended (incorporated by reference to the Company's Proxy Statement for the June 3, 1996, Annual Meeting of Stockholders).

10.9 Dollar General Corporation 1989 Employee Stock Incentive Plan, as amended (incorporated by reference to the Company's Proxy Statement for the June 13, 1989, Annual Meeting of Stockholders).

10.10 1993 Employee Stock Incentive Plan (incorporated by reference to the Company's Proxy Statement for the June 7, 1993, Annual Meeting of Stockholders).

10.11 1993 Outside Directors Stock Option Plan (incorporated by reference to the Company's Proxy Statement for the June 7, 1993, Annual Meeting of Stockholders).

10.12 1995 Employee Stock Incentive Plan (incorporated by reference to the Company's Proxy Statement for the June 5, 1995, Annual Meeting of Stockholders).

10.13 1995 Outside Directors Stock Option Plan (incorporated by reference to the Company's Proxy Statement for the June 5, 1995, Annual Meeting of Stockholders).

10.14 1998 Stock Incentive Plan (incorporated by reference to the Company's Proxy Statement for the June 5, 2000, Annual Meeting of Shareholders).

10.15 Dollar General Corporation Supplemental Executive Retirement Plan and Compensation Deferral Plan (incorporated by reference to the Company's Registration Statement on Form S-8 filed December 21, 1999).

10.16 Dollar General Corporation Deferred Compensation Plan for Non-Employee Directors as amended and restated effective November 6, 2000 (incorporated by reference to the Company's Report on Form 10-K for the year ended February 2, 2001, filed January 14, 2002).

10.17 Sale and Purchase Agreement, dated as of June 1, 2000, among Dollar General Corporation as Lessee and Seller, FU/DG Fulton, LLC, as Lessor, and First Union Commercial Corporation, as Head Lessor (incorporated by reference to the Company's Report on Form 10-K for the year ended February 2, 2001, filed January 14, 2002).

10.18 Sale and Purchase Agreement, dated as of June 1, 2000, among Dollar General Corporation as Lessee and Seller, FU/DG Indianola, LLC, as Lessor, and First Union Commercial Corporation, as Head Lessor (incorporated by reference to the Company's Report on Form 10-K for the year ended February 2, 2001, filed January 14, 2002).

10.19 Lease Agreement, dated as of June 1, 2000, between FU/DG Fulton LLC, as Lessor and Dollar General Corporation, as Lessee (incorporated by reference to the Company's Report on Form 10-K for the year ended February 2, 2001, filed January 14, 2002).

10.20 Lease Agreement, dated as of June 1, 2000, between FU/DG Indianola, LLC, as Lessor and Dollar General Corporation, as Lessee (incorporated by reference to the Company's Report on Form 10-K for the year ended February 2, 2001, filed January 14, 2002).

10.21 Employment Offer Letter, dated February 8, 2001, between Cal Turner, Jr., Chairman and Chief Executive Officer of Dollar General Corporation, and James J. Hagan, as amended.

10.22 Employment Offer Letter, dated May 14, 2001, between Cal Turner, Jr., Chairman and Chief Executive Officer of Dollar General Corporation, and Donald S. Shaffer.

21 Subsidiaries of the Registrant

23 Consent of Independent Auditors

EXHIBIT 10.21

[GRAPHIC- logo] 100 Mission Ridge Dr. o GOODLETTSVILLE, TENNESSEE 37072
D O L L A R
GENERAL(R)
CORPORATION

February 8, 2001

Mr. James J. Hagan
1096 Wilmington Way
Brentwood, Tennessee

Dear Jim:

Senior management positions at Dollar General are only offered to persons who share our mission and values. It is not as easy as one would think to find an individual who combines the qualities of strong leadership centered on the development of others, and a true serving heart. Through our selection process we feel we have found these qualities in you, and we are pleased to offer you the position of Executive Vice President and Chief Financial Officer. In this capacity, you will report directly to me.

The following outlines the elements of your total reward package: base, bonus, equity and benefits.

Base Salary

o Starting base salary of $350,000.00 annually ($14,583.33 per pay period based on 24 pay periods). Your employment will begin as soon as possible (to be determined).

Bonus

o You will participate in the Management Incentive TEAMSHARE bonus program in which you would be eligible to earn up to 75% of your annual base salary in a cash bonus based on corporate results. Your first year's bonus is based on fiscal 2002 results (2/01-1/02) and will not be prorated the first year based on months of service.
o The Company will reimburse you for all documented relocation expenses that are presented to you for payment by Central Parking. Such reimbursement shall include a gross-up for all applicable income taxes. You will use your best efforts to limit the overall cost of this provision to Dollar General.

