DOLLAR GENERAL CORP

FORM 10-Q
(Quarterly Report)

Filed 06/14/99 for the Period Ending 04/30/99

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

DOLLAR GENERAL CORP

FORM 10-Q
(Quarterly Report)

Filed 6/14/1999 For Period Ending 4/30/1999

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

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended April 30, 1999

Commission file number 1-11421

DOLLAR GENERAL CORPORATION

(Exact name of registrant as specified in its charter)

TENNESSEE	61-0502302
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification no.)

104 Woodmont Blvd.
Suite 500
Nashville, Tennessee 37205
(Address of principal executive offices, zip code)

Registrant's telephone number, including area code: (615) 783-2000

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____.

The number of shares of common stock outstanding at June 8, 1999, was 265,562,355.

Dollar General Corporation

Form 10-Q

For the Quarter Ended April 30, 1999

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	Apr. 30, 1999 (Unaudited)	Jan. 29, 1999 *	May 1, 1998 (Unaudited)
ASSETS			
Current assets:			
Cash and cash equivalents	$ 25,617	$ 22,294	$ 37,241
Merchandise inventories	939,154	811,722	692,658
Deferred income taxes	2,632	2,523	6,283
Other current assets	31,744	42,378	20,449
Total current assets	999,147	878,917	756,631
Property and equipment, at cost	533,065	528,238	415,974
Less: accumulated depreciation	216,434	201,830	162,692
	316,631	326,408	253,282
Other assets	9,648	6,459	6,591
Total assets	$ 1,325,426	$ 1,211,784	$ 1,016,504
LIABILITIES AND SHAREHOLDERS' EQUITY Current liabilities:			
Current portion of long-term debt	$ 667	$ 725	$ 715
Short-term borrowings	113,573	0	119,650
Accounts payable	246,672	257,759	179,120
Accrued expenses	145,011	172,825	87,065
Income taxes	6,798	23,825	11,227
Total current liabilities	512,721	455,134	397,777
Long-term debt	647	786	406
Deferred income taxes	24,611	30,103	21,669
Shareholders' equity:			
Preferred stock	858	858	858
Common stock	132,604	105,121	83,719
Additional paid-in capital	424,207	418,039	395,938
Retained earnings	430,305	402,270	316,664
	987,974	926,288	797,179
Less: treasury stock	200,527	200,527	200,527
Total shareholders' equity	787,447	725,761	596,652
Total liabilities and shareholders' equity	$ 1,325,426	$ 1,211,784	$ 1,016,504

* Derived from the January 29, 1999 audited financial statements.

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

DOLLAR GENERAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(In thousands except per share amounts)

(Unaudited)

	Three Months Ended April 30, 1999	Three Months Ended May 1, 1998
Net sales	$ 844,593	$ 705,260
Cost of goods sold	618,646	514,928
Gross profit	225,947	190,332
Selling, general and administrative expense	168,051	140,940
Operating profit	57,896	49,392
Interest expense	879	939
Income before taxes on income	57,017	48,453
Provision for taxes on income	20,669	18,049
Net income	$ 36,348	$ 30,404
Diluted earnings per share	0.14	0.11
Weighted average diluted shares	269,101	268,731
Basic earnings per share	0.16	0.13

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

DOLLAR GENERAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

(Unaudited)

Operating activities:		
Net income	$ 36,348	$ 30,404
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	14,826	12,364
Deferred income taxes	(5,601)	(808)
Change in operating assets and liabilities:		
Merchandise inventories	(127,432)	(60,704)
Other current assets	10,634	1,435
Accounts payable	(11,087)	(838)
Accrued expenses	(27,814)	(4,962)
Income taxes	(17,027)	(1,116)
Other	765	285
Net cash used in operating activities	(126,388)	(23,940)
Investing activities:		
Purchase of property and equipment	(30,637)	(24,393)
Proceeds from sale of property and equipment	21,634	0
Net cash used in investing activities	(9,003)	(24,393)
Financing activities:		
Issuance of short-term borrowings	146,419	128,535
Repayments of short-term borrowings	(32,846)	(30,818)
Issuance of long-term debt	786	0
Repayments of long-term debt	(983)	(1,623)
Payments of cash dividend	(8,313)	(8,076)
Proceeds from exercise of stock options	17,331	11,926
Repurchase of common stock	0	(26,066)
Tax benefit of stock options exercised	16,320	4,568
Other	0	0
Net cash provided by financing activities	138,714	78,446
Net increase in cash and cash equivalents	3,323	30,113
Cash and cash equivalents, beginning of period	22,294	7,128
Cash and cash equivalents, end of period	$ 25,617	$ 37,241

