DOLLAR GENERAL CORP
Form 10-K
March 25, 2013

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended February 1, 2013

Commission file number: 001-11421

DOLLAR GENERAL CORPORATION

(Exact name of registrant as specified in its charter)

TENNESSEE	**61-0502302**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

100 MISSION RIDGE
GOODLETTSVILLE, 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 each class	Name of the exchange on which registered
Common Stock, par value $0.875 per share	New York Stock Exchange

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ý No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes o No ý

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 ý No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No o

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. o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ý	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No ý

The aggregate fair market value of the registrant's common stock outstanding and held by non-affiliates as of August 3, 2012 was $11.46 billion calculated using the closing market price of our common stock as reported on the NYSE on such date ($51.90). For this purpose, directors, executive officers and greater than 10% record shareholders are considered the affiliates of the registrant.

The registrant had 327,091,344 shares of common stock outstanding as of March 15, 2013.

DOCUMENTS INCORPORATED BY REFERENCE

Certain of 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 May 29, 2013.

INTRODUCTION

General

This report contains references to years 2013, 2012, 2011, 2010, 2009 and 2008, which represent fiscal years ending or ended January 31, 2014, February 1, 2013, February 3, 2012, January 28, 2011, January 29, 2010, and January 30, 2009, respectively. Our fiscal year ends on the Friday closest to January 31, and each of the years listed will be or were 52-week years, with the exception of 2011 which consisted of 53 weeks. All of the discussion and analysis in this report should be read with, and is qualified in its entirety by, the Consolidated Financial Statements and related notes.

Solely for convenience, our trademarks and tradenames may appear in this report without the ® or TM symbol which is not intended to indicate that we will not assert, to the fullest extent under applicable law, our rights or the right to these trademarks and tradenames.

Cautionary Disclosure Regarding Forward-Looking Statements

We include "forward-looking statements" within the meaning of the federal securities laws throughout this report, particularly under the headings "Business," "Management's Discussion and Analysis of Financial Condition and Results of Operations," and "Note 9 Commitments and Contingencies," among others. You can identify these statements because they are not limited to historical fact or they use words such as "may," "will," "should," "could," "believe," "anticipate," "project," "plan," "expect," "estimate," "forecast," "goal," "potential," "opportunity," "intend," "will likely result," or "will continue" and similar expressions that concern our strategy, plans, intentions or beliefs about future occurrences or results. For example, all statements relating to our estimated and projected expenditures, cash flows, results of operations, financial condition and liquidity; our plans, objectives and expectations for future operations, growth or initiatives; or the expected outcome or effect of pending or threatened litigation or audits are forward-looking statements.

All forward-looking statements are subject to risks and uncertainties that may change at any time, so our actual results may differ materially from those that we expected. We derive many of these statements from our operating budgets and forecasts, which are based on many detailed assumptions that we believe are reasonable. However, it is very difficult to predict the effect of known factors, and we cannot anticipate all factors that could affect our actual results.

Important factors that could cause actual results to differ materially from the expectations expressed in our forward-looking statements are disclosed under "Risk Factors" in Part I, Item 1A and elsewhere in this document (including, without limitation, in conjunction with the forward-looking statements themselves and under the heading "Critical Accounting Policies and Estimates"). All forward-looking statements are qualified in their entirety by these and other cautionary statements that we make from time to time in our other SEC filings and public communications. You should evaluate such statements in the context of these risks and uncertainties. These factors may not contain all of the factors that are important to you. We cannot assure you that we will realize the results or developments we anticipate or, even if substantially realized, that they will result in the consequences or affect us in the way we expect. Forward-looking statements are made only as of the date hereof. We undertake no obligation to publicly update or revise any forward-looking statement as a result of new information, future events or otherwise, except as otherwise required by law.

PART I

ITEM 1. BUSINESS

General

We are the largest discount retailer in the United States by number of stores, with 10,557 stores located in 40 states as of March 1, 2013, primarily in the southern, southwestern, midwestern and eastern United States. We offer a broad selection of merchandise, including consumables, seasonal, home products and apparel. Our merchandise includes high quality national brands from leading manufacturers, as well as comparable quality private brand selections with prices at substantial discounts to national brands. We offer our merchandise at everyday low prices (typically $10 or less) through our convenient small-box locations, with selling space averaging approximately 7,300 square feet.

Our History

J.L. Turner founded our Company in 1939 as J.L. Turner and Son, Wholesale. We were incorporated as a Kentucky corporation under the name J.L. Turner & Son, Inc. in 1955, when we opened our first Dollar General store. We changed our name to Dollar General Corporation in 1968 and reincorporated in 1998 as a Tennessee corporation. Our common stock was publicly traded from 1968 until July 2007, when we merged with an entity controlled by investment funds affiliated with Kohlberg Kravis Roberts & Co. L.P., or KKR. In November 2009 our common stock again became publicly traded.

Our Business Model

Our long history of profitable growth is founded on a commitment to a relatively simple business model: providing a broad base of customers with their basic everyday and household needs, supplemented with a variety of general merchandise items, at everyday low prices in conveniently located, small-box stores. We continually evaluate the needs and demands of our customers and modify our merchandise selections and pricing accordingly, while remaining focused on increasing profitability for our shareholders.

Fiscal year 2012 represented our 23rd consecutive year of same-store sales growth. This growth, regardless of economic conditions, suggests that we have a less cyclical model than most retailers and, we believe, is a result of our compelling value and convenience proposition.

Our attractive store economics, including a relatively low initial investment and simple, low cost operating model, have allowed us to grow our store base to current levels, and provide us significant opportunities to continue our profitable store growth strategy.

Compelling Value and Convenience Proposition. Our ability to deliver highly competitive prices on national brand and quality private brand products in convenient locations and our easy "in and out" shopping format create a compelling shopping experience that distinguishes us from other discount, convenience and drugstore retailers. Our slogan, "Save time. Save money. Every day!" summarizes our appeal to customers. We believe our ability to effectively deliver both value and convenience allows us to succeed in small markets with limited shopping alternatives, as well as to profitably coexist alongside larger retailers in more competitive markets. Our compelling value and convenience proposition is evidenced by the following attributes of our business model:

> *Convenient Locations.* Our stores are conveniently located in a variety of rural, suburban and urban communities, currently with approximately 70% serving communities with populations of less than 20,000. In more densely populated areas, our small-box stores typically serve the closely surrounding neighborhoods. The majority of our customers live within three to five miles, or a

10-minute drive, of our stores. Our close proximity to customers drives customer loyalty and trip frequency and makes us an attractive alternative to large discount and other large-box retail and grocery stores which are often located farther away. Our low-cost economic model enables us to serve many areas with fewer than 1,500 households.

Time-Saving Shopping Experience. We also provide customers with a highly convenient shopping experience. Our stores' smaller size allows us to locate parking near the front entrance. Our product offering includes most necessities, such as basic packaged and refrigerated food and dairy products, cleaning supplies, paper products, and health and beauty care items, as well as greeting cards, party supplies, apparel, housewares, hardware and automotive supplies, among others. Our typical store opens at 8:00 a.m. and closes at 9:00 p.m. or 10:00 p.m., seven days per week. Our convenient hours and broad merchandise offering allow our customers to fulfill their routine shopping requirements and minimize their need to shop elsewhere.

Everyday Low Prices on Quality Merchandise. Our research indicates that we offer a price advantage over most food and drug retailers and that our prices are highly competitive with even the largest discount retailers. Our ability to offer everyday low prices on quality merchandise is supported by our low-cost operating structure and our strategy to maintain a limited number of stock keeping units ("SKUs") per category, which we believe helps us maintain strong purchasing power. Most items are priced below $10, with approximately 25% at $1 or less. We offer quality nationally advertised brands at these everyday low prices in addition to offering our own comparable quality private brands at value prices.

Substantial Growth Opportunities. We believe we have significant long-term growth potential in the U.S. We have identified significant opportunities to add new stores in both existing and new markets. In addition, we have opportunities within our existing store base to relocate or remodel to better serve our customers. As part of our growth strategy, we are developing and testing new store formats, with a current focus on providing customers convenient access to more affordable perishable food items. See "Our Growth Strategy" for additional details.

Our Growth Strategy

We believe that our strategy and execution capabilities will allow us to capitalize on the considerable growth opportunities afforded by our business model. Specifically, we believe we continue to have significant opportunities to drive profitable growth through increasing same-store sales, expanding our operating profit rate and growing our store base.

Increasing Same-Store Sales. We believe our customer-driven merchandise mix and attractive value proposition, combined with our ongoing new store expansion strategy and the impact of our remodeled and relocated stores, provide a strong basis for increased same-store sales. We define "same-stores" as stores that have been open for at least 13 months at the beginning of each monthly accounting period, and we include stores that have been remodeled, expanded or relocated in our same-store sales calculation. Our average net sales per square foot, based on total stores, increased to $216 in 2012 from $213 in 2011 (which included a contribution of approximately $4 from the 53rd week) and $201 in 2010. We believe we have opportunities to increase our store productivity in 2013 through continued improvement in our in-stock positions, improvements in store space utilization, price optimization and additional operating and merchandising initiatives, including the addition of tobacco products and further expansion of our frozen and refrigerated food offerings, value-priced seasonal items, and electronics.

We remodeled or relocated 592 stores in 2012, and we plan to remodel or relocate approximately 550 stores in 2013. A relocation typically results in an improved, more visible and accessible location, and usually includes increased square footage. A remodel typically involves new fixtures, signage and other upgrades, resulting in an improved in-store experience for our customers. We believe we will continue to have opportunities for additional remodels and relocations beyond 2013.

Expanding Operating Profit Rate. Another key component of our growth strategy is improving our operating profit rate through enhanced gross profit and expense reduction initiatives.

We remain committed to an everyday low price ("EDLP") strategy that our customers can depend on. To strengthen our adherence to this strategy and still protect gross profit, we utilize various pricing and merchandising options, including zone pricing, markdown optimization strategies and changes to our product selection, such as alternate national brands and the expansion of our private brands, which generally have higher gross profit rates. In addition, we maintain an ongoing focus on reducing transportation and distribution costs as well as minimizing inventory shrinkage and damages. Over the long term, we believe there are additional opportunities to reduce product costs, including further expansion of our private brands, additional shrink reduction, benefits from expansion of foreign sourcing and incremental distribution and transportation efficiencies. We also plan to continue to introduce new non-consumable products. The addition of tobacco products and the further expansion of coolers are expected to modestly pressure our operating profit rate in 2013.

As part of our ongoing effort to improve our cost structure and enhance efficiencies throughout the organization, in 2012, we simplified many of our store processes and achieved significant incremental benefits from our store workforce management program, implemented in 2011. We expect to achieve further efficiencies in 2013 and to realize additional cost savings from our centralized procurement initiative.

Growing Our Store Base. After slowing our growth rate in 2007 and 2008 to focus on significantly improving the sales and profitability of our stores, we accelerated our expansion in 2009 and have grown our retail square footage by approximately 7% annually since that time. In 2012, we made our initial entrance into California and Massachusetts, and in 2011 we entered Connecticut, New Hampshire and Nevada, our first new states since 2006. We have confidence in our real estate disciplines and in our ability to identify, open and operate successful new stores. In 2013, we plan to again increase our square footage by approximately 7% as we further expand in our core markets and newer states and continue to evaluate our long-term opportunities to best serve the needs of customers in new markets and more densely populated metropolitan areas.

Our Merchandise

We offer a focused assortment of everyday necessities, which drive frequent customer visits, and key items in a broad range of general merchandise categories. Our product assortment provides the opportunity for our customers to address most of their basic shopping needs with one trip. We sell high quality national brands from leading manufacturers such as Procter & Gamble, PepsiCo, Coca-Cola, Nestle, General Mills, Unilever, Kimberly Clark, Kellogg's and Nabisco, which are typically found at higher retail prices elsewhere. Additionally, our private brand consumables offer even greater value with options to purchase value items and national brand equivalent products at substantial discounts to the national brand.

Our stores generally offer approximately 10,000 total SKUs per store; however, the number of SKUs in a given store can vary based upon the store's size, geographic location, merchandising initiatives, seasonality, and other factors. Most of our products are priced at $10 or less, with approximately 25% at $1 or less. We separate our merchandise into four categories: 1) consumables; 2) seasonal; 3) home products; and 4) apparel.

Consumables is our largest category and includes paper and cleaning products (such as paper towels, bath tissue, paper dinnerware, trash and storage bags, laundry and other home cleaning supplies); packaged food (such as cereals, canned soups and vegetables, condiments, spices, sugar and flour); perishables (such as milk, eggs, bread, frozen meals, beer and wine); snacks (including candy, cookies, crackers, salty snacks and carbonated beverages); health and beauty (including over-the-counter medicines and personal care products, such as soap, body wash, shampoo, dental hygiene and foot care products); and pet (including pet supplies and pet food).

Seasonal products include decorations, toys, batteries, small electronics, greeting cards, stationery, prepaid phones and accessories, gardening supplies, hardware, automotive and home office supplies.

Home products includes kitchen supplies, cookware, small appliances, light bulbs, storage containers, frames, candles, craft supplies and kitchen, bed and bath soft goods.

Apparel includes casual everyday apparel for infants, toddlers, girls, boys, women and men, as well as socks, underwear, disposable diapers, shoes and accessories.

The percentage of net sales of each of our four categories of merchandise for the fiscal years indicated below was as follows:

	2012	2011	2010
Consumables	73.9%	73.2%	71.6%
Seasonal	13.6%	13.8%	14.5%
Home products	6.6%	6.8%	7.0%
Apparel	5.9%	6.2%	6.9%

Our seasonal and home products categories typically account for the highest gross profit margins, and the consumables category typically accounts for the lowest gross profit margin.

The Dollar General Store

The typical Dollar General store has, on average, approximately 7,300 square feet of selling space and is typically operated by a store manager, an assistant store manager and three or more sales clerks. Approximately 63% of our stores are in freestanding buildings and 37% are in strip shopping centers. Most of our customers live within three to five miles, or a 10 minute drive, of our stores.

Our traditional store strategy features a low cost, no frills building with limited maintenance capital, low operating costs, and a focused merchandise offering within a broad range of categories, allowing us to deliver low retail prices while generating strong cash flows and investment returns. Our initial capital investment in new stores varies depending on the lease structure or ownership as well as the size and location of the store. "Plus" stores, our new format with a significantly expanded frozen and refrigerated food section when compared to our traditional stores, have higher initial capital costs and are more costly to operate. Likewise, additional space, equipment, and operating costs, including store labor, are required in our Dollar General Market stores, primarily to handle fresh meats and produce. In 2012, a significant majority of the new stores we opened were traditional stores. We are continuing to test the Plus and Market concepts and look for areas to increase sales productivity and lower our costs to open and operate.

