DOLLAR GENERAL CORP

FORM 10-Q
(Quarterly Report)

Filed 09/11/97 for the Period Ending 08/01/97

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 9/11/1997 For Period Ending 8/1/1997

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 August 1, 1997

Commission file number 0-4769

DOLLAR GENERAL CORPORATION

(Exact name of registrant as specified in its charter)

KENTUCKY	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 August 29, 1997 was 107,329,537.

Dollar General Corporation
Form 10-Q
For the Quarter Ended August 1, 1997
Index

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

	Aug. 1, 1997 (Unaudited)	Jan. 31, 1997 (Audited)	Aug. 2, 1996 (Unaudited)
ASSETS			
Current assets:			
Cash and cash equivalents	$ 24,923	$ 6,563	$ 12,950
Merchandise inventories	589,660	476,103	513,665
Deferred income taxes	3,762	3,689	11,959
Other current assets	20,028	18,244	13,630
Total current assets	638,373	504,599	552,204
Property & equipment, at cost	351,773	321,917	260,716
Less: Accumulated depreciation	130,913	113,381	98,124
Net property and equipment	220,860	208,536	162,592
Other assets	5,385	5,012	5,094
Total assets	$864,618	$718,147	$719,890
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Current portion of long-term debt	$ 1,749	$ 2,030	$ 1,553
Short-term borrowings	57,850	38,469	74,954
Accounts payable	163,074	103,523	121,212
Accrued expenses	72,060	70,441	63,885
Income Taxes	3,480	10,002	2,991
Total current liabilities	298,213	224,465	264,595
Long-term debt	1,580	2,582	2,108
Deferred income taxes	5,326	5,571	3,573
Shareholders' equity:			
Preferred stock	858	858	858
Common stock	67,679	53,105	42,918
Additional paid-in capital	368,929	329,948	317,446
Retained earnings	322,560	302,145	288,919
	760,026	686,056	650,141
Less: treasury stock	200,527	200,527	200,527
Total shareholders' equity	559,499	485,529	449,614
Total liabilities and shareholders'equity	$864,618	$718,147	$719,890

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

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	Three Months Ended		Six Months Ended	
	Aug. 1 1997	Aug. 2 1996	Aug. 1 1997	Aug. 2 1996
Net sales	$596,820	$494,389	$1,116,834	$950,245
Cost of goods sold	436,664	360,661	814,823	693,143
Gross profit	160,156	133,728	302,011	257,102
Selling, general and administrative expense	116,699	97,321	227,034	195,266
Operating profit	43,457	36,407	74,977	61,836
Interest expense	540	1,109	1,066	2,306
Income before taxes on income	42,917	35,298	73,911	59,530
Provision for taxes on income	16,201	13,413	27,901	22,621
Net income	26,716	21,885	46,010	36,909
Net income per common and common equivalent share	$ .24	$ .20	$ .42	$ .33
Weighted average number of common shares outstanding	110,781	111,368	109,919	111,108
Cash dividends per common share	$ .05	$ .05	$ .10	$ .10
As adjusted to give retroactive effect to the five-for-four stock splits distributed on February 12, 1997 and September 22, 1997:				
Net income per common and common equivalent share	$ .19	$ .16	$ .33	$ .27
Weighted average number of common shares outstanding	138,476	139,210	137,399	138,885
Cash dividends per common share	$ .04	$ .03	$ .09	$ .06

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)

	Six Months Ended Aug. 1, 1997	Aug. 2, 1996
Operating activities:		
Net income	$ 46,010	$ 36,909
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	17,752	14,929
Deferred income taxes	(318)	610
Change in operating assets and liabilities:		
Merchandise inventories	(113,557)	(25,303)
Accounts payable trade	59,551	18,036
Accrued expenses	1,619	1,786
Income taxes	(6,522)	(11,766)
Other	(1,261)	(649)
Net cash provided by operating activities	3,274	34,552
Investing activities		
Purchase of property and equipment	(64,784)	(20,296)
Proceeds from sale of property and equipment	33,811	0
Net cash used by investing activities	(30,973)	(20,296)
Financing activities:		
Issuance of short-term borrowings	83,558	43,178
Repayments of short-term borrowings	(64,177)	(40,370)
Issuance of long-term debt	190	0
Repayments of long-term debt	(1,473)	(1,153)
Payment of cash dividends	(12,059)	(9,207)
Proceeds from exercise of stock options	23,900	9,957
Repurchase of common stock	0	(12,330)
Tax effect of stock options	16,120	4,275
Net cash provided (used) by financing activities	46,059	(5,650)
Net increase in cash and cash equivalents	18,360	8,606
Cash and cash equivalents at beginning of period	6,563	4,344
Cash and cash equivalents at end of period	$ 24,923	$12,950

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(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 31, 1997 for additional information.