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In thousands except per share amounts)

(Unaudited)

1. Basis of Presentation

The accompanying consolidated financial statements are presented in accordance with the requirements of Form 10-Q and consequently do not include all of the disclosures normally required by generally accepted accounting principles or those normally made in the Company's Annual Report on Form 10-K. Accordingly, the reader of the quarterly report on Form 10-Q should refer to the Company's Annual Report on Form 10-K, for the year ended January 29, 1999, for additional information.

The accompanying consolidated financial statements have been prepared in accordance with the Company's customary accounting practices and have not been audited. In management's opinion, all adjustments (which are of a normal recurring nature) necessary for a fair presentation of the consolidated results of operations for the three-month periods ended April 30, 1999 and May 1, 1998, respectively, have been made.

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

2. Shareholders' Equity

Changes in shareholders' equity for the three months ended April 30, 1999 and May 1, 1998 were as follows.

	Preferred Stock	Common Stock	Paid-In Capital	Retained Earnings	Additional Stock	Treasury Total
Balances, January 30, 1998	$ 858	$83,526	$379,954	$320,085	($200,527)	$583,896
Net Income				30,404		30,404
Cash dividend, $.04 per common share, as declared				(7,062)		(7,062)
Cash dividend, $.61 per preferred share				(1,047)		(1,047)
Issuance of common stock under employee stock incentive plans		543	11,416			11,959
Stock repurchase		(350)		(25,716)		(26,066)
Tax benefit of stock options exercised			4,568			4,568
Balances, May 1, 1998	$ 858	$83,719	$395,938	$316,664	($200,527)	$596,652

	Preferred Stock	Common Stock	Paid-In Capital	Retained Earnings	Additional Treasury Stock	Total
Balances, January 29, 1999	$ 858	$ 105,121	$418,039	$402,270	($200,527)	$725,761
Net Income				36,348		36,348
5-for-4 stock split, May 24, 1999		26,521	(26,521)			
Cash dividend, $.03 per common share, as declared				(7,135)		(7,135)
Cash dividend, $.69 per preferred share				(1,178)		(1,178)
Issuance of common stock under employee stock incentive plans		962	16,369			17,331
Tax benefit of stock options exercised			16,320			16,320
Balances, April 30, 1999	$ 858	$132,604	$424,207	$430,305	($200,527)	$787,447

3. Earnings Per Share

Shares have been adjusted for all stock splits including the May 24, 1999 five-for-four common stock split.

	Three months ended April 30, 1999		
	Income	Shares	Per-Share Amount
Net income	$36,348		
Less: preferred stock dividends	1,178		
Basic earnings per share Income available to common shareholders	$35,170	222,809	$0.16
Stock options outstanding		5,386	
Convertible preferred stock	1,178	40,906	
Diluted earnings per share Income available to common shareholders plus assumed conversions	$36,348	269,101	$0.14

Three months ended May 1, 1998	Income	Shares	Per-Share Amount
Net income	$30,404		
Less: preferred stock dividends	1,047		
Basic earnings per share Income available to common shareholders	$29,357	220,380	$0.13
Stock options outstanding		7,445	
Convertible preferred stock	1,047	40,906	
Diluted earnings per share Income available to common shareholders plus assumed conversions	$30,404	268,731	$0.11

4. Stock Repurchases

Under current Board authorization which expires May 1, 2001, the Company may repurchase up to 6.3 million shares from time to time in the open market or in privately negotiated transactions. The Company may repurchase shares depending upon the market price of the shares and other factors in order to offset the impact of the Company's employee stock option program and to take advantage of an undervalued share price as cash is available. As a part of its share repurchase program, the Company has entered into equity collar arrangements with independent third parties. Under these arrangements, the Company sold put warrants to independent third parties which entitle the holders to sell shares of the Company's common stock to the Company on certain dates at specified prices. In addition, the Company purchased call options which entitle the Company to purchase shares of the Company's common stock on certain dates at specified prices. The Company has the option of a net-share settlement. At April 30, 1999, put warrants on 2.0 million shares of common stock and call options on 1.0 million shares of common stock were outstanding. The outstanding warrants and options expire in March 2000 and have a strike price ranging from $22 to $26 per share.