We generally have had good success in locating suitable store sites in the past, and we believe that there is ample opportunity for new store growth in existing and new markets. In addition, we believe we have significant opportunities available for our relocation and remodel programs. We remodeled or relocated 592 stores in 2012, 575 in 2011 and 504 in 2010. Our remodels and relocations in 2012 included 82 stores which we converted to Plus stores. At the end of 2012, we operated 10,272 traditional stores, 124 Plus stores, averaging approximately 10,000 square feet of selling space, and 110 Dollar General Market stores, averaging approximately 16,000 square feet of selling space.

Our recent store growth is summarized in the following table:

Year	Stores at Beginning of Year	Stores Opened	Stores Closed	Net Store Increase	Stores at End of Year
2010	8,828	600	56	544	9,372
2011	9,372	625	60	565	9,937
2012	9,937	625	56	569	10,506

Our Customers

Our customers seek value and convenience. Depending on their financial situation and geographic proximity, customers' reliance on Dollar General varies from using Dollar General for fill-in shopping, to making periodic trips to stock up on household items, to making weekly or more frequent trips to meet most essential needs. We generally locate our stores and plan our merchandise selections to best serve the needs of our core customers, the low to lower-middle or fixed income households often underserved by other retailers. At the same time, however, customers from a wide range of income brackets and life stages appreciate our quality merchandise and attractive value and convenience proposition and are loyal Dollar General shoppers. In the last year, we have continued to see increases in the annual number of shopping trips that our customers make to our stores as well as the amount spent during each trip.

To attract new and retain existing customers, we continue to focus on product quality and selection, in-stock levels and pricing, targeted advertising, improved store standards, convenient site locations, and a pleasant overall customer experience.

Our Suppliers

We purchase merchandise from a wide variety of suppliers and maintain direct buying relationships with many producers of national brand merchandise, such as Procter & Gamble, PepsiCo, Coca-Cola, Nestle, General Mills, Unilever, Kimberly Clark, Kellogg's, and Nabisco. Despite our broad offering, we maintain only a limited number of SKUs per category, giving us a pricing advantage in dealing with our suppliers. Approximately 8% and 7% of our purchases in 2012 were from our largest and second largest suppliers, respectively. Our private brands come from a diversified supplier base. We directly imported approximately $765 million or 7% of our purchases at cost (11% of our purchases based on their retail value) in 2012. Our vendor arrangements generally provide for payment for such merchandise in U.S. dollars.

We have consistently managed to obtain sufficient quantities of core merchandise and believe that, if one or more of our current sources of supply became unavailable, we would generally be able to obtain alternative sources without experiencing a substantial disruption of our business. However, such alternative sources could increase our merchandise costs or reduce the quality of our merchandise, and an inability to obtain alternative sources could adversely affect our sales.

Distribution and Transportation

Our stores are currently supported by eleven distribution centers located strategically throughout our geographic footprint, including a distribution center in Bessemer, Alabama which began shipping to stores in March 2012 and a leased distribution facility in Lebec, California which began shipping in April 2012. We currently have a distribution center under construction in Pennsylvania which is expected to begin shipping in early 2014. We lease additional temporary warehouse space as necessary to support our distribution needs. Over the past few years we have made significant investments in facilities, technological improvements and upgrades, and we continue to improve work processes, all of which increase our efficiency and ability to support our merchandising and operations initiatives as well as our new store growth. We continually analyze and rebalance the network to ensure that it remains efficient and provides the service our stores require. See " Properties" for additional information pertaining to our distribution centers.

Most of our merchandise flows through our distribution centers and is delivered to our stores by third-party trucking firms, utilizing our trailers. Our agreements with these trucking firms are based on estimated costs of diesel fuel, with the difference in estimated and current market fuel costs passed through to us. The costs of diesel fuel are significantly influenced by international, political and economic circumstances. Our average cost per gallon of diesel fuel increased slightly in 2012 and more significantly in 2011. If further price increases were to arise for any reason, including fuel supply shortages or unusual price volatility, the resulting higher fuel prices could materially increase our transportation costs.

Seasonality

Our business is seasonal to a certain extent. Generally, our highest sales volume occurs in the fourth quarter, which includes the Christmas selling season, and the lowest occurs in the first quarter. In addition, our quarterly results can be affected by the timing of certain holidays, the timing of new store openings and store closings, the amount of sales contributed by new and existing stores, as well as financial transactions such as debt repurchases, common stock offerings and stock repurchases. We purchase substantial amounts of inventory in the third quarter and incur higher shipping costs and higher payroll costs in anticipation of the increased sales activity during the fourth quarter. In addition, we carry merchandise during our fourth quarter that we do not carry during the rest of the year, such as gift sets, holiday decorations, certain baking items, and a broader assortment of toys and candy.

The following table reflects the seasonality of net sales, gross profit, and net income by quarter for each of the quarters of our three most recent fiscal years. The fourth quarter of the year ended February 3, 2012 was comprised of 14 weeks, and each of the other quarters reflected below were comprised of 13 weeks.

(in millions)	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Year Ended February 1, 2013				
Net sales	$ 3,901.2	$ 3,948.7	$ 3,964.6	$ 4,207.6
Gross profit	1,228.3	1,263.2	1,226.1	1,367.8
Net income(a)	213.4	214.1	207.7	317.4
Year Ended February 3, 2012				
Net sales	$ 3,451.7	$ 3,575.2	$ 3,595.2	$ 4,185.1
Gross profit	1,087.4	1,148.3	1,115.8	1,346.4
Net income(b)	157.0	146.0	171.2	292.5
Year Ended January 28, 2011				
Net sales	$ 3,111.3	$ 3,214.2	$ 3,223.4	$ 3,486.1
Gross profit	999.8	1,036.0	1,010.7	1,130.2
Net income	136.0	141.2	128.1	222.5

(a) Includes expenses, net of income taxes, of $17.7 million related to the redemption of long-term obligations in second quarter of 2012.

(b) Includes expenses, net of income taxes, of $35.4 million related to the redemption of long-term obligations in second quarter of 2011.

Our Competition

We operate in the basic discount consumer goods market, which is highly competitive with respect to price, store location, merchandise quality, assortment and presentation, in-stock consistency, and customer service. We compete with discount stores and with many other retailers, including mass merchandise, grocery, drug, convenience, variety and other specialty stores. These other retail companies operate stores in many of the areas where we operate, and many of them engage in extensive advertising and marketing efforts. Our direct competitors include Family Dollar, Dollar Tree, Fred's, 99 Cents Only and various local, independent operators, as well as Walmart, Target, Walgreens, CVS, and Rite Aid, among others. Certain of our competitors have greater financial, distribution, marketing and other resources than we do.

We differentiate ourselves from other forms of retailing by offering consistently low prices in a convenient, small-store format. We believe that our prices are competitive due in part to our low cost operating structure and the relatively limited assortment of products offered. Purchasing large volumes of merchandise within our focused assortment in each merchandise category allows us to keep our average costs low, contributing to our ability to offer competitive everyday low prices to our customers. See " Our Business Model" above for further discussion of our competitive situation.

Our Employees

As of March 1, 2013, we employed approximately 90,500 full-time and part-time employees, including divisional and regional managers, district managers, store managers, other store personnel and distribution center and administrative personnel. We have increasingly focused on recruiting, training, motivating and retaining employees, and we believe that the quality, performance and morale of our employees have increased as a result. We currently are not a party to any collective bargaining agreements.

Our Trademarks

We own marks that are registered with the United States Patent and Trademark Office and are protected under applicable intellectual property laws, including without limitation the trademarks Dollar General®, Dollar General Market®, Clover Valley®, DG®, Smart & Simple®, trueliving®, Sweet Smiles®, Open Trails®, Bobbie Brooks® Comfort Bay^{tm}, and Holiday Style®, along with variations and formatives of these trademarks as well as certain other trademarks. We attempt to obtain registration of our trademarks whenever practicable and to pursue vigorously any infringement of those marks. Our trademark registrations have various expiration dates; however, assuming that the trademark registrations are properly renewed, they have a perpetual duration.

We also hold licenses to use various trademarks owned by third parties, including a license to the Fisher Price brand for certain items of children's clothing through December 31, 2013, and an exclusive license to the Rexall brand through March 5, 2020.

Available Information

Our Web site address is www.dollargeneral.com. We file with or furnish to the Securities and Exchange Commission (the "SEC") annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports, proxy statements and annual reports to shareholders, and, from time to time, registration statements and other documents. These documents are available free of charge to investors on or through the Investor Information portion of our Web site as soon as reasonably practicable after we electronically file them with or furnish them to the SEC. In addition, the public may read and copy any of the materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an internet site that contains reports, proxy and information statements and other information regarding issuers, such as Dollar General, that file electronically with the SEC. The address of that web site is http://www.sec.gov.

ITEM 1A. RISK FACTORS

You should carefully consider the risks described below and the other information contained in this report and other filings that we make from time to time with the SEC, including our consolidated financial statements and accompanying notes. Any of the following risks could materially and adversely affect our business, financial condition, results of operations or liquidity. These risks are not the only risks we face. Our business, financial condition, results of operations or liquidity could also be adversely affected by additional factors that apply to all companies generally or by risks not currently known to us or that we currently view to be immaterial. We can provide no assurance and make no representation that our mitigation efforts, although we believe they are reasonable, will be successful.

Current economic conditions and other economic factors may adversely affect our financial performance and other aspects of our business by negatively impacting our customer's disposable income or discretionary spending, increasing our costs of goods sold and selling, general and administrative expenses, and adversely affecting our sales or profitability.

We believe many of our customers are on fixed or low incomes and generally have limited discretionary spending dollars. Any factor that could adversely affect that disposable income would decrease our customer's spending and could cause our customers to shift their spending to products other than those sold by us or to products sold by us that are less profitable than other product choices, all of which could result in lower net sales, decreases in inventory turnover, greater markdowns on inventory, and a reduction in profitability due to lower margins. Factors that could reduce our customers' disposable income include but are not limited to a further slowdown in the economy, a delayed economic recovery, or other economic conditions such as increased or sustained high unemployment or underemployment levels, inflation, increases in fuel or other energy costs and interest rates, lack of available credit, consumer debt levels, higher tax rates and other changes in tax laws.

Many of the factors identified above that affect disposable income, as well as commodity rates, transportation costs (including the costs of diesel fuel), costs of labor, insurance and healthcare, foreign exchange rate fluctuations, lease costs, measures that create barriers to or increase the costs associated with international trade, changes in other laws and regulations and other economic factors, also affect our cost of goods sold and our selling, general and administrative expenses, which may adversely affect our sales or profitability. We have limited or no ability to control many of these factors. We experienced escalation of product costs in 2011 as a result of increases in the costs of certain commodities (including cotton, sugar, coffee, groundnuts, resin), and increasing diesel fuel costs. These costs generally stabilized in 2012. We will be diligent in our efforts to keep product costs as low as possible in the face of these increases while still working to optimize gross profit and meet the needs of our customers.

In addition, many of the factors discussed above, along with current global economic conditions and uncertainties, the potential for additional failures or realignments of financial institutions, and the related impact on available credit may affect us and our suppliers and other business partners, landlords and service providers in an adverse manner including, but not limited to, reducing access to liquid funds or credit, increasing the cost of credit, limiting our ability to manage interest rate risk, increasing the risk of bankruptcy of our suppliers, landlords or counterparties to, or other financial institutions involved in, our credit facilities and our derivative and other contracts, increasing the cost of goods to us, and other adverse consequences which we are unable to fully anticipate or control.

Our plans depend significantly on initiatives designed to increase sales and improve the efficiencies, costs and effectiveness of our operations, and failure to achieve or sustain these plans could affect our performance adversely.

We have initiatives (such as those relating to merchandising, sourcing, shrink, private brand, store operations, selling, general and administrative expense reduction, and real estate) in various stages of testing, evaluation, and implementation, upon which we expect to rely to continue to improve our results of operations and financial condition and to achieve our financial plans. These initiatives are inherently risky and uncertain, even when tested successfully, in their application to our business in general. It is possible that successful testing can result partially from resources and attention that cannot be duplicated in broader implementation, particularly in light of the diverse geographic locations of our stores and the fact that our field management is so decentralized. General implementation also may be negatively affected by other risk factors described herein. Successful systemwide implementation relies on consistency of training, stability of workforce, ease of execution, and the absence of offsetting factors that can influence results adversely. Failure to achieve successful implementation of our initiatives or the cost of these initiatives exceeding management's estimates could adversely affect our results of operations and financial condition.

In addition, the success of our merchandising initiatives, particularly those with respect to non-consumable merchandise and store-specific products and allocations, depends in part upon our ability to predict consistently and successfully the products our customers will demand and to identify and timely respond to evolving trends in demographics and consumer preferences, expectations and needs. If we are unable to select products that are attractive to customers, to obtain such products at costs that allow us to sell them at a profit, or to effectively market such products, our sales, market share and profitability could be adversely affected. If our merchandising efforts in the non-consumables area are unsuccessful, we could be further adversely affected by our inability to offset the lower margins associated with our consumables business.

We face intense competition that could limit our growth opportunities and adversely impact our financial performance.

The retail business is highly competitive with respect to price, store location, merchandise quality, assortment and presentation, in-stock consistency, customer service, aggressive promotional activity, customers, and employees. We compete with retailers operating discount, mass merchandise, outlet, warehouse club, grocery, drug, convenience, variety and other specialty stores. This competitive environment subjects us to the risk of adverse impact to our financial performance because of the lower prices, and thus the lower margins, required to maintain our competitive position. Also, companies like ours, due to customer demographics and other factors, may have limited ability to increase prices in response to increased costs without losing competitive position. This limitation may adversely affect our margins and financial performance. Certain of our competitors have greater financial, distribution, marketing and other resources than we do and may be able to secure better arrangements with suppliers than we can. If we fail to respond effectively to competitive pressures and changes in the retail markets, it could adversely affect our financial performance.

Competition for customers has intensified in recent years as competitors have moved into, or increased their presence in, our geographic markets. In addition, some of our large box competitors are or may be developing small box formats which may produce more competition. We remain vulnerable to the marketing power and high level of consumer recognition of these larger competitors and to the risk that these competitors or others could venture into our industry in a significant way. Generally, we expect a continued increase in competition.

Our private brands may not maintain broad market acceptance and increase the risks we face.

We have substantially increased the number of our private brand items, and the program is a sizable part of our future growth plans. We believe that our success in maintaining broad market acceptance of our private brands depends on many factors, including pricing, our costs, quality and customer perception. We may not achieve or maintain our expected sales for our private brands. As a result, our business, financial condition and results of operations could be materially and adversely affected.

A significant disruption to our distribution network or to the timely receipt of inventory could adversely impact sales or increase our transportation costs, which would decrease our profits.

We rely on our distribution and transportation network to provide goods to our stores in a timely and cost-effective manner through deliveries to our distribution centers from vendors and then from the distribution centers or direct ship vendors to our stores by various means of transportation, including shipments by sea and truck. Any disruption, unanticipated expense or operational failure related to this process could affect store operations negatively. For example, unexpected delivery delays or increases in transportation costs (including through increased fuel costs, a decrease in transportation capacity for overseas shipments, or work stoppages or slowdowns) could significantly decrease our ability to make sales and earn profits. Labor shortages or work stoppages in the transportation industry or long-term disruptions to the national and international transportation infrastructure that lead to delays or interruptions of deliveries could also negatively affect our business.