The accompanying consolidated financial statements as of Ausust 1, 1997 and August 2, 1996, have been prepared in accordance with the Company's customary accounting practices and have not been audited. All subsidiaries are included. In management's opinion, all adjustments (which are of a normal recurring nature) necessary for a fair presentation of the results of operations for the three-month and six-month periods ended August 1, 1997 and August 2, 1996, have been made.

Interim cost of goods sold is determined using estimates of inventory shrinkage, inflation, and markdowns which are adjusted during interim periods to reflect actual results. 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. Net Income Per Common Share

Net income per common and common equivalent share is based upon the actual weighted average number of common shares outstanding during each period (including the presumed conversion of the Series A Convertible Preferred Stock) plus the assumed exercise of dilutive stock options as follows:

	Three Months Ended (In thousands)		Six Months Ended	
	Aug 1, 1997	Aug 2, 1996	Aug 1, 1997	Aug. 2, 1996
Actual weighted average number of common shares outstanding during the period	91,081	90,895	90,413	90,594
Common Stock Equivalents: Dilutive effect of stock options using the "Treasury Stock Method"	2,945	3,718	2,751	3,759
1,715,742 shares of Series A Convertible Preferred Stock Issued August 22, 1994	16,755	16,755	16,755	16,755
Weighted Average Shares	110,781	111,368	109,919	111,108

3. Changes in shareholders' equity for the six months ended August 1, 1997 and August 2, 1996 were as follows (dollars in thousands except per share amounts):

	Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Total
Balances, January 31, 1996	$ 858	$ 42,762	$303,609	$273,309	$200,527	$420,011
Net income				36,909		36,909
Cash dividend, $.10 per common share, as declared				(8,001)		(8,001)
Cash dividend, $.56 per preferred share				(1,206)		(1,206)
Issuance of common stock under employee stock incentive plans		395	9,562			9,957
Tax benefit from exercise of options			4,275			4,275
Repurchase of common stock		(239)		(12,092)		(12,331)
Balances, August 2, 1996	$ 858	$ 42,918	$317,446	$288,919	$200,527	$449,614
Balances, January 31, 1997	$ 858	$ 53,105	$329,948	$302,145	$200,527	$485,529
Net Income				46,010		46,010
5-for-4 stock split, September 22, 1997		13,536		(13,536)		
Cash dividend, $.10 per common share, as declared				(10,467)		(10,467)
Cash dividend, $.56 per preferred share				(1,592)		(1,592)
Issuance of common stock under employee stock incentive plans		1,038	22,862			23,900
Tax benefit from exercise of options			16,119			16,119
Balances, August 1, 1997	$ 858	$ 67,679	$368,929	$322,560	$200,527	$559,499

4. Subsequent Event:

The Company's Board of Directors authorized on August 25, 1997, a five-for-four common stock split for shareholders of record on September 8, 1997, which will be distributed on September 22, 1997.

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 the Company believes the assumptions underlying the forward-looking statements contained herein are reasonable, any of the assumptions could be inaccurate, and therefore, actual results may differ materially from those projected in the forward-looking statements. Forward-looking statements may be significantly impacted by certain risks and uncertainties, including, but not limited to, general transportation and distribution delays or interruptions, inventory risks due to shifts in market demand, changes in product mix, costs and delays associated with building, opening and operating a new distribution center and the risk factors listed in the Company Annual Report on Form 10-K for the year ended January 31, 1997. The Company undertakes no obligation to publicly release any revisions to any forward-looking statements contained herein to reflect events or circumstances ocurring after the date hereof or to reflect the occurrence of unanticipated events.

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

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 other than the same period of the previous year will not reflect the seasonal nature of the Company's business.

In August 1996, the federal minimum wage law was changed to increase minimum wage from $4.25 per hour to $4.75 per hour effective October 1, 1996 and from $4.75 per hour to $5.15 per hour effective September 1, 1997. The Company estimates that this change will result in an increase in wage expense during fiscal 1998 of approximately $8.0 million and resulted in an increase during fiscal 1997 of approximately $2.1 to $2.3 million above otherwise expected levels. The Company believes that increased sales and employee productivity will partially offset the financial impact of the minimum wage increase to operations for fiscal 1998.