5. Segment Reporting

The Company manages its business on the basis of one reportable segment. As of April 30, 1999 and May 1, 1998, 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."

	April 30, 1999	May 1, 1998
Classes of similar products Net Sales:		
Hardlines	$692,680	$579,658
Softlines	$151,913	$125,602
	$844,593	$705,260

6. Subsequent Event

On April 27, 1999, the Company's Board of Directors authorized a five-for-four common stock split for shareholders of record on May 10, 1999, which was distributed on May 24, 1999. The effect of the stock split has been retroactively reflected as of April 30, 1999, in the consolidated balance sheet and Note 2 to the consolidated financial statements, but activity for 1998 was not restated in that statement or Note 2. All references to the number of common shares and per share amounts have been restated as appropriate to reflect the effect of the split for all periods presented.

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

This discussion and analysis contains both 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. Although Dollar General Corporation (the "Company") believes the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could be inaccurate, and therefore, there can be no assurance that the forward-looking statements will prove to be accurate. Forward-looking statements may be significantly impacted by certain risks and uncertainties, including, but not limited to: general transportation and distribution delays or interruptions; interruptions in suppliers' operations; inventory risks due to shifts in market demand; changes in product mix; costs and delays associated with building, opening and operating new distribution centers; and the other risk factors referenced in the Annual Report on Form 10-K for the year ended January 29, 1999. The Company undertakes no obligation to publicly release any revisions to any forward-looking statements to reflect events or circumstances occurring after the date of this report.

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

RESULTS OF OPERATIONS

The nature of the Company's business is seasonal. Historically, sales in the fourth quarter have been significantly higher than sales achieved in each of the first three quarters of the fiscal year. Thus, expenses, and to a greater extent operating income, vary by quarter. Results of a period shorter than a full year may not be indicative of results expected for the entire year. Furthermore, comparing any period to a period other than the same period of the previous year may reflect the seasonal nature of the Company's business.

THREE MONTHS ENDED APRIL 30, 1999 AND MAY 1, 1998

NET SALES. Net sales for the first three months of 1999 increased $139.3 million, or 19.8%, to $844.6 million from $705.3 million for the comparable period in 1998. The increase resulted from 532 net additional stores being in operation as of April 30, 1999, as compared with May 1, 1998, and an increase of 5.7% in same-store sales. The increase in same store sales for the three months ended April 30, 1999 was primarily driven by continued improvements in the Company's consumable basic merchandise mix and improved in-stock levels. Same-store sales growth resulted in a 19.4% increase for the same period last year driven by the addition of 700 faster-turning consumable items to the merchandise mix and refurbishing more than 2,400 stores to a new prototype reflecting a 65% hardlines/35% softlines space allocation versus the previous 50%/50% allocation.

The Company defines same stores as those opened before the beginning of the previous fiscal year which have remained open throughout the current period.

GROSS PROFIT. Gross profit for the first three months of 1999 was $225.9 million, or 26.8% of net sales, compared with $190.3 million, or 27.0% of net sales, in the same period last year. This decrease was driven by higher distribution expense associated with the operation of two additional distribution centers compared with first quarter last year.

SELLING, GENERAL AND ADMINISTRATIVE (SG&A) EXPENSE. SG&A expense for the first three months of 1999 totaled $168.1 million, or 19.9% of net sales, compared with $140.9 million, or 20.0% of net sales during the comparable period last year. Total SG&A expense increased 19.2% primarily as a result of 532 net additional stores being in operation as compared to the three month period last year.

INTEREST EXPENSE. Interest expense was consistent with the first quarter of year at $0.9 million.

PROVISIONS FOR TAXES ON INCOME. The effective income tax rate for the three month period ended April 30, 1999 was 36.3% compared with 37.3% in the comparable period last year. The 1999 effective tax rate decreased as a result of effective tax planning strategies.

LIQUIDITY AND CAPITAL RESOURCES

Cash flows from operating activities - Net cash used by operating activities totaled $126.4 million during the first three months of 1999 compared to $23.9 million cash used in operating activities in the comparable period last year. This increase in use of cash was primarily the result of increased inventories.