We maintain a network of distribution facilities and have plans to build new facilities to support our growth objectives. Delays in opening distribution centers could adversely affect our future operations by slowing store growth, which may in turn reduce revenue growth. In addition, distribution-related construction or expansion projects entail risks which could cause delays and cost overruns, such as: shortages of materials or skilled labor; work stoppages; unforeseen construction, scheduling, engineering, environmental or geological problems; weather interference; fires or other casualty losses; and unanticipated cost increases. The completion date and ultimate cost of these projects could differ significantly from initial expectations due to construction-related or other reasons. We cannot guarantee that any project will be completed on time or within established budgets.

Rising fuel costs could materially adversely affect our business.

Fuel prices are significantly influenced by international, political and economic circumstances. Increases in the price of fuel pose a challenge to our continued priority of optimizing our gross profit rate. Sustained inflated prices or further price increases for any reason, including fuel supply shortages or unusual price volatility, could materially increase our transportation costs, adversely affecting our gross profit and results of operations. In addition, competitive pressures in our industry may inhibit our ability to reflect these increased costs in the prices of our products. We will diligently attempt to keep product costs as low as possible as we face these increases while still working to optimize gross profit and meet our customers' needs.

Risks associated with or faced by the domestic and foreign suppliers from whom our products are sourced could adversely affect our financial performance.

The products we sell are sourced from a wide variety of domestic and international suppliers. In 2012, our largest supplier accounted for 8% of our purchases, and our next largest supplier accounted for approximately 7% of such purchases. We have not experienced any difficulty in obtaining sufficient quantities of core merchandise and believe that, if one or more of our current sources of supply became unavailable, we would generally be able to obtain alternative sources without experiencing a substantial disruption of our business. However, such alternative sources could increase our merchandise costs and reduce the quality of our merchandise, and an inability to obtain alternative sources could adversely affect our sales.

We directly imported approximately 7% of our purchases (measured at cost) in 2012, but many of our domestic vendors directly import their products or components of their products. Changes to the prices and flow of these goods for any reason, such as political and economic instability in the countries in which foreign suppliers are located, the financial instability of suppliers, suppliers' failure to meet our standards, issues with labor practices of our suppliers or labor problems they may experience (such as strikes), the availability and cost of raw materials to suppliers, merchandise quality or safety issues, currency exchange rates, transport availability and cost, inflation, and other factors relating to the suppliers and the countries in which they are located or from which they import, are beyond our control and could adversely affect our operations and profitability. Because a substantial amount of our imported merchandise comes from China, a change in the Chinese currency or other policies could negatively impact our merchandise costs. In addition, the United States' foreign trade policies, tariffs and other impositions on imported goods, trade sanctions imposed on certain countries, the limitation on the importation of certain types of goods or of goods containing certain materials from other countries and other factors relating to foreign trade are beyond our control. Disruptions due to labor stoppages, strikes or slowdowns, or other disruptions involving our vendors or the transportation and handling industries also may negatively affect our ability to receive merchandise and thus may negatively affect sales. Prolonged disruptions could also materially increase our labor costs both during and following the disruption. These and other factors affecting our suppliers and our access to products could adversely affect our financial performance. As we increase our imports of merchandise from foreign vendors, the risks associated with foreign imports will increase.

Product liability and food safety claims could adversely affect our business, reputation and financial performance.

Despite our best efforts to ensure the quality and safety of the products we sell, we may be subject to product liability claims from customers or penalties from government agencies relating to products, including food products that are recalled, defective or otherwise alleged to be harmful. Such claims may result from tampering by unauthorized third parties, product contamination or spoilage, including the presence of foreign objects, substances, chemicals, other agents, or residues introduced during the growing, storage, handling and transportation phases. All of our vendors and their products must comply with applicable product and food safety laws. We generally seek contractual indemnification and insurance coverage from our suppliers. However, if we do not have adequate contractual indemnification and/or insurance available, such claims could have a material adverse effect on our business, financial condition and results of operations. Our ability to obtain indemnification from foreign suppliers may be hindered by the manufacturers' lack of understanding of U.S. product liability or other laws, which may make it more likely that we be required to respond to claims or complaints from customers as if we were the manufacturer of the products. Even with adequate insurance and indemnification, such claims could significantly damage our reputation and consumer confidence in our products. Our litigation expenses could increase as well, which also could have a materially negative impact on our results of operations even if a product liability claim is unsuccessful or is not fully pursued.

We are subject to governmental regulations, procedures and requirements. A significant change in, or noncompliance with, these regulations could have a material adverse effect on our financial performance.

Our business is subject to numerous and increasing federal, state and local laws and regulations. We routinely incur costs in complying with these regulations. New laws or regulations, particularly those dealing with healthcare reform, product safety, and labor and employment, among others, or changes in existing laws and regulations, particularly those governing the sale of products, may result in significant added expenses or may require extensive system and operating changes that may be difficult to implement and/or could materially increase our cost of doing business. Untimely compliance or noncompliance with applicable regulations or untimely or incomplete execution of a required product recall can result in the imposition of penalties, including loss of licenses or significant fines or monetary penalties, in addition to reputational damage.

Litigation may adversely affect our business, financial condition and results of operations.

Our business is subject to the risk of litigation by employees, consumers, suppliers, competitors, shareholders, government agencies and others through private actions, class actions, administrative proceedings, regulatory actions or other litigation. The number of employment-related class actions filed each year has continued to increase, and recent changes and proposed changes in Federal and state laws may cause claims to rise even more. The outcome of litigation, particularly class action lawsuits, regulatory actions and intellectual property claims, is difficult to assess or quantify. Plaintiffs in these types of lawsuits may seek recovery of very large or indeterminate amounts, and the magnitude of the potential loss relating to these lawsuits may remain unknown for substantial periods of time. In addition, certain of these lawsuits, if decided adversely to us or settled by us, may result in liability material to our financial statements as a whole or may negatively affect our operating results if changes to our business operations are required. The cost to defend future litigation may be significant. There also may be adverse publicity associated with litigation that could negatively affect customer perception of our business, regardless of whether the allegations are valid or whether we are ultimately found liable. As a result, litigation may adversely affect our business, financial condition and results of operations. See Note 9 to the consolidated financial statements for further details regarding certain of these pending matters.

If we cannot open, relocate or remodel stores profitably and on schedule, our planned future growth will be impeded, which would adversely affect sales.

Our ability to open, relocate and remodel profitable stores is a key component of our planned future growth. Our ability to timely open stores and to expand into additional market areas depends in part on the following factors: the availability of attractive store locations; the absence of entitlement process or occupancy delays; the ability to negotiate acceptable lease and development terms; the ability to hire and train new personnel, especially store managers, in a cost effective manner; the ability to identify customer demand in different geographic areas; general economic conditions; and the availability of capital funding for expansion. Many of these factors also affect our ability to successfully relocate stores, and many of them are beyond our control. Tighter lending practices also may make financing more challenging for our real estate developers which could impact the timing of store openings under our build-to-suit program.

Delays or failures in opening new stores or completing relocations or remodels, or achieving lower than expected sales in new stores, could materially adversely affect our growth and/or profitability. We also may not anticipate all of the challenges imposed by the expansion of our operations and, as a result, may not meet our targets for opening new stores, remodeling or relocating stores or expanding profitably.

Some of our new stores may be located in areas where we have little or no meaningful experience or brand recognition. Those markets may have different competitive and market conditions, consumer tastes and discretionary spending patterns than our existing markets, as well as higher cost of entry, which may cause our new stores to be initially less successful than stores in our existing markets. In addition, our alternative format stores, such as our Dollar General Market and, to a lesser degree our Dollar General Plus stores, have significantly higher capital costs than our traditional Dollar General stores, and, as a result, may increase our financial risk if they do not perform as expected.

Many of our new stores will be located in areas where we have existing units. Although we have experience in these markets, increasing the number of locations in these markets may result in inadvertent over-saturation and temporarily or permanently divert customers and sales from our existing stores, thereby adversely affecting our overall financial performance.

Natural disasters (whether or not caused by climate change), unusual weather conditions, pandemic outbreaks, terrorist acts, and global political events could cause permanent or temporary distribution center or store closures, impair our ability to purchase, receive or replenish inventory, or decrease customer traffic, all of which could result in lost sales and otherwise adversely affect our financial performance.

The occurrence of one or more natural disasters, such as hurricanes, fires, floods and earthquakes, unusual weather conditions, pandemic outbreaks, terrorist acts or disruptive global political events, such as civil unrest in countries in which our suppliers are located, or similar disruptions could adversely affect our operations and financial performance. To the extent these events result in the closure of one or more of our distribution centers, a significant number of stores, or our corporate headquarters or impact one or more of our key suppliers, our operations and financial performance could be materially adversely affected through an inability to make deliveries or provide other support functions to our stores and through lost sales. In addition, these events could result in increases in fuel (or other energy) prices or a fuel shortage, delays in opening new stores, the temporary lack of an adequate work force in a market, the temporary or long-term disruption in the supply of products from some domestic and overseas suppliers, the temporary disruption in the transport of goods from overseas, delay in the delivery of goods to our distribution centers or stores, the temporary reduction in the availability of products in our stores and disruption of our utility services or to our information systems. These events also can have indirect consequences such as increases in the costs of insurance if they result in significant loss of property or other insurable damage.

Material damage or interruptions to our information systems as a result of external factors, staffing shortages and unanticipated challenges or difficulties in updating our existing technology or developing or implementing new technology could have a material adverse effect on our business or results of operations.

We depend on a variety of information technology systems for the efficient functioning of our business. Such systems are subject to damage or interruption from power outages, computer and telecommunications failures, computer viruses, security breaches and natural disasters. Damage or interruption to these systems may require a significant investment to fix or replace them, and we may suffer interruptions in our operations in the interim. Any material interruptions may have a material adverse effect on our business or results of operations.

We also rely heavily on our information technology staff. Failure to meet these staffing needs may negatively affect our ability to fulfill our technology initiatives while continuing to provide maintenance on existing systems. We rely on certain vendors to maintain and periodically upgrade many of these systems so that they can continue to support our business. The software programs supporting many of our systems were licensed to us by independent software developers. The inability of these developers or us to continue to maintain and upgrade these information systems and software programs would disrupt or reduce the efficiency of our operations if we were unable to convert to alternate systems in an efficient and timely manner. In addition, costs and potential problems and interruptions associated with the implementation of new or upgraded systems and technology or with maintenance or adequate support of existing systems could also disrupt or reduce the efficiency of our operations.

Failure to attract and retain qualified employees, particularly field, store and distribution center managers, while controlling labor costs, as well as other labor issues, could adversely affect our financial performance.

Our future growth and performance depends on our ability to attract, retain and motivate qualified employees, many of whom are in positions with historically high rates of turnover such as field managers and distribution center managers. Our ability to meet our labor needs, while controlling our labor costs, is subject to many external factors, including competition for and availability of qualified personnel in a given market, unemployment levels within those markets, prevailing wage rates, minimum wage laws, health and other insurance costs, and changes in employment and labor laws (including changes in the process for our employees to join a union) or other workplace regulation (including changes in "entitlement" programs such as health insurance and paid leave programs). To the extent a significant portion of our employee base unionizes, or attempts to unionize, our labor costs could increase. In addition, we are evaluating the potential future impact of recently enacted comprehensive healthcare reform legislation, which will likely cause our healthcare costs to increase. While the significant costs of the healthcare reform legislation will occur after 2013, if at all, due to provisions of the legislation being phased in over time, changes to our healthcare costs structure could have a significant negative effect on our business. Our ability to pass along labor costs to our customers is constrained by our low price model.

Our profitability may be negatively affected by inventory shrinkage.

We are subject to the risk of inventory loss and theft. We experience significant inventory shrinkage, and we cannot assure you that incidences of inventory loss and theft will decrease in the future or that the measures we are taking will effectively reduce the problem of inventory shrinkage. Although some level of inventory shrinkage is an unavoidable cost of doing business, if we were to experience higher rates of inventory shrinkage or incur increased security costs to combat inventory theft, our financial condition could be affected adversely.

Our cash flows from operations may be negatively affected if we are not successful in managing our inventory balances.

Our inventory balance represented approximately 50% of our total assets exclusive of goodwill and other intangible assets as of February 1, 2013. Efficient inventory management is a key component of our business success and profitability. To be successful, we must maintain sufficient inventory levels to meet our customers' demands without allowing those levels to increase to such an extent that the costs to store and hold the goods unduly impacts our financial results. If our buying decisions do not accurately predict customer trends or purchasing actions, we may have to take unanticipated markdowns to dispose of the excess inventory, which also can adversely impact our financial results. We continue to focus on ways to reduce these risks, but we cannot assure you that we will be successful in our inventory management. If we are not successful in managing our inventory balances, our cash flows from operations may be negatively affected.

Because our business is seasonal to a certain extent, with the highest volume of net sales during the fourth quarter, adverse events during the fourth quarter could materially affect our financial statements as a whole.

We generally recognize our highest volume of net sales during the Christmas selling season, which occurs in the fourth quarter of our fiscal year. In anticipation of this holiday, we purchase substantial amounts of seasonal inventory and hire many temporary employees. An excess of seasonal merchandise inventory could result if our net sales during the Christmas selling season were to fall below either seasonal norms or expectations. If our fourth quarter sales results were substantially below expectations, our financial performance and operating results could be adversely affected by unanticipated markdowns, especially in seasonal merchandise. Lower than anticipated sales in the Christmas selling season would also negatively affect our ability to absorb the increased seasonal labor costs.

Our current insurance program may expose us to unexpected costs and negatively affect our financial performance.

Our insurance coverage reflects deductibles, self-insured retentions, limits of liability and similar provisions that we believe are prudent based on the dispersion of our operations. However, there are types of losses we may incur but against which we cannot be insured or which we believe are not economically reasonable to insure, such as losses due to acts of war, employee and certain other crime, some employment-related or other class actions, and some natural disasters. If we incur these losses and they are material, our business could suffer. Certain material events may result in sizable losses for the insurance industry and adversely impact the availability of adequate insurance coverage or result in excessive premium increases. To offset negative insurance market trends, we may elect to self-insure, accept higher deductibles or reduce the amount of coverage in response to these market changes. In addition, we self-insure a significant portion of expected losses under our workers' compensation, automobile liability, general liability and group health insurance programs. Unanticipated changes in any applicable actuarial assumptions and management estimates underlying our recorded liabilities for these losses, including expected increases in medical and indemnity costs, could result in materially different expenses than expected under these programs, which could have a material adverse effect on our financial condition and results of operations. In addition, we are evaluating the potential future impact of the comprehensive healthcare reform legislation, which may cause our healthcare costs to increase. Although we continue to maintain property insurance for catastrophic events at our store support center and distribution centers, we are effectively self-insured for other property losses. If we experience a greater number of these losses than we anticipate, our financial performance could be adversely affected.