Equity

o A restricted stock award of 10,000 shares will be granted to you subject to the approval of the board of directors. These shares will remain under restriction until the first anniversary of your employment with Dollar General. During the restriction period you will have voting rights and receive dividends from these shares. If you are terminated for any reason other than for "cause", the restrictions shall be lifted immediately and you will be free to dispose of the shares subject to compliance with customary securities laws.

o Option to purchase a total of 87,900 shares of Dollar General Corporation common stock subject to the approval of the board of directors and the vesting provisions of the Performance Stock Option Program. Subject to these vesting provisions, the stock options will be available to you (i.e., will "vest") 9 1/2 years from the grant date. Because these are performance based options, the vesting date may be accelerated if you and the Company meet or exceed annual performance goals. The acceleration schedule is up to a maximum of 43,950 shares in 2002 and up to a maximum of 43,950 shares in 2003.
o You will also be eligible to participate in our Executive Stock Plus Ownership Program. Guidelines for your participation in this program will be explained to you during your orientation.

Benefits:

o All available health/dental benefits will start immediately subject to pre-existing conditions requirements.

o The company's 401k Retirement and Savings Plan will be available for your deferral participation during the quarterly enrollment period following the one year anniversary of your employment. In the event you have a qualified retirement benefit from a previous employer, you may roll that into our plan immediately upon joining Dollar General.

o You will participate in a Supplemental Executive Retirement Plan which provides an added annual retirement contribution being made on behalf of key executives in the company.

o Should you choose, you may participate in the Compensation Deferral Program for 2002. Executives may defer up to 50% of their base pay and up to 100% of their bonus. Information will be provided to you regarding this program in November 2001 prior to the new plan year.

o You will receive a Group Life Insurance policy equal to $50,000.00 and a Group Accidental Death & Dismemberment policy of $50,000.00.

o You will be provided with a Group Long Term Disability policy that provides a LTD benefit of 60% of your base salary up to $20,000.00 per month maximum should you ever become totally disabled. The policy has a 180 day elimination period.

o You will be eligible for company paid Supplemental Executive Life Insurance equal to 21/2times your base salary less the group life benefit.

o You will be eligible for one week of vacation after six months of full-time employment. Once you achieve your first year of full-time employment then you will receive two weeks of vacation. In addition, once you achieve your seventh year of full-time employment you will receive three weeks of vacation. Our vacation schedule is tied to your full-time anniversary date.

Severance:

o The Company will enter into a letter agreement with you that will provide for one year of base salary as severance if you are terminated for any reason other than for "cause". Cause shall be defined as the commission by employee of an act involving theft, embezzlement, fraud, o intentional mishandling of Dollar General funds or conviction of a criminal offense which adversely affects your job-related responsibilities.

Automobile:

o Shortly after the commencement of your employment, the Company will reimburse you for the depreciated book value of a 2000 Buick Custom LaSabre with 12,000 miles. Such reimbursement shall include a gross-up for all applicable income taxes.

Please review this letter and if you have any questions, feel free to call me.

Please sign one copy of this letter and return it as soon as possible to me.

Sincerely,

/s/Cal Turner, Jr.

Cal Turner, Jr.
Chairman & CEO

"I have read and I understand and agree with the terms and conditions of this employment offer letter. I recognize and agree that I am an employee-at-will and this offer letter doesn't specify any particular term of employment."

James J. Hagan	*141-60-5992*
------------------------------	--------------------
Print Full Name	*Social Security Number*
/s/James J. Hagan	*2-8-2001*
------------------------------	--------------------
Signature	*Date*

cc: Bob Carpenter, President
Melissa Buffington, VP - Human Resources Bob Layne, Corporate Secretary

BC/jr

AMENDMENT TO EMPLOYMENT OFFER FOR JIM HAGAN
December 20, 2001

This letter hereby amends and revises the employment offer extended to Jim Hagan as CFO of Dollar General Corporation on February 8, 2001.

In recognition of the dedicated support, long hours, and committed expertise demonstrated by Mr. Hagan during the restatement process, we guarantee his 2001 bonus payment at the Level 3 or 75% level ($262,500). This payment will occur during second quarter 2002, and coincide with other Teamshare payments (if appropriate). If no normal Teamshare payments are earned for 2001, the payment to Mr. Hagan will occur no later than April 30, 2002.