Cash flows from investing activities - Net cash used by investing activities totaled $9.0 million during the first three months of 1999 compared to $24.4 million in the comparable period last year. The decrease in cash used by investing activities was primarily the result of $21.6 million received in 1999 from the sale/leaseback of the South Boston, Virginia distribution center expansion. Current period cash used resulted from $30.6 million in capital expenditures primarily from opening 169 new stores during the first three months of 1999.

Cash flows from financing activities - Total debt (including current maturities and short-term borrowings) at April 30, 1999 was $114.9 million compared to $120.8 million at May 1, 1998.

Because of the significant impact of seasonal buying (e.g., Spring and December holiday purchases), the Company's working capital requirements vary significantly during the year. These working capital requirements were financed by short-term borrowings under the Company's $175.0 million revolving credit/term loan facility and short-term bank lines of credit totaling $145.0 million at April 30, 1999. The Company had short-term borrowings of $113.6 million outstanding as of April 30, 1999 and $119.7 million as of May 1, 1998. Seasonal working capital expenditure requirements will continue to be met through cash flow provided by operations supplemented by the revolving credit/term loan facility and short-term bank lines of credit.

Capital requirements for the construction of new stores, new distribution centers and the new corporate headquarters complex will continue to be funded under the Company's $225.0 million leveraged lease facility. As of April 30, 1999, $192.5 million of construction costs had been funded under the facility including: $77.9 million for new stores; $43.6 million for the Indianola, Mississippi Distribution Center; $42.6 million for the Fulton, Missouri Distribution Center; and $28.4 million for the corporate headquarters complex. As of April 30, 1999 the Company has entered into four five-year interest rate swap agreements to fix the interest rate on $200.0 million of this leveraged lease facility.

ACCOUNTING PRONOUNCEMENTS

The Company is in the process of analyzing the impact of the adoption of Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities." Currently, adoption of this Statement is required for the Company's fiscal year ending January __, 2001. However, the Financial Accounting Standards Board has recently issued an Exposure Draft which would extend the required adoption date of this Statement to the Company's year ending February 1, 2002.

YEAR 2000

The Company recognizes that without appropriate modification, some computer programs may not operate properly when asked to recognize the year 2000. Upon reaching the year 2000, these computer programs will inaccurately interpret the "00" used in two-digit date calculations as the year 1900. In anticipation of the need to correct and otherwise prepare for any potential Year 2000 computer problems, the Company formed a Year 2000 Task Force (the "Task Force") which has developed a year 2000 compliance plan (the "Plan"). The Plan addresses the Company's state of readiness, the costs to address the Company's year 2000 issues, the risks of the Company's year 2000 issues and the Company's contingency plans.

The Company's state of readiness

Internal Systems: The Company's Plan addresses all of the Company's hardware and software systems, as well as equipment controlled by microprocessors used in the offices, stores, and distribution centers. As a part of the Plan, the Task Force has completed its assessment of the Company's systems, has identified the Company's hardware, software and equipment that will not operate properly in the year 2000 and in most cases, has remedied the problem with programming changes. The Plan has identified the Company's accounting, inventory management and warehouse management systems as critical systems. The Company expects the programming changes and software replacement for systems that are not already year 2000 compliant will be completed during the second quarter of 1999. The Company has completed testing the year 2000 readiness of many of its systems and expects to complete the testing process by July 1999. The Company's year 2000 compliance effort has not resulted in any material delays to other internal information technology projects.

External Systems: The Company has requested, and is receiving, written confirmation from vendors, suppliers and other service providers ("Third Party Vendors") as to their year 2000 system compliance status. Although the Company is diligently seeking and is receiving information as to its Third Party Vendors' year 2000 compliance progress, there can be no assurance that the such Third Party Vendors will have remedied their year 2000 issues. Although the Company currently knows of no material business partner system that will not be year 2000 ready, the failure of any significant business partner to remedy its year 2000 issues could have a material adverse effect on the Company's operations, financial position or liquidity. The Company will continue to aggressively monitor the progress of its Third Party Vendors in an effort to mitigate its own year 2000 non-compliance risk.

The costs to address the Company's year 2000 issues

Based on the Company's current estimates, the cost of addressing the Company's year 2000 remediation efforts will be between $400,000 and $600,000. To date, expenditures have been approximately $250,000. Costs are being expensed when incurred. This cost estimate excludes the costs of previously planned software implementations as well as salaries of existing employees involved in the year 2000 remediation efforts. These projected costs are based upon management's best estimates which were derived utilizing numerous assumptions of future events. However, there can be no guarantee that these costs estimates will be accurate; actual results could differ materially.