If we fail to protect our brand name, competitors may adopt tradenames that dilute the value of our brand name.

We may be unable or unwilling to strictly enforce our trademarks in each jurisdiction in which we do business. Also, we may not always be able to successfully enforce our trademarks against competitors, or against challenges by others. Our failure to successfully protect our trademarks could diminish the value and efficacy of our brand recognition, and could cause customer confusion, which could, in turn, adversely affect our sales and profitability.

Our success depends on our executive officers and other key personnel. If we lose key personnel or are unable to hire additional qualified personnel, our business may be harmed.

Our future success depends to a significant degree on the skills, experience and efforts of our executive officers and other key personnel. The loss of the services of any of our executive officers, particularly Richard W. Dreiling, our Chief Executive Officer, could have a material adverse effect on our operations. Our future success will also depend on our ability to attract and retain qualified personnel and a failure to attract and retain new qualified personnel could have an adverse effect on our operations. We do not currently maintain key person life insurance policies with respect to our executive officers or key personnel.

Any failure to maintain the security of information relating to our customers, employees and vendors that we may hold, whether as a result of cybersecurity attacks or otherwise, could expose us to litigation, government enforcement actions and costly response measures, and could seriously disrupt our operations and harm our reputation.

In connection with credit card sales, we transmit confidential credit and debit card information. We also have access to, collect or maintain private or confidential information regarding our customers, employees and vendors, as well as our business. We have procedures and technology in place to safeguard such data and information. As a result of those procedures, to our knowledge computer hackers have been unable to gain access to the information stored in our information systems. However, cyberattacks are rapidly evolving and becoming increasingly sophisticated. It is possible that computer hackers and others might compromise our security measures or those of our technology vendors in the future and obtain the personal information of our customers, employees and vendors that we hold or our business information. A security breach of any kind could expose us to risks of data loss, litigation, government enforcement actions and costly response measures, and could seriously disrupt our operations. Any resulting negative publicity could significantly harm our reputation which could cause us to lose market share and have an adverse effect on our financial results.

We have substantial debt that must be repaid or refinanced at or prior to applicable maturity dates which could adversely affect our ability to raise additional capital to fund our operations and limit our ability to pursue our growth strategy or other opportunities or to react to changes in the economy or our industry.

At February 1, 2013, we had total outstanding debt (including the current portion of long-term obligations) of $2.772 billion, including a $1.964 billion senior secured term loan facility, of which, $1.084 billion matures on July 6, 2014 and $879.7 million matures on July 6, 2017, $500.0 million aggregate principal amount of 4.125% senior notes due 2017, and borrowings of $286.5 million under our senior secured asset-based revolving credit facility. We also had an additional $873.4 million available for borrowing under the revolving credit facility which is scheduled to mature on July 6, 2014. We do not believe that we will experience difficulty in refinancing this debt prior to applicable maturity dates. However, if we were to experience difficulty repaying or refinancing this debt prior to maturity, this, and the level of debt itself, could have important negative consequences to our business, including:

- increasing our vulnerability to general economic and industry conditions because our debt payment obligations may limit our ability to use our cash to respond to or defend against changes in the industry or the economy;
- requiring a substantial portion of our cash flow from operations to be dedicated to the payment of principal and interest on our indebtedness, therefore reducing our ability to use our cash flow to fund our operations, capital expenditures and future business opportunities or repurchase shares of our common stock;
- limiting our ability to pursue our growth strategy;
- placing us at a disadvantage compared to our competitors who are less leveraged and may be better able to use their cash flow to fund competitive responses to changing industry, market or economic conditions;
- limiting our ability to obtain additional financing for working capital, capital expenditures, debt service requirements, acquisitions and general corporate or other purposes; and
- increasing the difficulty of our ability to make payments on our outstanding debt.

Our ability to obtain additional financing on favorable terms could be adversely affected by volatility in the capital markets.

We obtain and manage liquidity from the positive cash flow we generate from our operating activities and our access to capital markets, including our credit facilities. There is no assurance that our ability to obtain additional financing through the capital markets will not be adversely impacted by economic conditions. Tightening in the credit markets, or low liquidity and volatility in the capital markets could result in diminished availability of credit and higher cost of borrowing, making it more difficult to obtain additional financing on terms favorable to us.

Our variable rate debt exposes us to interest rate risk which could adversely affect our cash flow.

The borrowings under the term loan facility and the senior secured asset-based revolving credit facility comprise our credit facilities and bear interest at variable rates. Other debt we incur also could be variable rate debt. If market interest rates increase, variable rate debt will create higher debt service requirements, which could adversely affect our cash flow. While we have entered and may in the future enter into agreements limiting our exposure to higher interest rates, any such agreements may not offer complete protection from this risk.

Our debt agreements contain restrictions that could limit our flexibility in operating our business.

Our credit facilities and the indenture governing our notes contain various covenants that could limit our ability to engage in specified types of transactions. These covenants limit our and our restricted subsidiaries' ability to, among other things:

- incur additional indebtedness, issue disqualified stock or issue certain preferred stock;
- pay dividends and make certain distributions, investments and other restricted payments;
- create certain liens or encumbrances;
- sell assets;
- enter into transactions with our affiliates;
- allow payments to us by our restricted subsidiaries;
- merge, consolidate, sell or otherwise dispose of all or substantially all of our assets; and
- designate our subsidiaries as unrestricted subsidiaries.

A breach of any of these covenants could result in a default under the agreement governing such indebtedness. Upon our failure to maintain compliance with these covenants, the lenders could elect to declare all amounts outstanding thereunder to be immediately due and payable and terminate all commitments to extend further credit thereunder. If the lenders under such indebtedness accelerate the repayment of borrowings, we cannot assure you that we will have sufficient assets to repay those borrowings, as well as our other indebtedness, including our outstanding notes. We have pledged a significant portion of our assets as collateral under our credit facilities. If we were unable to repay those amounts, the lenders under our credit facilities could proceed against the collateral granted to them to secure that indebtedness. Additional borrowings under the senior secured asset-based revolving credit facility will, if excess availability under that facility is less than a certain amount, be subject to the satisfaction of a specified financial ratio. Accordingly, our ability to access the full availability under our senior secured asset-based revolving credit facility may be constrained. Our ability to meet this financial ratio can be affected by events beyond our control, and we cannot assure you that we will meet this ratio, if applicable, and other covenants.

New accounting guidance or changes in the interpretation or application of existing accounting guidance could adversely affect our financial performance.

The implementation of proposed new accounting standards may require extensive systems, internal process and other changes that could increase our operating costs, and may also result in changes to our financial statements. In particular, the implementation of expected future accounting standards related to leases, as currently being contemplated by the convergence project between the Financial Accounting Standards Board ("FASB") and the International Accounting Standards Board ("IASB"), as well as the possible adoption of international financial reporting standards by U.S. registrants, could require us to make significant changes to our lease management, fixed asset, and other accounting systems, and in all likelihood would result in changes to our financial statements.

U.S. generally accepted accounting principles and related accounting pronouncements, implementation guidelines and interpretations with regard to a wide range of matters that are relevant to our business involve many subjective assumptions, estimates and judgments by our management. Changes in these rules or their interpretation or changes in underlying assumptions, estimates or judgments by our management could significantly change our reported or expected financial performance. The outcome of such changes could include litigation or regulatory actions which could have an adverse effect on our financial condition and results of operations.

Kohlberg Kravis Roberts & Co. L.P. ("KKR"), certain affiliates of Goldman, Sachs & Co. (the "GS Investors"), and other equity co-investors (collectively, the "Investors") continue to have influence over us, including in connection with decisions that require the approval of shareholders.

Through their investment in Buck Holdings, L.P., the Investors continue to hold a significant interest in our outstanding common stock (approximately 17% of our outstanding common stock as of March 15, 2013). As a result, the Investors potentially have the ability to influence the outcome of matters that require a vote of our shareholders, including election of our Board of Directors and other corporate transactions, regardless of whether others believe that the transaction is in our best interests. In addition, pursuant to a shareholders' agreement that we entered into with Buck Holdings, L.P., based on the current ownership by Buck Holdings, L.P. of our common stock, KKR has certain rights to appoint directors to our Board.

The Investors are also in the business of making investments in companies and may from time to time acquire and hold interests in businesses that compete directly or indirectly with us. The Investors may also pursue acquisition opportunities that are complementary to our business, and, as a result, those acquisition opportunities may not be available to us.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

As of March 1, 2013, we operated 10,557 retail stores located in 40 states as follows:

State	Number of Stores	State	Number of Stores
Alabama	570	Missouri	383
Arizona	74	Nebraska	80
Arkansas	306	Nevada	16
California	51	New Hampshire	6
Colorado	32	New Jersey	66
Connecticut	4	New Mexico	65
Delaware	34	New York	267
Florida	595	North Carolina	585
Georgia	605	Ohio	545
Illinois	385	Oklahoma	336
Indiana	389	Pennsylvania	456
Iowa	178	South Carolina	414
Kansas	186	South Dakota	11
Kentucky	398	Tennessee	553
Louisiana	435	Texas	1,155
Maryland	84	Utah	8
Massachusetts	3	Vermont	17
Michigan	313	Virginia	293
Minnesota	22	West Virginia	173
Mississippi	356	Wisconsin	108

Most of our stores are located in leased premises. Individual store leases vary as to their terms, rental provisions and expiration dates. Many stores are subject to build-to-suit arrangements with landlords, which typically carry a primary lease term of 10-15 years with multiple renewal options. We also have stores subject to shorter-term leases and many of these leases have renewal options. In recent years, an increasing percentage of our new stores have been subject to build-to-suit arrangements.

As of March 1, 2013, we operated eleven distribution centers, as described in the following table:

Location	Year Opened	Approximate Square Footage	Approximate Number of Stores Served
Scottsville, KY	1959	720,000	789
Ardmore, OK	1994	1,310,000	1,313
South Boston, VA	1997	1,250,000	956
Indianola, MS	1998	820,000	864
Fulton, MO	1999	1,150,000	1,288
Alachua, FL	2000	980,000	916
Zanesville, OH	2001	1,170,000	1,162
Jonesville, SC	2005	1,120,000	1,048
Marion, IN	2006	1,110,000	1,154
Bessemer, AL	2012	940,000	903
Lebec, CA	2012	600,000	164

We lease the distribution centers located in California, Oklahoma, Mississippi and Missouri and own the other seven distribution centers in the table above. Approximately 7.25 acres of the land on which our Kentucky distribution center is located is subject to a ground lease. As of February 1, 2013, we leased approximately 506,000 square feet of additional temporary warehouse space to support our distribution needs.

Our executive offices are located in approximately 302,000 square feet of owned buildings and approximately 56,000 square feet of leased office space in Goodlettsville, Tennessee.

ITEM 3. LEGAL PROCEEDINGS

The information contained in Note 9 to the consolidated financial statements under the heading "Legal proceedings" contained in Part II, Item 8 of this report is incorporated herein by this reference.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

EXECUTIVE OFFICERS OF THE REGISTRANT

Information regarding our current executive officers as of March 25, 2013 is set forth below. Each of our executive officers serves at the discretion of our Board of Directors and is elected annually by the Board to serve until a successor is duly elected. There are no familial relationships between any of our directors or executive officers.

Name	Age	Position
Richard W. Dreiling	59	Chairman and Chief Executive Officer
David M. Tehle	56	Executive Vice President and Chief Financial Officer
John W. Flanigan	61	Executive Vice President, Global Supply Chain
Susan S. Lanigan	50	Executive Vice President and General Counsel
Robert D. Ravener	54	Executive Vice President and Chief People Officer
Gregory A. Sparks	52	Executive Vice President, Store Operations
Todd Vasos	51	Executive Vice President, Division President and Chief Merchandising Officer
Anita C. Elliott	48	Senior Vice President and Controller

Mr. Dreiling joined Dollar General in January 2008 as Chief Executive Officer and a member of our Board. He was appointed Chairman of the Board on December 2, 2008. Prior to joining Dollar General, Mr. Dreiling served as Chief Executive Officer, President and a director of Duane Reade Holdings, Inc. and Duane Reade Inc., the largest drugstore chain in New York City, from November 2005 until January 2008 and as Chairman of the Board of Duane Reade from March 2007 until January 2008. Prior to that, Mr. Dreiling, beginning in March 2005, served as Executive Vice President Chief Operating Officer of Longs Drug Stores Corporation, an operator of a chain of retail drug stores on the West Coast and Hawaii, after having joined Longs in July 2003 as Executive Vice President and Chief Operations Officer. From 2000 to 2003, Mr. Dreiling served as Executive Vice President Marketing, Manufacturing and Distribution at Safeway, Inc., a food and drug retailer. Prior to that, Mr. Dreiling served from 1998 to 2000 as President of Vons, a Southern California food and drug division of Safeway. He currently serves as the Vice Chairman of the Retail Industry Leaders Association (RILA). Mr. Dreiling is a director of Lowe's Companies, Inc.

Mr. Tehle joined Dollar General in June 2004 as Executive Vice President and Chief Financial Officer. He served from 1997 to June 2004 as Executive Vice President and Chief Financial Officer of Haggar Corporation, a manufacturing, marketing and retail corporation. From 1996 to 1997, he was Vice President of Finance for a division of The Stanley Works, one of the world's largest manufacturers of tools, and from 1993 to 1996, he was Vice President and Chief Financial Officer of Hat Brands, Inc., a hat manufacturer. Earlier in his career, Mr. Tehle served in a variety of financial-related roles at Ryder System, Inc. and Texas Instruments. Mr. Tehle is a director of Jack in the Box, Inc.

Mr. Flanigan joined Dollar General as Senior Vice President, Global Supply Chain, in May 2008. He was promoted to Executive Vice President in March 2010. He has 25 years of management experience in retail logistics. Prior to joining Dollar General, he was group vice president of logistics and distribution for Longs Drug Stores Corporation from October 2005 to April 2008. In this role, he was responsible for overseeing warehousing, inbound and outbound transportation and facility maintenance to service over 500 retail outlets. From September 2001 to October 2005 he served as the Vice President of Logistics for Safeway Inc. where he oversaw distribution of food products from Safeway distribution centers to all retail outlets, inbound traffic and transportation. He also held distribution and logistics leadership positions at Vons a Safeway company, Specialized Distribution Management Inc., and Crum & Crum Logistics.

Ms. Lanigan joined Dollar General in July 2002 as Vice President, General Counsel and Corporate Secretary. She was promoted to Senior Vice President in October 2003 and to Executive Vice President in March 2005. Prior to joining Dollar General, Ms. Lanigan served as Senior Vice President, General Counsel and Secretary at Zale Corporation, a specialty retailer of fine jewelry. During her six years with Zale, Ms. Lanigan held various positions, including Associate General Counsel. Prior to that, she held legal positions with both Turner Broadcasting System, Inc. and the law firm of Troutman Sanders LLP.