The severance language included at the bottom of page two of Mr. Hagan's offer letter of February 8, 2001 is hereby amended by replacement with "The Company will provide for two years of base salary as severance if you are terminated for any reason other than for `cause'. Cause shall be defined as the commission by employee of an act involving theft, embezzlement, fraud, intentional mishandling of Dollar General funds or conviction of a criminal offense which adversely affects your job-related responsibilities."

All other terms and conditions outlined in the original offer letter, except where specifically noted in this amendment, remain in place and unchanged.

January 7, 2002	*/s/Donald S. Shaffer*
Date	*Don Shaffer, President & COO* *Dollar General Corporation*
January 6, 2002	*/s/James J. Hagan*
Date	*James J. Hagan*

EXHIBIT 10.22

[GRAPHIC-logo] 100 Mission Ridge Dr. o GOODLETTSVILLE, TENNESSEE 37072
D O L L A R
GENERAL(R)
CORPORATION

May 14, 2001

Mr. Donald S. Shaffer
291 Hawk Wing Drive
Manakin Sabot, Virginia

Dear Don:

Senior management positions at Dollar General are only offered to persons who share our mission and values. It is not as easy as one would think to find an individual who combines the qualities of strong leadership centered on the development of others, and a true serving heart. Through our selection process we feel we have found these qualities in you, and we are pleased to offer you the position of President and Chief Operating Officer. In this capacity, you will report directly to me.

The following outlines the elements of your total reward package: base, bonus, equity, benefits and relocation.

Base Salary

o Starting base salary of $600,000.00 annually ($25,000.00 per pay period based on 24 pay periods). Your employment will begin as soon as possible.

Bonus

o You will participate in the Management Incentive TEAMSHARE bonus program in which you would be eligible to earn up to 100% of your annual base salary in a cash bonus based on corporate results. Your first year's bonus is based on fiscal 2002 results (2/01-1/02) and will be guaranteed at the 50% level.

Equity

o A restricted stock award of 20,000 shares will be granted to you subject to the approval of the board of directors. These shares will remain under legend (i.e. "restriction") until the first anniversary of your employment with Dollar General. During the restriction period you will have voting rights and receive dividends from these shares.

o Option to purchase 100,000 shares of Dollar General Corporation common stock subject to the approval of the board of directors. These shares will automatically vest on the one-year anniversary date of your employment with the Corporation.

o Option to purchase 153,900 shares of Dollar General Corporation common stock subject to the approval of the board of directors and the vesting provisions of the Performance Stock Option Program. Subject to these vesting provisions, the stock options will be available to you (i.e., will "vest") 9 1/2 years from the grant date. Because these are performance-based options, the vesting date may be accelerated if you and the Company meet or exceed annual performance goals. The acceleration schedule is up to a maximum of 76,950 shares in 2002 and up to a maximum of 76,950 shares in 2003.

o You will also be eligible to participate in our Executive Stock Plus Ownership Program. Guidelines for your participation in this program will be explained to you during your orientation.

Benefits:

o All available health/dental benefits will start immediately. These benefits may be subject to pre-existing condition requirements, consistent with federal and plan guidelines.

o The company's 401k Retirement and Savings Plan will be available for your deferral participation during the quarterly enrollment period following the one-year anniversary of your employment. In the event you have a qualified retirement benefit from a previous employer, you may roll that into our plan immediately upon joining Dollar General.

o You will participate in a Supplemental Executive Retirement Plan which provides an added annual retirement contribution being made on behalf of key executives in the company. The contribution amount varies according to your age and service. At your current age (57) and service (0), you will come into the plan at the 4.5% contribution level.

o Should you choose, you may participate in the Compensation Deferral Program for 2002. Executives may defer up to 50% of their base pay and up to 100% of their bonus. Information will be provided to you regarding this program in November 2001 before the beginning of the new plan year.

o You will receive a Group Life Insurance policy equal to $50,000.00 and a Group Accidental Death & Dismemberment policy of $50,000.00.

o You will be provided with a Group Long Term Disability policy that provides a LTD benefit of 60% of your base salary up to $20,000.00 per month maximum should you ever become totally disabled. The policy has a 180-day elimination period.

o You will be eligible for company paid Supplemental Executive Life Insurance equal to 2 1/2 times your base salary less the group life benefit.

o You will be eligible for one week of vacation after six months of full-time employment. Once you achieve your first year of full-time employment then you will receive two weeks of vacation. In addition, once you achieve your seventh year of full-time employment you will receive three weeks of vacation. Our vacation schedule is tied to your full-time anniversary date.