SIX MONTHS ENDED AUGUST 1, 1997 AND AUGUST 2, 1996

NET SALES. Net sales for the first six months of fiscal 1998 increased 17.5%, to $1,116.8 million from $950.2 million for the comparable period of fiscal 1997. The increase resulted from 418 net additional stores being in operation as of August 1, 1997 as compared with August 2, 1996 and an increase of 4.1% in same-store sales. Same store sales growth was an 8.6% increase for the same period last year.

The Company regards same stores as those opened prior to the beginning of the previous fiscal year which have remained open throughout the previous fiscal year and the period reported. Management believes that the same-store sales were negatively impacted by the elimination of an advertising circular and by the conversion of more than 2,400 stores to the Company's new prototype. The new store prototype and related product mix reflects a 65%/35% hardlines to softlines space allocation versus the previous 50%/50% allocation. The new prototype allocates more space to faster-turning consumable merchandise. For the last six months of fiscal 1998, management expects continued improvement in net sales and same store sales increases.

GROSS PROFIT. Gross profit for the first six months was $302.0 million, or 27.0% of net sales, compared to $257.1 million, or 27.1% of net sales, in the same period last year. Driving the decrease in gross profit as a percent to sales was higher freight costs associated with adding 700 new items to the merchandise mix and increased use of two outside distribution centers. These higher costs were partially offset by lower shrinkage reserves and higher margin on beginning inventory. Management currently anticipates a slight decline in gross profit as a percent of net sales, for the last six months of fiscal 1998.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSE. Selling, general and administrative expense for the six months, ending August 1, 1997, totaled $227.0 million, or 20.3% of net sales, compared with $195.3 million, or 20.5% of net sales in the comparable period last year. As a percentage of sales, increases in employee compensation were offset by decreases in (i) employee incentive compensation costs and (ii) advertising expense. Total operating expense increased 16.3% primarily due to 418 net additional stores being in operation compared to the comparable period last year. Management currently anticipates a slight decline in selling general and administrative expense as a percent of net sales for the last six months of fiscal 1998.

INTEREST EXPENSE. For the first six months of fiscal 1998 interest expense decreased 53.8% to $1.1 million (0.1% of sales) compared with $2.3 million (0.2% of sales) in the comparable period last year primarily as a result of lower average short-term borrowings due to faster-moving consumable merchandise and improved accounts payable leverage. Management currently anticipates interest expense to be flat, as a percentage of sales, in the third quarter to support the normal seasonal inventory increase. For fiscal 1998, management expects interest expense to be lower than last year.

PROVISION FOR TAXES ON INCOME. The effective income tax rate was 37.8% for both the three and six month periods compared with 38.0% in the comparable periods last year, respectively.

THREE MONTHS ENDED AUGUST 1, 1997 AND AUGUST 2, 1996

NET SALES. Net sales for the quarter increased 20.7%, to $596.8 million from $494.4 million for the comparable period of fiscal 1997. The increase resulted from an increase of 6.4% in same-store sales as compared with a 9.8% increase in the same period last year and the operation of 418 additional stores as of August 1, 1997.

GROSS PROFIT. Gross profit for the quarter was $160.2 million, or 26.8% of net sales, compared with $133.7 million, or 27.0% of net sales, in the same period last year. Driving the decrease in gross profit as a percent of sales was higher freight costs which were partially offset by lower shrinkage reserves and higher margin on current purchases.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSE. Selling, general and administrative expense for the quarter totaled $116.7 million, or 19.6% of net sales, compared with $97.3 million, or 19.7% of net sales in the comparable period last year. As a percentage of sales, higher payroll and store maintenance expense associated with the store conversions were offset by lower advertising due to the elimination of the Spring circular. Total operating expense increased 19.9% primarily due to 418 net additional stores being in operationcompared to last year.

INTEREST EXPENSE. Interest expense decreased 51.3% to $540,000 (0.1% of sales) compared with $1.1 million (0.2% of sales) in the comparable period last year. This decrease was primarily a result of the same factors listed above for the six-month period.

LIQUIDITY AND CAPITAL RESOURCES

Cash flows from operating activities - Net cash provided by operating activities decreased to $3.3 million during the first six months of fiscal 1998 compared with $34.6 million in the comparable period last year. This decrease is primarily the result of increased inventories being only partially offset by increased accounts payable. Inventories increased primarily as a result of opening an additional distribution center and opening new stores.

Cash flows from investing activities - Net cash used by investing activities increased to $31.0 million during the first six months compared with $20.3 million in the comparable period last year. Driving this increase was increased capital expenditures primarily related to the Scottsville, Kentucky distribution center expansion, the implementation of point-of sale technology in stores and the conversion of stores to the Company's new prototype. Partially offsetting the capital expenditures was $33.8 million received from the sale (and subsequent leaseback) of the South Boston, Virginia distribution center.