Mr. Ravener joined Dollar General as Senior Vice President and Chief People Officer in August 2008. He was promoted to Executive Vice President in March 2010. Prior to joining Dollar General, he served in human resources executive roles with Starbucks Coffee Company from September 2005 until August 2008 as the Senior Vice President of U.S. Partner Resources and, prior to that, as the Vice President, Partner Resources Eastern Division. As the Senior Vice President of U.S. Partner Resources at Starbucks, Mr. Ravener oversaw all aspects of human resources activity for more than 10,000 stores. Prior to serving at Starbucks, Mr. Ravener held Vice President of Human Resources roles for The Home Depot's Store Support Center and a domestic field division from April 2003 to September 2005. Mr. Ravener also served in executive roles in both human resources and operations at Footstar, Inc. and roles of increasing leadership at PepsiCo.

Mr. Sparks joined Dollar General in March 2012 as Executive Vice President of Store Operations. Prior to joining Dollar General, Mr. Sparks served as Division President, Seattle Division, for Safeway Inc., a food and drug retailer, a role he had held since 2001. As Division President of the Seattle Division, Mr. Sparks was responsible for the supervision of approximately 200 stores and approximately 23,000 employees in the northwest region and oversaw real estate, finance and operations of the Seattle Division. Mr. Sparks has 36 years of retail experience including a 34-year career with Safeway where he held roles of increasing responsibility including merchandising manager (1987), category manager (1987-1990), divisional director of merchandising, grocery and general merchandise (1990-1997) and divisional vice president of marketing (1997-2001).

Mr. Vasos joined Dollar General in December 2008 as Executive Vice President, Division President and Chief Merchandising Officer. Prior to joining Dollar General, Mr. Vasos served in executive positions with Longs Drug Stores Corporation for 7 years, including Executive Vice President and Chief Operating Officer (February 2008 through November 2008) and Senior Vice President and Chief Merchandising Officer (2001-2008), where he was responsible for all pharmacy and front-end marketing, merchandising, procurement, supply chain, advertising, store development, store layout and space allocation, and the operation of three distribution centers. He also previously served in leadership positions at Phar-Mor Food and Drug Inc. and Eckerd Drug Corp.

Ms. Elliott joined Dollar General as Senior Vice President and Controller in August 2005. Prior to joining Dollar General, she served as Vice President and Controller of Big Lots, Inc., a closeout retailer, from May 2001 to August 2005. Overseeing a staff of 140 employees at Big Lots, she was responsible for accounting operations, financial reporting and internal audit. Prior to serving at Big Lots, she served as Vice President and Controller for Jitney-Jungle Stores of America, Inc., a grocery retailer, from April 1998 to March 2001. At Jitney-Jungle, Ms. Elliott was responsible for the accounting operations and the internal and external financial reporting functions. Prior to serving at Jitney-Jungle, she practiced public accounting for 12 years, 6 of which were with Ernst & Young LLP.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

Our common stock is traded on the New York Stock Exchange under the symbol "DG." The high and low sales prices during each quarter in fiscal 2012 and 2011 were as follows:

2012	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
High	$ 48.76	$ 56.04	$ 53.36	$ 50.80
Low	$ 41.20	$ 45.37	$ 45.58	$ 39.73

2011	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
High	$ 33.58	$ 35.09	$ 40.71	$ 43.07
Low	$ 26.65	$ 31.10	$ 29.84	$ 38.32

Our stock price at the close of the market on March 15, 2013, was $48.18. There were approximately 1,511 shareholders of record of our common stock as of March 15, 2013.

Dividends

We have not declared or paid recurring dividends subsequent to a merger transaction in 2007. We have no current plans to pay any cash dividends on our common stock and instead may retain earnings, if any, for future operation and expansion, repurchases of our common stock, or debt repayment. Any decision to declare and pay dividends in the future will be made at the discretion of our Board of Directors and will depend on, among other things, our results of operations, cash requirements, financial condition, contractual restrictions and other factors that our Board of Directors may deem relevant. In addition, our ability to pay dividends is limited by covenants in our Credit Facilities. See "Liquidity and Capital Resources" in the Management's Discussion and Analysis of Financial Condition and Results of Operations section of this report for a description of restrictions on our ability to pay dividends.

Issuer Purchases of Equity Securities

The following table contains information regarding purchases of our common stock made during the quarter ended February 1, 2013 by or on behalf of Dollar General or any "affiliated purchaser," as defined by Rule 10b-18(a)(3) of the Securities Exchange Act of 1934:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(a)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs(a)
11/03/12 - 11/30/12		$		$ 218,565,000
12/01/12 - 12/31/12	1,719,510	$ 43.62	1,719,510	$ 143,565,000
01/01/13 - 02/01/13		$		$ 143,565,000
Total	1,719,510	$ 43.62	1,719,510	$ 143,565,000

(a) On August 29, 2012, our Board of Directors approved a share repurchase program of up to $500 million of outstanding shares of our common stock. Purchases may be made under the authorizations in the open market or in privately negotiated transactions from time to time subject to market conditions. The repurchase program has no expiration date.

On March 19, 2013, our Board of Directors increased the authorization under the repurchase program by $500 million, resulting in approximately $643.6 million remaining available for the repurchase of our common stock.

Stock Performance Graph

The following graph compares the cumulative total return provided shareholders on Dollar General Corporation's common stock relative to the cumulative total returns of the S&P 500 index and the S&P Retailing index. An investment of $100 (with reinvestment of all dividends) is assumed to have been made in our common stock and in each of the indexes on 11/13/2009, the date of our initial public offering.

COMPARISON OF CUMULATIVE TOTAL RETURN*
Among Dollar General Corporation, the S&P 500 Index, and S&P Retailing Index

*

$100 invested on 11/13/09 in stock or 10/31/09 in index, including reinvestment of dividends. Indexes calculated on month-end basis.

	11/13/09	1/29/10	1/28/11	2/3/12	2/1/13
Dollar General Corporation	**100.00**	**103.34**	**124.95**	**184.51**	**203.61**
S&P 500	**100.00**	**104.16**	**127.27**	**132.64**	**154.89**
S&P Retailing	**100.00**	**104.32**	**135.24**	**156.66**	**199.27**

The stock price performance included in this graph is not necessarily indicative of future stock price performance.

ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth selected consolidated financial information of Dollar General Corporation as of the dates and for the periods indicated. The selected historical statement of operations data and statement of cash flows data for the fiscal years ended February 1, 2013, February 3, 2012 and January 28, 2011, and balance sheet data as of February 1, 2013 and February 3, 2012, have been derived from our historical audited consolidated financial statements included elsewhere in this report. The selected historical statement of operations data and statement of cash flows data for the fiscal years or periods, as applicable, ended January 29, 2010 and January 30, 2009 and balance sheet data as of January 28, 2011, January 29, 2010 and January 30, 2009 presented in this table have been derived from audited consolidated financial statements not included in this report.

The information set forth below should be read in conjunction with, and is qualified by reference to, the Consolidated Financial Statements and related notes included in Part II, Item 8 of this report and the Management's Discussion and Analysis of Financial Condition and Results of Operations included in Part II, Item 7 of this report.

	Year Ended				
(Amounts in millions, excluding per share data, number of stores, selling square feet, and net sales per square foot)	**February 1, 2013**	**February 3, 2012(1)**	**January 28, 2011**	**January 29, 2010**	**January 30, 2009**
Statement of Operations Data:					
Net sales	$ 16,022.1	$ 14,807.2	$ 13,035.0	$ 11,796.4	$ 10,457.7
Cost of goods sold	10,936.7	10,109.3	8,858.4	8,106.5	7,396.6
Gross profit	5,085.4	4,697.9	4,176.6	3,689.9	3,061.1
Selling, general and administrative expenses	3,430.1	3,207.1	2,902.5	2,736.6	2,448.6
Litigation settlement and related costs, net					32.0
Operating profit	1,655.3	1,490.8	1,274.1	953.3	580.5
Interest expense	127.9	204.9	274.0	345.6	388.8
Other (income) expense	30.0	60.6	15.1	55.5	(2.8)
Income before income taxes	1,497.4	1,225.3	985.0	552.1	194.4
Income tax expense	544.7	458.6	357.1	212.7	86.2
Net income	$ 952.7	$ 766.7	$ 627.9	$ 339.4	$ 108.2
Earnings per share basic	$ 2.87	$ 2.25	$ 1.84	$ 1.05	$ 0.34
Earnings per share diluted	2.85	2.22	1.82	1.04	0.34
Dividends per share				0.7525	
Statement of Cash Flows Data:					
Net cash provided by (used in):					
Operating activities	$ 1,131.4	$ 1,050.5	$ 824.7	$ 672.8	$ 575.2
Investing activities	(569.8)	(513.8)	(418.9)	(248.0)	(152.6)
Financing activities	(546.8)	(908.0)	(130.4)	(580.7)	(144.8)
Total capital expenditures	(571.6)	(514.9)	(420.4)	(250.7)	(205.5)
Other Financial and Operating Data:					
Same store sales growth(2)	4.7%	6.0%	4.9%	9.5%	9.0%
Same store sales(2)	$ 14,992.7	$ 13,626.7	$ 12,227.1	$ 11,356.5	$ 10,118.5
Number of stores included in same store sales calculation	9,783	9,254	8,712	8,324	8,153
Number of stores (at period end)	10,506	9,937	9,372	8,828	8,362
Selling square feet (in thousands at period end)	76,909	71,774	67,094	62,494	58,803
Net sales per square foot(3)	$ 216	$ 213	$ 201	$ 195	$ 180
Consumables sales	73.9%	73.2%	71.6%	70.8%	69.3%
Seasonal sales	13.6%	13.8%	14.5%	14.5%	14.6%
Home products sales	6.6%	6.8%	7.0%	7.4%	8.2%
Apparel sales	5.9%	6.2%	6.9%	7.3%	7.9%
Rent expense	$ 614.3	$ 542.3	$ 489.3	$ 428.6	$ 389.6
Balance Sheet Data (at period end):					
Cash and cash equivalents and short-term investments	$ 140.8	$ 126.1	$ 497.4	$ 222.1	$ 378.0
Total assets	10,367.7	9,688.5	9,546.2	8,863.5	8,889.2
Long-term debt	2,772.2	2,618.5	3,288.2	3,403.4	4,137.1
Total shareholders' equity	4,985.3	4,668.5	4,054.5	3,390.3	2,831.7

(1)

The fiscal year ended February 3, 2012 was comprised of 53 weeks.

(2)

Same-store sales are calculated based upon stores that were open at least 13 full fiscal months and remain open at the end of the reporting period. When applicable, we exclude the sales in the non-comparable week of a 53-week year from the same-store sales calculation.

(3)

Net sales per square foot was calculated based on total sales for the preceding 12 months as of the ending date of the reporting period divided by the average selling square footage during the period, including the end of the fiscal year, the beginning of the fiscal year, and the end of each of our three interim fiscal quarters.

			Year Ended		
	February 1, 2013	**February 3, 2012**	**January 28, 2011**	**January 29, 2010**	**January 30, 2009**
Ratio of earnings to fixed charges(1):	4.7x	3.8x	3.1x	2.1x	1.4x

(1)

For purposes of computing the ratio of earnings to fixed charges, (a) earnings consist of income (loss) before income taxes, plus fixed charges less capitalized expenses related to indebtedness (amortization expense for capitalized interest is not significant) and (b) fixed charges consist of interest expense (whether expensed or capitalized), the amortization of debt issuance costs and discounts related to indebtedness, and the interest portion of rent expense.

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

This discussion and analysis should be read with, and is qualified in its entirety by, the Consolidated Financial Statements and the notes thereto. It also should be read in conjunction with the Cautionary Disclosure Regarding Forward-Looking Statements and the Risk Factors disclosures set forth in the Introduction and in Item 1A of this report, respectively.

Executive Overview

We are the largest discount retailer in the United States by number of stores, with 10,557 stores located in 40 states as of March 1, 2013, primarily in the southern, southwestern, midwestern and eastern United States. We offer a broad selection of merchandise, including consumable products such as food, paper and cleaning products, health and beauty products and pet supplies, and non-consumable products such as seasonal merchandise, home decor and domestics, and basic apparel. Our merchandise includes high quality national brands from leading manufacturers, as well as comparable quality private brand selections with prices at substantial discounts to national brands. We offer our customers these national brand and private brand products at everyday low prices (typically $10 or less) in our convenient small-box (small store) locations.

The customers we serve are value-conscious, many with low or fixed incomes, and Dollar General has always been intensely focused on helping them make the most of their spending dollars. We believe our convenient store format and broad selection of high quality products at compelling values have driven our substantial growth and financial success over the years. Like other companies, we have been operating for approximately four years in an environment with ongoing economic challenges and uncertainties. Consumers are facing sustained high rates of unemployment, fluctuating food, gasoline and energy costs, rising medical costs, and a continued weakness in housing and consumer credit markets, and the timetable and strength of economic recovery remains uncertain. The longer our customers have to manage under such difficult conditions, the more difficult it is for them to stretch their spending dollars, particularly for discretionary purchases. Nonetheless, as a result of our long-term mission of serving these customers, coupled with a vigorous focus on improving our operating and financial performance, our 2012 and 2011 financial results were strong, and we remain optimistic with regard to executing our initiatives in 2013.

At the beginning of 2008, we defined four operating priorities, which we remain keenly focused on executing. These priorities are: 1) drive productive sales growth, 2) increase our gross margins, 3) leverage process improvements and information technology to reduce costs, and 4) strengthen and expand Dollar General's culture of serving others.

Our first priority is driving productive sales growth by increasing shopper frequency and transaction amount and maximizing sales per square foot. In 2012, sales in same-stores increased by 4.7%, due to increases in both traffic and average transaction. Inflation had a lesser impact in 2012 than in 2011. Sales in same-stores were aided by continued enhancements to our category management processes which help us determine the most productive merchandise offerings for our customers. Specific sales growth initiatives in 2012 included: continued improvement in merchandise in-stock levels; the expansion of the number of coolers for refrigerated and frozen foods in approximately 1,400 existing stores; further progress on our beer and wine rollout; merchandising initiatives for electronics and domestic goods; and the impact of 592 remodeled and relocated stores during the year. In addition to same-store sales growth, we opened 625 new stores, including 41 Dollar General Market stores and 35 Dollar General "Plus" stores in 2012. Plus stores are our newest store format, which are slightly larger than our traditional stores with a significantly expanded frozen and refrigerated food section.