The risks of the Company's year 2000 issues

Management believes that its greatest risk to achieving timely year 2000 compliance is in its third-party relationships. For example, if a significant vendor experiences shipping delays because either its systems or a business partner's systems are not year 2000 compliant, such delays could have a material impact on the Company's business depending on the nature of the shipment and the length of the shipping delay. However, currently available information indicates that the Company's significant Third Party Vendors will be year 2000 ready. Management also believes there is a moderate level of risk associated with the unconfirmed year 2000 compliance status of utility companies that provide utility service to the Company's individual stores and its distribution centers.

The Company's contingency plans

The Company will continue to closely monitor the year 2000 compliance readiness of its Third Party Vendors and, where appropriate, will replace those Third Party Vendors who appear to be unwilling to confirm their year 2000 readiness or who are unable to meet compliance deadlines. The Company has been developing, and intends to complete by July 1999, a comprehensive business continuity plan ("BCP") that is designed to respond to significant business interruption. The BCP focuses on business recovery and continuation made necessary by natural disaster, year 2000 system non-compliance, vendor breach of contract or any other factor. Although it is impossible to accurately predict and prepare for all risks associated with the year 2000 issue, the Company will continue to evaluate and modify where appropriate its BCP to address those risks which it believes are reasonably foreseeable.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET 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 utilizes a credit facility to fund seasonal working capital requirements which is comprised primarily of variable rate debt. As of April 30, 1999 the Company had outstanding short term borrowings of $113.6 million at a weighted average interest rate of 5.14%

As of April 30, 1999, the Company was a party to interest rate swap agreements covering $200 million of its $225 million leveraged lease facility and expiring throughout 2008. These swap agreements exchange the Company's floating interest rate exposure on the lease payments under its $225 million leveraged lease facility for fixed rent payments. The Company will pay a weighted average fixed rate of 5.63% on $200 million of the $225 million facility rather than a rate based on the one-month LIBOR %, which was 5.01% at April 30, 1999. The fair value of the interest rate swap agreements was ($2.5) million at April 30, 1999.

PART II - OTHER INFORMATION

Item 1. Not applicable.
Item 2. Not applicable.
Item 3. Not applicable.
Item 4. Not applicable.
Item 5. Not applicable.

Item 6. A. Exhibits:
27 Financial Data Schedule (for SEC use only)

B. Reports on Form 8-K
No Current Reports on Form 8-K were filed by Dollar
General Corporation during the quarter ended April 30,

1999.

SIGNATURES

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

DOLLAR GENERAL CORPORATION
(Registrant)

June 10, 1999	*By:/s/ Brian M. Burr* *Brian M. Burr, Executive Vice President,* *Chief Financial Officer*

ARTICLE 5

MULTIPLIER: 1,000

PERIOD TYPE	3 MOS	3 MOS
FISCAL YEAR END	JAN 28 2000	JAN 29 1999
PERIOD END	APR 30 1999	MAY 1 1998
CASH	25,617	37,241
SECURITIES	0	0
RECEIVABLES	0	0
ALLOWANCES	0	0
INVENTORY	939,154	692,658
CURRENT ASSETS	31,744	20,449
PP&E	533,065	415,974
DEPRECIATION	216,434	162,692
TOTAL ASSETS	1,325,426	1,016,504
CURRENT LIABILITIES	512,721	1,016,504
BONDS	0	0
PREFERRED MANDATORY	0	0
PREFERRED	858	858
COMMON	132,604	83,719
OTHER SE	680,506	512,075
TOTAL LIABILITY AND EQUITY	1,325,426	1,016,504
SALES	844,593	705,260
TOTAL REVENUES	844,593	705,260
CGS	618,646	514,928
TOTAL COSTS	168,051	140,940
OTHER EXPENSES	0	0
LOSS PROVISION	0	0
INTEREST EXPENSE	879	939
INCOME PRETAX	57,017	48,453
INCOME TAX	20,669	18,049
INCOME CONTINUING	36,348	30,404
DISCONTINUED	0	0
EXTRAORDINARY	0	0
CHANGES	0	0
NET INCOME	36,348	30,404
EPS BASIC	0.16	0.13
EPS DILUTED	0.14	0.11

End of Filing