Severance:

o The Company will provide for one year of base salary as severance if you are terminated within two years for any reason other than for "cause". Cause shall be defined as the commission of an act involving theft, embezzlement, fraud, intentional mishandling of Dollar General funds or conviction of a criminal offense which adversely affects your job-related responsibilities.

Relocation Program:

o Relocation benefits will be provided for your move from Richmond, Virginia to the Nashville area. These benefits as outlined on the attachment will be available up to one year after your effective date in your position.

Please review this letter and if you have any questions, feel free to call me.

Please sign one copy of this letter and return it as soon as possible to me.

Sincerely,

/s/Cal Turner, Jr.

Cal Turner, Jr.
Chairman & CEO

"I have read and I understand and agree with the terms and conditions of this employment offer letter. I recognize and agree that I am an employee-at-will and this offer letter doesn't specify any particular term of employment."

Donald S. Shaffer	*233-66-8563*
Print Full Name	*Social Security Number*
/s/Donald S. Shaffer	*5-17-2001*
Signature	*Date*

cc: Bob Carpenter, President
Melissa Buffington, VP Human Resources & CAO Larry Wilcher, General Counsel & Corporate Secretary

BC/jr

RELOCATION BENEFITS
Don Shaffer Offer
February 16, 2001

o Pre-move Allowance
o 5% of annual base salary ($30,000).

o House Hunting Trips
o Three trips for entire family
o Hotel accommodations for a maximum of 3 nights per visit
o Mileage reimbursement of $.29 mile
o Meal expenses of $25.00/day per adult; $15.00/day per child

o Temporary Living (up to 7 months)
o Up to 7 months lodging
o Meals $25.00 per day

o Moving Expenses
o Graebel Moving Company will be contracted to pack, load and unload in your new location

o Homesale Assistance
o An Accelerated Homesale Assistance Program provided by Williams Relocation Company. This program provides assistance in selling your home including the reimbursement of up to 6% realtor's fee on the home sale.
o Dollar General will make available to you an interest free bridge loan on your estimate of the equity in your current home, repayable upon the sale of that home. This option is available up to two years after your start date.

o Closing Cost
o Reimbursement of up to 2% of home purchase price in closing costs.

o En Route Expenses
o Travel expenses reimbursed upon traveling from former location to new location.

EXHIBIT 21

SUBSIDIARIES OF THE REGISTRANT

Name of Entity	Jurisdiction of Incorporation/Organization
Dade Lease Management, Inc.	Delaware
Dolgencorp, Inc.	Kentucky
Dolgencorp of New York, Inc.	Kentucky
Dolgencorp of Texas, Inc.	Kentucky
Dollar General Stores, Ltd.	Kentucky
Dollar General Partners	Kentucky
DG Logistics, LLC	Tennessee
Dollar General Financial, Inc.	Tennessee
Nations Title Company, Inc.	Tennessee
Dollar General Intellectual Property, L.P.	Vermont
The Greater Cumberland Insurance Company	Vermont

EXHIBIT 23

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in the Registration Statements and related Prospectuses of Dollar General Corporation listed below of our report dated March 18, 2002 (except for the seventh paragraph of Note 8, as to which the date is April 1, 2002) with respect to the consolidated financial statements of Dollar General Corporation included in this Annual Report on Form 10-K for the year ended February 1, 2002:

Form S-4, Registration No. 333-42704 pertaining to the offer to exchange up to $200,000,000 of 8 5/8% Exchange Notes due June 15, 2010 for any and all outstanding 8 5/8% Notes due June 15, 2010.

Form S-3, Registration No. 333-56810 pertaining to the issuance by the Turner Children Trust of 12,556,014 shares of common stock.

Form S-3, Registration No. 333-80655 pertaining to the Dollar General Direct Stock Purchase Plan.

Form S-3, Registration No. 333-50451 pertaining to the issuance of 7,500,000 shares of common stock which may be distributed to holders of the Structured Yield Product Exchangeable for Stock ("STRYPES") of and issued by the Dollar General STRYPES Trust.

Form S-8, Registration No. 333-93309 pertaining to the Supplemental Executive Retirement Plan and the Compensation Deferral Plan.

Form S-8, Registration No. 333-65789 pertaining to the Dollar General Corporation 401(k) Savings and Retirement Plan.

Form S-8, Registration No. 333-09448 pertaining to the 1998 Stock Incentive Plan.

Form S-8, Registration No. 333-00141 pertaining to the 1995 Employee Stock Incentive Plan and the 1995 Stock Option Plan for Outside Directors.

/s/ Ernst & Young LLP

Ernst & Young LLP

Nashville, Tennessee
March 28, 2002

End of Filing

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