Our second priority is to increase gross profit through effective category management, the expansion of private brand offerings, increased foreign sourcing, shrink reduction, distribution and transportation efficiencies and improvements to our pricing and markdown model, while remaining committed to our everyday low price strategy. We constantly review our pricing strategy and work diligently to minimize product cost increases as we focus on providing our customers with quality merchandise at great values. In our consumables category, we strive to offer the optimal balance of the most popular nationally advertised brands and our own private brands, which generally have higher gross profit rates than national brands. Commodities cost inflation moderated in 2012 following a year of significant increases throughout 2011. Accordingly, overall price increases passed through to our customers were less in 2012. We remain committed to our seasonal, home, and apparel categories, although we expect the growth of consumables to continue to outpace these categories again in 2013 due to anticipated continued economic pressures which limit our customers' discretionary spending.

Our third priority is leveraging process improvements and information technology to reduce costs. We are committed as an organization to extract costs, particularly Selling, general and administrative expenses (SG&A) that do not affect the customer experience, and plan to utilize our procurement capabilities and other initiatives to further these efforts. In 2012, we again focused on lowering our store labor costs as a percentage of sales while improving our overall customer experience. We further utilized our new workforce management system and simplified many of our store processes, resulting in significant cost savings as a percentage of sales.

Our fourth priority is to strengthen and expand Dollar General's culture of serving others. For customers this means helping them "Save time. Save money. Every day!" by providing clean, well-stocked stores with quality products at low prices. For employees, this means creating an environment that attracts and retains key employees throughout the organization. For the public, this means giving back to our store communities through our charitable and other efforts. In 2012, we, along with our vendors, customers and employees, donated millions of dollars through our various charitable initiatives. For shareholders, this means meeting their expectations of an efficiently and profitably run organization that operates with compassion and integrity.

Our continued focus on these four priorities resulted in improved 2012 financial performance over the prior year as follows. Note that fiscal 2012 consisted of 52 weeks while 2011 consisted of 53 weeks. Basis points, as referred to below, are equal to 0.01 percent of total sales.

- Total sales in 2012 increased 8.2% over 2011. Sales in same-stores, over a comparable 52-week period, increased 4.7%, with increases in both customer traffic and average transaction amount. Consumables drove 83% of the total increase in sales with the most significant increases in perishables, candy and snacks. Average sales per square foot in 2012 were $216, up from $213 (including a $4 contribution from the 53rd week) in 2011.

- Operating profit increased 11.0% to $1.66 billion, or 10.3% of sales, compared to $1.49 billion, or 10.1% of sales in 2011. The improvement in our operating profit rate was attributable to a 25 basis-point reduction of SG&A and a 1 basis-point increase in our gross profit rate.

- We are pleased with our ability to manage our gross profit as consumables continued to increase as a percentage of our overall sales mix. We continued to gain efficiencies in our transportation network and had a lower LIFO charge; however, the markdown rate was higher in 2012, primarily in apparel, and we experienced a modest increase in our shrink rate.

- The improvement in SG&A, as a percentage of sales, was due in large part to improved utilization of store labor, partially offset by higher rent expense and higher fees associated with debit card transactions. For other factors, see the detailed discussion that follows.

- Interest expense decreased by $77.0 million in 2012 to $127.9 million, as a result of lower average interest rates on our outstanding long-term obligations and lower average debt balances throughout the year. In 2012, we refinanced the remaining balance of our 11.875%/12.625% senior subordinated notes, resulting in a non-operating charge of $29.0 million.

- We reported net income of $952.7 million, or $2.85 per diluted share, for fiscal 2012, compared to net income of $766.7 million, or $2.22 per diluted share, for fiscal 2011.

- We generated approximately $1.13 billion of cash flows from operating activities in 2012, an increase of 7.7% compared to 2011. We primarily utilized our cash flows from operating activities to invest in our business and repurchase our common stock.

- During 2012 we opened 625 new stores, remodeled or relocated 592 stores, and closed 56 stores.

Also in 2012, we refinanced the remaining $451 million of our 11.875%/12.625% outstanding senior subordinated notes with the issuance of $500 million of 4.125% senior notes due 2017, further reducing interest expense and strengthening our financial position. Also in 2012, we repurchased approximately 14.4 million shares of our outstanding common stock for $671.4 million.

In 2013, we plan to continue to focus on our four key operating priorities. We will continue to refine and improve our store standards in an attempt to increase sales, focusing on maintaining a consistent look and feel across the chain. Continued progress on improving our merchandise in-stock position is an important element in improving overall customer service and increasing sales. As part of our category management program, we plan to improve the square footage utilization in our legacy stores that have not been converted to our current customer centric format in addition to expanding our refrigerated food offerings in approximately 1,500 existing stores. We have initiatives underway to increase our margins on many items within our consumables category, from which the majority of our sales are generated. We plan to add approximately 320 new private brand consumables items during the year and by the end of our second fiscal quarter, we expect to offer tobacco products in most of our locations. We believe tobacco products will help drive additional sales through both increased traffic and average transaction amount, although we expect these products to result in a reduction of our gross profit rate. We also plan to continue to introduce new non-consumable products that we believe will resonate with our customers' needs and desires. We will continue our focused shrink reduction efforts by employing our exception reporting tools, enhanced shrink optimization processes and defensive merchandising fixtures. We will also continue to pursue global opportunities to directly source a larger portion of our products, with the potential for significant savings to current costs, and to utilize our overall purchasing expertise to reduce our domestic purchase costs.

We believe that there is opportunity to improve our inventory turns, and we are focused in 2013 on improved inventory management. Initiatives in process include operational efforts to optimize presentation levels, improve in-stock levels, and enhance forecasting and allocation execution. We are also in the process of implementing an improved supply chain solution to assist in promotional and core inventory forecasting, ordering, monitoring and improving inventory visibility from purchase to receipt to maintain efficient levels of inventory. Eventually, all of our SKUs will be managed through the new supply chain solution. We expect this new supply chain solution to also improve several processes in the stores which we believe will result in work simplification and enhance our view of inventory levels in the supply chain.

With regard to leveraging information technology and process improvements to reduce costs, we expect to gain further efficiencies with additional utilization of our workforce management systems and improved store technology and communications capabilities. We will also seek to enhance our procurement capabilities and take additional steps to augment our strong culture of cost reduction.

Finally, we are pleased with the performance of our 2012 new stores, remodels and relocations, and in 2013 we plan to open 635 new stores and remodel or relocate an additional 550 stores.

Key Financial Metrics. We have identified the following as our most critical financial metrics:

- Same-store sales growth;

- Sales per square foot;

Gross profit, as a percentage of sales;

Selling, general and administrative expenses, as a percentage of sales;

Operating profit;

Inventory turnover;

Cash flow;

Net income;

Earnings per share;

Earnings before interest, income taxes, depreciation and amortization;

Return on invested capital; and

Adjusted debt to Earnings before interest, income taxes, depreciation and amortization and rent expense.

Readers should refer to the detailed discussion of our operating results below for additional comments on financial performance in the current year periods as compared with the prior year periods.

Results of Operations

Accounting Periods. The following text contains references to years 2012, 2011 and 2010, which represent fiscal years ended February 1, 2013, February 3, 2012 and January 28, 2011, respectively. Our fiscal year ends on the Friday closest to January 31. Fiscal year 2011 was a 53-week accounting period and fiscal years 2012 and 2010 were 52-week accounting periods.

Seasonality. The nature of our business is seasonal to a certain extent. Primarily because of sales of holiday-related merchandise, sales in our fourth quarter (November, December and January) have historically been higher than sales achieved in each of the first three quarters of the fiscal year. Expenses and, to a greater extent, operating profit vary by quarter. Results of a period shorter than a full year may not be indicative of results expected for the entire year. Furthermore, the seasonal nature of our business may affect comparisons between periods.

The following table contains results of operations data for fiscal years 2012, 2011 and 2010, and the dollar and percentage variances among those years.

				2012 vs. 2011		2011 vs. 2010	
(amounts in millions, except per share amounts)	**2012**	**2011**	**2010**	**Amount Change**	**% Change**	**Amount Change**	**% Change**
Net sales by category:							
Consumables	$ 11,844.8	$ 10,833.7	$ 9,332.1	*$ 1,011.1*	*9.3%*	*$ 1,501.6*	*16.1%*
% of net sales	*73.93%*	*73.17%*	*71.59%*				
Seasonal	2,172.4	2,051.1	1,887.9	*121.3*	*5.9*	*163.2*	*8.6*
% of net sales	*13.56%*	*13.85%*	*14.48%*				
Home products	1,061.6	1,005.2	917.6	*56.4*	*5.6*	*87.6*	*9.5*
% of net sales	*6.63%*	*6.79%*	*7.04%*				
Apparel	943.3	917.1	897.3	*26.2*	*2.9*	*19.8*	*2.2*
% of net sales	*5.89%*	*6.19%*	*6.88%*				
Net sales	$ 16,022.1	$ 14,807.2	$ 13,035.0	*$ 1,214.9*	*8.2%*	*$ 1,772.2*	*13.6%*
Cost of goods sold	10,936.7	10,109.3	8,858.4	*827.4*	*8.2*	*1,250.8*	*14.1*
% of net sales	*68.26%*	*68.27%*	*67.96%*				
Gross profit	5,085.4	4,697.9	4,176.6	*387.5*	*8.2*	*521.4*	*12.5*
% of net sales	*31.74%*	*31.73%*	*32.04%*				
Selling, general and administrative expenses	3,430.1	3,207.1	2,902.5	*223.0*	*7.0*	*304.6*	*10.5*
% of net sales	*21.41%*	*21.66%*	*22.27%*				
Operating profit	1,655.3	1,490.8	1,274.1	*164.5*	*11.0*	*216.7*	*17.0*
% of net sales	*10.33%*	*10.07%*	*9.77%*				
Interest expense	127.9	204.9	274.0	*(77.0)*	*(37.6)*	*(69.1)*	*(25.2)*
% of net sales	*0.80%*	*1.38%*	*2.10%*				
Other (income) expense	30.0	60.6	15.1	*(30.7)*	*(50.6)*	*45.5*	*301.4*
% of net sales	*0.19%*	*0.41%*	*0.12%*				
Income before income taxes	1,497.4	1,225.3	985.0	*272.1*	*22.2*	*240.3*	*24.4*
% of net sales	*9.35%*	*8.27%*	*7.56%*				
Income taxes	544.7	458.6	357.1	*86.1*	*18.8*	*101.5*	*28.4*
% of net sales	*3.40%*	*3.10%*	*2.74%*				
Net income	$ 952.7	$ 766.7	$ 627.9	*$ 186.0*	*24.3%*	*$ 138.8*	*22.1%*
% of net sales	*5.95%*	*5.18%*	*4.82%*				
Diluted earnings per share	$ 2.85	$ 2.22	$ 1.82	*$ 0.63*	*28.4%*	*$ 0.40*	*22.0%*

Net Sales. The net sales increase in 2012 reflects a same-store sales increase of 4.7% compared to 2011. For 2012, there were 9,783 same-stores which accounted for sales of $14.99 billion. Same-stores include stores that have been open for at least 13 months and remain open at the end of the reporting period. Same-store sales increases are calculated based on the comparable calendar weeks in the prior year. The remainder of the increase in sales in 2012 was attributable to new stores, partially offset by sales from closed stores. The increase in sales reflects increased customer traffic and average transaction amounts, as a result of the refinement of our merchandise offerings, improvements in our category management processes and store standards, and increased utilization of square footage in our stores. Increases in sales of consumables outpaced our non-consumables, with sales of snacks, candy, beverages and perishables contributing the majority of the increase throughout the year.

The net sales increase in 2011 reflects a same-store sales increase of 6.0% compared to 2010. For 2011, there were 9,254 same-stores which accounted for sales of $13.63 billion. Accordingly, the same store sales percentage for 2011 excludes sales from the 53rd week as there was no comparable week in 2010. Net sales for the 53rd week of 2011 totaled $289.3 million. The remainder of the increase in sales in 2011 was attributable to new stores, partially offset by sales from closed stores. The increase in sales reflects increased customer traffic and average transaction amounts, which is the result of the continued refinement of our merchandise offerings, the optimization of our category management processes, further improvement in store standards, and an increase in sales prices resulting primarily from passing through certain cost increases and increased utilization of square footage in our stores. Increases in sales of consumables outpaced our non-consumables, with sales of packaged foods, snacks, beverages and perishables, contributing the majority of the increase throughout the year.

Of our four major merchandise categories, the consumables category, which generally has a lower gross profit rate than the other three categories, has grown most significantly over the past several years. Because of the impact of sales mix on gross profit, we continually review our merchandise mix and strive to adjust it when appropriate. Maintaining an appropriate sales mix is an integral part of achieving our gross profit and sales goals. Both the number of customer transactions and average transaction amount increased in 2012 and 2011, and we believe that our stores have benefited to some degree from attracting new customers who are seeking value as a result of the challenging macroeconomic environment in recent years.

Gross Profit. The gross profit rate as a percentage of sales was 31.7% in both 2012 and 2011. Factors favorably impacting our gross profit rate include a significantly lower LIFO provision, higher inventory markups, and improved transportation efficiencies due in part to a decrease in average miles per delivery enabled by our new distribution centers and other logistics initiatives. These positive factors were offset by higher markdowns, a reduction in price increases and a modest increase in our inventory shrinkage rate compared to 2011. In addition, consumables, which generally have lower markups than non-consumables, represented a greater percentage of sales in 2012 than in 2011. We recorded a LIFO provision of $1.4 million in 2012 compared to a $47.7 million provision in 2011, primarily as a result of lower inflation on commodities.

The gross profit rate as a percentage of sales was 31.7% in 2011 compared to 32.0% in 2010, a decline of 31 basis points. Consumables also represented a greater percentage of sales in 2011 than in 2010. Our purchase costs increased primarily due to increased commodity costs. In addition, we incurred higher markdowns and our transportation costs were impacted by higher fuel rates in 2011. Our LIFO provision increased to $47.7 million in 2011 compared to $5.3 million in 2010. In 2011, our mix of home and apparel merchandise decreased as percentage of sales and the gross profit rate within these categories decreased due, in part, to higher markdowns. Factors positively affecting gross profit include the selective price increases noted above as well as lower inventory shrinkage and distribution center costs, as a percentage of sales.

SG&A Expense. SG&A expense was 21.4% as a percentage of sales in 2012 compared to 21.7% in 2011, an improvement of 25 basis points. Retail labor expense increased at a lower rate than our increase in sales, partially due to ongoing benefits of our workforce management system coupled with savings due to various store work simplification initiatives. Also positively impacting SG&A was lower legal settlement costs in 2012 due to two legal matters settled in 2011 for a combined expense of $13.1 million and the impact of decreased expenses ($2.9 million in 2012 compared to $11.1 million in 2011) relating to secondary offerings of our common stock. Costs that increased at a rate higher than our sales increase include rent expense, fees associated with the increased use of debit cards and depreciation expense, primarily related to additions of certain store equipment and fixtures.