Cash flows from financing activities - The Company's short-term borrowings during the first six months of fiscal 1998 increased by $19.4 million compared with an increase of $2.8 million in fiscal 1997. The increase in short-term borrowings was the result of increased inventories and capital expenditures and was partially offset by increased accounts payable to inventory ratio and the proceeds from the sale/leaseback of the South Boston, Virginia distribution center.

Because of the significant impact of seasonal buying (e.g., Spring and 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 $170 million revolving credit/term loan facility and short-term bank lines of credit totaling $170 million at August 1, 1997. The Company had short-term bank lines of credit borrowings of $57.9 million as of August 1, 1997 and $75.0 million as of August 2, 1996.

As of September 4, 1997, the Company increased its revolving credit/term loan facility to $175 million from $170 million and also negotiated an additional $100 million leveraged lease facility. The revolving credit/term loan facility will be used to fund working capital needs, open market stock repurchases and general corporate needs. The leveraged lease facility will be used to meet capital requirements related to construction of new stores, a new distribution center in Indianola, Mississippi and a new corporate headquarters complex in Goodlettsville, Tennessee. These two credit facilities will expire August 29, 2002 and they contain financial covenants similar to existing credit facilities.

The Company's liquidity position is set forth in the following table (dollars in thousands):

	August 1, 1997	January 31, 1997	August 2, 1996
Current ratio	2.1x	2.2x	2.1x
Total borrowings/equity	10.9%	8.9%	17.5%
Long-term debt/equity	0.3%	0.5%	0.5%
Working Capital	$340,160	$280,134	$287,609
Average daily use of debt: (fiscal year-to-date)			
Short-term	$ 47,185	$ 87,952	$ 81,332
Long-term	3,686	2,930	3,998
Total	$ 50,871	$ 90,882	$ 85,330
Maximum outstanding short-term debt (fiscal year-to-date)	$ 60,883	$184,725	$104,733

PART II - OTHER INFORMATION

Item 1. Not applicable.

Item 2. Not applicable.

Item 3. Not applicable.

Item 4. Submission of Matters to a vote of Security Holders

At the Annual Meeting of Stockholders of the Corporation held June 2, 1997, the Stockholders voted upon one proposal. The result of the Stockholders' vote is as follows:

Proposal No. 1: Election of Directors
The following nominees were elected to serve as Directors of the Corporation until the next Annual Stockholders' Meeting:

Nominee	Votes For	Votes Withheld/Against
Cal Turner	89,008,248	56,085
Cal Turner, Jr.	89,007,255	57,078
James L. Clayton	89,008,236	56,097
Reginald D. Dickson	89,010,834	53,499
John B. Holland	89,002,269	62,064
Barbara M. Knuckles	89,009,907	54,426
Wallace N. Rasmussen	89,005,093	59,240
David M. Wilds	89,006,212	58,121
William S. Wire, II	89,008,570	55,763

Item 5. Not applicable.

Item 6. Exhibits and reports on Form 8-K
(a) No reports on Form 8-K were filed during the quarter ended August 1, 1997.

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)

September 11, 1997	By: SS/ Phil Richards Phil Richards, Vice President and Chief Financial Officer

WARNING: THE EDGAR SYSTEM ENCOUNTERED ERROR(S) WHILE PROCESSING THIS SCHEDULE.

ARTICLE 5

The accompanying notes are an integral part of this statement.

PERIOD TYPE	6 MOS	
FISCAL YEAR END	JAN 31 1998	19,425
PERIOD END	AUG 01 1997	
CASH	24,923	
SECURITIES	0	
RECEIVABLES	0	
ALLOWANCES	0	
INVENTORY	589,660	
CURRENT ASSETS	638,373	
PP&E	351,773	
DEPRECIATION	130,913	
TOTAL ASSETS	864,618	
CURRENT LIABILITIES	298,213	
BONDS	0	
COMMON	67,679	
PREFERRED MANDATORY	0	
PREFERRED	858	
OTHER SE	490,962	
TOTAL LIABILITY AND EQUITY	864,618	
SALES	1,116,834	
TOTAL REVENUES	1,116,834	
CGS	814,823	
TOTAL COSTS	227,034	
OTHER EXPENSES	0	
LOSS PROVISION	0	
INTEREST EXPENSE	1,066	
INCOME PRETAX	73,911	
INCOME TAX	27,901	
INCOME CONTINUING	46,010	
DISCONTINUED	0	
EXTRAORDINARY	0	
CHANGES	0	
NET INCOME	46,010	
EPS PRIMARY	.33	
EPS DILUTED	.33	