SG&A expense was 21.7% as a percentage of sales in 2011 compared to 22.3% in 2010, an improvement of 61 basis points reflecting the favorable impact of the 13.6% increase in sales. In addition, retail labor expense increased at a rate lower than our increase in sales, partially due to the rollout of our workforce management system. A decrease in incentive compensation driven by more aggressive bonus targets, and various cost reduction efforts affecting rent, benefits, electricity and other power costs, among other expenses, also contributed to the overall decrease in SG&A as a percentage of sales. Costs that increased at a rate higher than our increase in sales included those associated with a high speed store data network rollout, depreciation and amortization expense, and fees associated with the increased use of debit cards. Depreciation and amortization increases were primarily due to investments in the store data network and store properties purchased. SG&A in 2010 includes expenses totaling $19.7 million for expenses (primarily share-based compensation) incurred in connection with secondary offerings of our common stock.

Interest Expense. The decrease in interest expense in 2012 compared to 2011 is due to lower average outstanding long-term obligations, resulting from our repurchases and refinancing of indebtedness in 2012 and 2011 and lower all-in interest rates on our long-term obligations. See Liquidity and Capital Resources below for further discussion.

The decrease in interest expense in 2011 compared to 2010 was primarily the result of lower average outstanding long-term obligations and lower average interest rates due to the redemption of our senior notes due 2015 with cash and borrowings under our revolving credit facility in the first half of 2011 and lower all-in interest rates on our term loan, primarily due to reduced notional amounts on our interest rate swaps.

We had outstanding variable-rate debt of $1.39 billion and $1.63 billion as of February 1, 2013 and February 3, 2012, respectively, after taking into consideration the impact of interest rate swaps. The remainder of our outstanding indebtedness at February 1, 2013 and February 3, 2012 was fixed rate debt.

See the detailed discussion under "Liquidity and Capital Resources" regarding repurchases and refinancing of various long-term obligations and the related effect on interest expense in the periods presented.

Other (Income) Expense. In 2012, we recorded pretax losses of $29.0 million resulting from repurchases of $450.7 million aggregate principal amount of our Senior Subordinated Notes plus accrued and unpaid interest.

In 2011, we recorded pretax losses of $60.3 million resulting from repurchases of $864.3 million aggregate principal amount of our senior notes due 2015 plus accrued and unpaid interest.

In 2010, we recorded pretax losses of $14.7 million resulting from the repurchase in the open market of $115.0 million aggregate principal amount of our senior notes due 2015 plus accrued and unpaid interest.

Income Taxes. The effective income tax rates for 2012, 2011, and 2010 were expenses of 36.4%, 37.4%, and 36.3%, respectively.

The 2012 effective tax rate of 36.4% was greater than the statutory tax rate of 35% due primarily to the inclusion of state income taxes in the total effective tax rate. The 2012 effective tax rate of 36.4% was lower than the 2011 rate of 37.4% due primarily to the favorable resolution of a federal income tax examination during 2012.

The 2011 effective tax rate of 37.4% was greater than the statutory tax rate of 35% due primarily to the inclusion of state income taxes in the total effective tax rate. The 2011 effective rate was greater than the 2010 rate of 36.3% primarily due to the effective resolution of various examinations by the taxing authorities in 2010 that did not reoccur, to the same extent, in 2011. These factors resulted in rate increases in 2011, as compared to 2010, associated with state income taxes and income tax related interest expense. Increases in federal jobs related tax credits, primarily due to the Hire Act's Retention Credit, reduced the effective rate in 2011 as compared to 2010. The Retention Credit was only effective for 2011.

The 2010 effective tax rate of 36.3% was greater than the statutory tax rate of 35%, also due primarily to the inclusion of state income taxes in the total effective tax rate.

Off Balance Sheet Arrangements

The entities involved in ownership structure underlying the leases for three of our distribution centers meet the accounting definition of a Variable Interest Entity ("VIE"). One of these distribution centers has been recorded as a financing obligation whereby its property and equipment are reflected in our consolidated balance sheets. The land and buildings of the other two distribution centers have been recorded as operating leases. We are not the primary beneficiary of these VIEs and, accordingly, have not included these entities in our consolidated financial statements. Other than the foregoing, we are not party to any off balance sheet arrangements.

Effects of Inflation

We experienced little or no overall product cost inflation in 2012 or 2010. In 2011, we experienced increased commodity cost pressures mainly related to food, housewares and apparel products which were driven by increases in cotton, sugar, coffee, groundnut, resin, petroleum and other raw material commodity costs. We believe that our ability to selectively increase selling prices in response to cost increases in 2011 partially mitigated the effect of these cost increases on our overall results of operations.

Liquidity and Capital Resources

Current Financial Condition and Recent Developments

During the past three years, we have generated an aggregate of approximately $3.0 billion in cash flows from operating activities and incurred approximately $1.51 billion in capital expenditures. During that period, we expanded the number of stores we operate by 1,678, representing growth of approximately 19%, and we remodeled or relocated 1,671 stores, or approximately 16%, of the stores we operated as of February 1, 2013. We intend to continue our current strategy of pursuing store growth, remodels and relocations in 2013 and for the next several years.

At February 1, 2013, we had total outstanding debt (including the current portion of long-term obligations) of $2.77 billion, which includes our senior secured asset-based revolving credit facility ("ABL Facility" and, together with the Term Loan Facility, the "Credit Facilities"), and senior notes, all of which are described in greater detail below. We had $873.4 million available for borrowing under the ABL Facility at February 1, 2013.

We believe our cash flow from operations and existing cash balances, combined with availability under the Credit Facilities (described in greater detail below), and access to the debt markets will provide sufficient liquidity to fund our current obligations, projected working capital requirements and capital spending for a period that includes the next twelve months as well as the next several years.

We intend to refinance outstanding amounts under our secured Credit Facilities with new unsecured long-term debt of up to $2.3 billion, expected to consist of new unsecured term loans and new unsecured senior notes. In addition, we intend to enter into a new unsecured cash flow based revolving credit facility, which is currently expected to have no initial revolver borrowings outstanding. The actual amounts and type of financing is dependent on market conditions and other factors. Although we currently anticipate completing this financing in the first quarter of 2013, there can be no assurance that we will complete the refinancing on the foregoing terms or at all.

Credit Facilities

Overview. The Credit Facilities consist of the $1.964 billion Term Loan Facility and the ABL Facility which has a maximum of $1.2 billion (of which up to $350.0 million is available for letters of credit), subject to borrowing base availability. The ABL Facility includes borrowing capacity available for letters of credit and for short-term borrowings referred to as swingline loans.

We amended the Term Loan Facility and the ABL Facility in March 2012. The amendment of the Term Loan Facility resulted in the extension of the maturity on $879.7 million of the Term Loan Facility to July 6, 2017. The remaining $1.08 billion of the Term Loan Facility will mature on July 6, 2014. The applicable margin for borrowings under the Term Loan Facility remains unchanged. The amendment of the ABL Facility extended the maturity of the ABL Facility to July 6, 2014, and increased the total commitment to $1.2 billion.

Interest Rates and Fees. Borrowings under the Credit Facilities bear interest at a rate equal to an applicable margin plus, at our option, either (a) LIBOR or (b) a base rate (which is usually equal to the prime rate). The applicable margin for borrowings under the Term Loan Facility is 2.75% for LIBOR borrowings and 1.75% for base-rate borrowings. The interest rate for borrowings under the Term Loan Facility was 3.0% (without giving effect to the market rate swaps discussed below) as of February 1, 2013.

As of February 1, 2013, the applicable margin for borrowings under the ABL Facility was 1.50% for LIBOR borrowings and 0.50% for base-rate borrowings, and the commitment fee to the lenders for any unutilized commitments was 0.375% per annum. See Item 7A. "Quantitative and Qualitative Disclosures About Market Risk" below for a discussion of our use of interest rate swaps to manage our interest rate risk.

Prepayments. The senior secured credit agreement for the Term Loan Facility requires us to prepay outstanding term loans, subject to certain exceptions, with:

- up to 50% of our annual excess cash flow (as defined in the credit agreement) if our total net leverage ratio were to exceed 5.0 to 1.0;

- 100% of the net cash proceeds of all non-ordinary course asset sales or other dispositions of property in excess of $25.0 million in the aggregate and subject to our right to reinvest the proceeds; and

- 100% of the net cash proceeds of any incurrence of debt, other than proceeds from debt permitted under the senior secured credit agreement.

The mandatory prepayments discussed above will be applied to the Term Loan Facility as directed by the senior secured credit agreement. No prepayments have been required under the prepayment provisions listed above. The Term Loan Facility can be prepaid in whole or in part at any time.

In addition, the senior secured credit agreement for the ABL Facility requires us to prepay the ABL Facility, subject to certain exceptions, as follows:

- With 100% of the net cash proceeds of all non-ordinary course asset sales or other dispositions of Revolving Facility Collateral (as defined below) in excess of $1.0 million in the aggregate and subject to our right to reinvest the proceeds; and

- To the extent such extensions of credit exceed the then current borrowing base (as defined in the senior secured credit agreement for the ABL Facility).

The mandatory prepayments discussed above will be applied to the ABL Facility as directed by the senior secured credit agreement for the ABL Facility. No prepayments have been required under the prepayment provisions listed above.

An event of default under the senior secured credit agreements will occur upon a change of control as defined in the senior secured credit agreements governing our Credit Facilities. Upon an event of default, indebtedness under the Credit Facilities may be accelerated, in which case we will be required to repay all outstanding loans plus accrued and unpaid interest and all other amounts outstanding under the Credit Facilities.

Guarantee and Security. All obligations under the Credit Facilities are unconditionally guaranteed by substantially all of our existing and future domestic subsidiaries (excluding certain immaterial subsidiaries and certain subsidiaries designated by us under our senior secured credit agreements as "unrestricted subsidiaries"), referred to, collectively, as U.S. Guarantors.

All obligations and related guarantees under the Term Loan Facility are secured by:

- a second-priority security interest in all existing and after-acquired inventory, accounts receivable, and other assets arising from such inventory and accounts receivable, of our company and each U.S. Guarantor (the "Revolving Facility Collateral"), subject to certain exceptions;
- a first-priority security interest in, and mortgages on, substantially all of our and each U.S. Guarantor's tangible and intangible assets (other than the Revolving Facility Collateral); and
- a first-priority pledge of 100% of the capital stock held by us, or any of our domestic subsidiaries that are directly owned by us or one of the U.S. Guarantors and 65% of the voting capital stock of each of our existing and future foreign subsidiaries that are directly owned by us or one of the U.S. Guarantors.

Certain Covenants and Events of Default. The senior secured credit agreements contain a number of covenants that, among other things, restrict, subject to certain exceptions, our ability to:

- incur additional indebtedness;
- create liens;
- sell assets;
- pay dividends and distributions or repurchase our capital stock;
- make investments or acquisitions;
- repay or repurchase subordinated indebtedness;
- amend material agreements governing our subordinated indebtedness; or
- change our lines of business.

The senior secured credit agreements also contain certain customary affirmative covenants and events of default.

At February 1, 2013, we had the following amounts outstanding under our ABL Facility: borrowings of $286.5 million and letters of credit of $40.1 million. We anticipate potential borrowings under any outstanding revolving credit facility during the remainder of 2013 up to a maximum of approximately $500 million at any one time, which may include borrowings for the share repurchases discussed below.

Senior Notes due 2017

Overview. On July 12, 2012, we issued $500.0 million aggregate principal amount of 4.125% senior notes due 2017 (the "Senior Notes") which mature on July 15, 2017, pursuant to an indenture and a supplemental indenture each dated as of July 12, 2012 (together, the "Senior Indenture").

Interest on the Senior Notes is payable in cash on January 15 and July 15 of each year, and commenced on January 15, 2013. The Senior Notes are fully and unconditionally guaranteed on a senior unsecured basis by each of the existing and future direct or indirect domestic subsidiaries that guarantee the obligations under our Credit Facilities.

We may redeem some or all of the Senior Notes at any time at redemption prices described or set forth in the Senior Indenture. We also may seek, from time to time, to retire some or all of the Senior Notes through cash purchases on the open market, in privately negotiated transactions or otherwise. Such repurchases, if any, will depend on prevailing market conditions, our liquidity requirements, contractual restrictions and other factors. The amounts involved may be material.

Change of Control. Upon the occurrence of a change of control triggering event, which is defined in the Senior Indenture, each holder of the Senior Notes has the right to require us to repurchase some or all of such holder's Senior Notes at a purchase price in cash equal to 101% of the principal amount thereof, plus accrued and unpaid interest, if any, to the repurchase date.

Covenants. The Senior Indenture contains covenants limiting, among other things, our ability and the ability of our restricted subsidiaries to (subject to certain exceptions): consolidate, merge, sell or otherwise dispose of all or substantially all of our assets; and incur or guarantee indebtedness secured by liens on any shares of voting stock of significant subsidiaries.

Events of Default. The Senior Indenture also provides for events of default which, if any of them occurs, would permit or require the principal of and accrued interest on the Senior Notes to become or to be declared due and payable.

Senior Subordinated Toggle Notes due 2017

On July 15, 2012, we used net proceeds from the sale of the Senior Notes to redeem the remaining $450.7 million outstanding aggregate principal amount of 11.875%/12.625% senior subordinated toggle notes due 2017 (the "Senior Subordinated Notes" which had been scheduled to mature on July 15, 2017) at a redemption price of 105.938% of the principal amount, plus accrued and unpaid interest, resulting in a pretax loss of $29.0 million. The redemption was effected in accordance with the indenture dated as of July 6, 2007 governing the Senior Subordinated Notes. The pretax losses on these transactions are reflected in Other (income) expense in our 2012 consolidated statement of income. We funded the redemption price for the Senior Subordinated Notes with proceeds from the Senior Notes.

Senior Notes due 2015

On April 29, 2011, we repurchased in the open market $25.0 million outstanding aggregate principal amount of our 10.625% senior notes due 2015 at a redemption price of 107.0% of the principal amount, plus accrued and unpaid interest, resulting in a pretax loss of $2.2 million. On July 15, 2011, we redeemed the remaining $839.3 million outstanding aggregate principal amount of such notes (which had been scheduled to mature on July 15, 2015) at a redemption price of 105.313% of the principal amount, plus accrued and unpaid interest, resulting in a pretax loss of $58.1 million. The redemption was effected in accordance with the indenture dated as of July 6, 2007 governing the notes. The pretax losses on these transactions are reflected in Other (income) expense in our 2011 consolidated statement of income. We funded the redemption price with cash on hand and borrowings under the ABL Facility.

Adjusted EBITDA

Under the agreements governing the Credit Facilities, certain limitations and restrictions could arise if we are not able to satisfy and remain in compliance with specified financial ratios. Management believes the most significant of such ratios is the senior secured incurrence test under the Credit Facilities. This test measures the ratio of the senior secured debt to Adjusted EBITDA. This ratio would need to be no greater than 4.25 to 1 to avoid such limitations and restrictions. As of February 1, 2013, this ratio was 1.1 to 1. Senior secured debt is defined as our total debt secured by liens or similar encumbrances less cash and cash equivalents. EBITDA is defined as income (loss) from continuing operations before cumulative effect of change in accounting principles plus interest and other financing costs, net, provision for income taxes, and depreciation and amortization. Adjusted EBITDA is defined as EBITDA, further adjusted to give effect to adjustments required in calculating this covenant ratio under our Credit Facilities. EBITDA and Adjusted EBITDA are not presentations made in accordance with U.S. GAAP, are not measures of financial performance or condition, liquidity or profitability, and should not be considered as an alternative to (1) net income, operating income or any other performance measures determined in accordance with U.S. GAAP or (2) operating cash flows determined in accordance with U.S. GAAP. Additionally, EBITDA and Adjusted EBITDA are not intended to be measures of free cash flow for management's discretionary use, as they do not consider certain cash requirements such as interest payments, tax payments and debt service requirements and replacements of fixed assets.

Our presentation of EBITDA and Adjusted EBITDA has limitations as an analytical tool, and should not be considered in isolation or as a substitute for analysis of our results as reported under U.S. GAAP. Because not all companies use identical calculations, these presentations of EBITDA and Adjusted EBITDA may not be comparable to other similarly titled measures of other companies. We believe that the presentation of EBITDA and Adjusted EBITDA is appropriate to provide additional information about the calculation of this financial ratio in the Credit Facilities. Adjusted EBITDA is a material component of this ratio. Specifically, non-compliance with the senior secured indebtedness ratio contained in our Credit Facilities could prohibit us from making investments, incurring liens, making certain restricted payments and incurring additional secured indebtedness (other than the additional funding provided for under the senior secured credit agreement and pursuant to specified exceptions).

The calculation of Adjusted EBITDA under the Credit Facilities is as follows:

	Year Ended	
(in millions)	**February 1, 2013**	**February 3, 2012**
Net income	$ 952.7	$ 766.7
Add (subtract):		
Interest expense	127.9	204.9
Depreciation and amortization	293.5	264.1
Income taxes	544.7	458.6
EBITDA	1,918.8	1,694.3
Adjustments:		
Loss on debt retirement	30.6	60.3
(Gain) loss on hedging instruments	(2.4)	0.4
Non-cash expense for share-based awards	21.7	15.3
Litigation settlement and related costs, net		13.1
Indirect merger-related costs	1.4	0.9
Other non-cash charges (including LIFO)	10.4	53.3
Other	2.5	
Total Adjustments	64.2	143.3
Adjusted EBITDA	$ 1,983.0	$ 1,837.6

Interest Rate Swaps

We use interest rate swaps to minimize the risk of adverse changes in interest rates. These swaps are intended to reduce risk by hedging an underlying economic exposure. Because of high correlation between the derivative 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. Our principal interest rate exposure relates to outstanding amounts under our Credit Facilities. At February 1, 2013, we had interest rate swaps with a total notional amount of approximately $875.0 million. For more information see Item 7A "Quantitative and Qualitative Disclosures about Market Risk" below.

Fair Value Accounting

We have classified our interest rate swaps, as further discussed in Item 7A. below, in Level 2 of the fair value hierarchy, as the significant inputs to the overall valuations are based on market-observable data or information derived from or corroborated by market-observable data, including market-based inputs to models, model calibration to market-clearing transactions, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency. Where models are used, the selection of a particular model to value a derivative depends upon the contractual terms of, and specific risks inherent in, the instrument as well as the availability of pricing information in the market. We use similar models to value similar instruments. Valuation models require a variety of inputs, including contractual terms, market prices, yield curves, credit curves, measures of volatility, and correlations of such inputs. For our derivatives, all of which trade in liquid markets, model inputs can generally be verified.

We incorporate credit valuation adjustments to appropriately reflect both our own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements of our derivatives. The credit valuation adjustments are calculated by determining the total expected exposure of the derivatives (which incorporates both the current and potential future exposure) and then applying each counterparty's credit spread to the applicable exposure. For derivatives with two-way exposure, such as interest rate swaps, the counterparty's credit spread is applied to our exposure to the counterparty, and our own credit spread is applied to the counterparty's exposure to us, and the net credit valuation adjustment is reflected in our derivative valuations. The total expected exposure of a derivative is derived using market-observable inputs, such as yield curves and volatilities. The inputs utilized for our own credit spread are based on implied spreads from our publicly-traded debt. For counterparties with publicly available credit information, the credit spreads over LIBOR used in the calculations represent implied credit default swap spreads obtained from a third party credit data provider. In adjusting the fair value of our derivative contracts for the effect of nonperformance risk, we have considered the impact of netting and any applicable credit enhancements, such as collateral postings, thresholds, mutual puts, and guarantees. Additionally, we actively monitor counterparty credit ratings for any significant changes.

As of February 1, 2013, the net credit valuation adjustments reduced the settlement values of our derivative liabilities by $0.2 million. Various factors impact changes in the credit valuation adjustments over time, including changes in the credit spreads of the parties to the contracts, as well as changes in market rates and volatilities, which affect the total expected exposure of the derivative instruments. When appropriate, valuations are also adjusted for various factors such as liquidity and bid/offer spreads, which factors we deemed to be immaterial as of February 1, 2013.

Contractual Obligations

The following table summarizes our significant contractual obligations and commercial commitments as of February 1, 2013 (in thousands):

	Payments Due by Period				
Contractual obligations	**Total**	**1 year**	**1 - 3 years**	**3 - 5 years**	**5+ years**
Long-term debt obligations	$ 2,764,495	$	$ 1,370,390	$ 1,380,255	$ 13,850
Capital lease obligations	7,733	892	2,034	2,114	2,693
Interest(a)	271,709	88,827	114,346	67,439	1,097
Self-insurance liabilities(b)	226,585	87,436	88,026	31,473	19,650
Operating leases(c)	4,535,218	611,595	1,077,713	852,464	1,993,446
Subtotal	$ 7,805,740	$ 788,750	$ 2,652,509	$ 2,333,745	$ 2,030,736

	Commitments Expiring by Period				
Commercial commitments(d)	**Total**	**1 year**	**1 - 3 years**	**3 - 5 years**	**5+ years**
Letters of credit	$ 16,461	$ 16,461	$	$	$
Purchase obligations(e)	622,128	565,954	56,174		
Subtotal	$ 638,589	$ 582,415	$ 56,174	$	$
Total contractual obligations and commercial commitments(f)	$ 8,444,329	$ 1,371,165	$ 2,708,683	$ 2,333,745	$ 2,030,736

(a) Represents obligations for interest payments on long-term debt and capital lease obligations, and includes projected interest on variable rate long-term debt, using 2012 year end rates. Variable rate long-term debt includes the balance of the senior secured asset-based revolving credit facility of $286.5 million, the balance of our tax increment financing of $14.5 million, and the unhedged portion of the senior secured term loan facility of $1.089 billion.

(b) We retain a significant portion of the risk for our workers' compensation, employee health insurance, general liability, property loss and automobile insurance. As these obligations do not have scheduled maturities, these amounts represent undiscounted estimates based upon actuarial assumptions. Reserves for workers' compensation and general liability which existed as of the date of a merger transaction in 2007 were discounted in order to arrive at estimated fair value. All other amounts are reflected on an undiscounted basis in our consolidated balance sheets.

(c) Operating lease obligations are inclusive of amounts included in deferred rent and closed store obligations in our consolidated balance sheets.

(d) Commercial commitments include information technology license and support agreements, supplies, fixtures, letters of credit for import merchandise, and other inventory purchase obligations.

(e) Purchase obligations include legally binding agreements for software licenses and support, supplies, fixtures, and merchandise purchases (excluding such purchases subject to letters of credit).

(f) We have potential payment obligations associated with uncertain tax positions that are not reflected in these totals. We anticipate that approximately $1.5 million of such amounts will be paid in the coming year. We are currently unable to make reasonably reliable estimates of the period of cash settlement with the taxing authorities for our remaining $23.4 million of reserves for uncertain tax positions.

Share Repurchase Program

On August 29, 2012, our Board of Directors authorized a $500 million common stock repurchase program, of which $143.6 million remained available for repurchase as of February 1, 2013. On March 19, 2013, our Board of Directors increased this authorization by an additional $500 million. As a result, as of March 25, 2013, the Company had $643.6 million available for the repurchase of common stock.

The repurchase authorization has no expiration date and allows repurchases from time to time in the open market or in privately negotiated transactions, which could include repurchases from Buck Holdings, L.P., an existing shareholder of the Company, or other related parties if appropriate. The timing and number of shares purchased will depend on a variety of factors, such as price, market conditions, compliance with the covenants and restrictions under our senior secured credit facilities and other factors. Repurchases under the program may be funded from available cash or borrowings under our ABL Facility. During 2012, we repurchased approximately 7.3 million shares under this authorization at a total cost of $356.4 million.

On November 30, 2011, our Board of Directors authorized a $500 million common stock repurchase program on terms similar to the August 2012 authorization. During 2012, we repurchased approximately 7.1 million shares under this authorization at a total cost of $315.0 million, completing that authorization.

In summary, we repurchased approximately 14.4 million shares of common stock at a total cost of $671.4 million in 2012, including approximately 11.7 million shares repurchased from Buck Holdings, L.P. at an aggregate cost of $550.0 million.

Other Considerations

We have no current plans to pay any cash dividends on our common stock and instead may retain earnings, if any, for future operation and expansion and common stock repurchases. Any decision to declare and pay dividends in the future will be made at the discretion of our Board of Directors, subject to certain limitations found in covenants in our Credit Facilities as discussed in more detail above, and will depend on, among other things, our results of operations, cash requirements, financial condition, contractual restrictions and other factors that our Board of Directors may deem relevant.

Our inventory balance represented approximately 50% of our total assets exclusive of goodwill and other intangible assets as of February 1, 2013. Our proficiency in managing our inventory balances can have a significant impact on our cash flows from operations during a given fiscal year. As a result, efficient inventory management has been and continues to be an area of focus for us.

As described in Note 9 to the Consolidated Financial Statements, we are involved in a number of legal actions and claims, some of which could potentially result in material cash payments. Adverse developments in those actions could materially and adversely affect our liquidity. As discussed in Note 5 to the Consolidated Financial Statements, we also have certain income tax-related contingencies. Future negative developments could have a material adverse effect on our liquidity.

In April 2012, Standard & Poor's upgraded our corporate rating to BBB- from BB+ with a stable outlook, and in February 2013, Moody's placed our corporate rating of Ba1 on review for upgrade. Our current credit ratings, as well as future rating agency actions, could (i) impact our ability to fund our operations on satisfactory terms; (ii) affect our financing costs; and (iii) affect our insurance premiums and collateral requirements necessary for our self-insured programs. There can be no assurance that we will be able to maintain or improve our current credit ratings.

Cash flows

Cash flows from operating activities. Significant components of the increase in cash flows from operating activities in 2012 compared to 2011 include increased net income due primarily to increased sales and lower SG&A expenses, as a percentage of sales, in 2012 as described in more detail above under "Results of Operations." A portion of the changes in Prepaid and other current assets as well as Accrued expenses and other reflect the activity associated with a legal settlement accrued in 2011 for which payments were made in 2012. Changes in Accrued expenses and other were also affected by higher sales tax accruals at the end of 2011 and the adjustment of accruals during 2012 due to the favorable resolution of income tax examinations. The reclassification of the tax benefit of stock options to cash flows from financing activities was higher in 2012 due to an increase in stock options exercised. Changes in Accounts payable were due to increased merchandise purchases as discussed in more detail below, the most significant category of which were domestic purchases.

On an ongoing basis, we closely monitor and manage our inventory balances, and they may fluctuate from period to period based on new store openings, the timing of purchases, and other factors. Merchandise inventories increased by 19% during 2012, compared to a 14% increase in 2011. The increase in inventories in 2012 was due to several factors including new items introduced in 2012, the receipt during 2012 of certain items related to our 2013 merchandising initiatives, and the emphasis on improved presentation levels of select merchandise categories. Inventory levels in the consumables category increased by $245.7 million, or 22%, in 2012 compared to an increase of $132.3 million, or 13%, in 2011. The seasonal category increased by $70.2 million, or 18%, in 2012 compared to an increase of $27.5 million, or 7%, in 2011. The home products category increased $56.2 million, or 29%, in 2012 compared to an increase of $24.6 million, or 14%, in 2011. The apparel category increased by $16.0 million, or 5%, in 2012 compared to an increase of $59.4 million, or 24%, in 2011.

A significant component of our increase in cash flows from operating activities in 2011 compared to 2010 was the increase in net income due to increases in sales and gross profit, and lower SG&A expenses as a percentage of sales, as described in more detail above under "Results of Operations." Significant components of the increase in cash flows from operating activities in 2011 compared to 2010 were related to working capital in general and Accrued expenses and other in particular. Items affecting Accrued expenses and other include increased accruals for income tax reserves, increased accruals for legal settlements and sales taxes, partially offset by reduced interest accruals. The timing of interest and certain other accruals and the related payments were affected by the 53rd week in 2011. Partially offsetting this increase in cash flows was an increase in income taxes paid in 2011 compared to 2010 due to the increase in net income.

In addition, inventory balances increased by 14% in 2011 compared to an increase of 16% in 2010. Inventory levels in the consumables category increased by $132.3 million, or 13%, in 2011 compared to an increase of $133.9 million, or 16%, in 2010. The seasonal category increased by $27.5 million, or 7%, in 2011 compared to an increase of $55.2 million, or 18%, in 2010. The home products category increased $24.6 million, or 14%, in 2011 compared to an increase of $25.2 million, or 17%, in 2010. The apparel category increased by $59.4 million, or 24%, in 2011 compared to an increase of $32.3 million, or 15%, in 2010.

Cash flows from investing activities. Significant components of property and equipment purchases in 2012 included the following approximate amounts: $155 million for new leased stores; $132 million for stores purchased or built by us; $83 million for distribution centers; $80 million for remodels and relocations of existing stores; $71 million for improvements and upgrades to existing stores; $27 million for systems-related capital projects; and $17 million for transportation-related projects. The timing of new, remodeled and relocated store openings along with other factors may affect the relationship between such openings and the related property and equipment purchases in any given period. During 2012, we opened 625 new stores and remodeled or relocated 592 stores.

Significant components of property and equipment purchases in 2011 included the following approximate amounts: $120 million for distribution centers, including the construction of the distribution center in Alabama; $114 million for new leased stores; $80 million for improvements and upgrades to existing stores; $80 million for stores purchased or built by us; $73 million for remodels and relocations of existing stores; $28 million for systems-related capital projects; and $15 million for transportation-related projects. During 2011, we opened 625 new stores and remodeled or relocated 575 stores.

Significant components of our property and equipment purchases in 2010 included the following approximate amounts: $104 million for improvements and upgrades to existing stores; $100 million for new leased stores; $91 million for stores purchased or built by us; $53 million for remodels and relocations of existing stores; $45 million for distribution and transportation-related capital expenditures; and $22 million for information systems upgrades and technology-related projects. During 2010 we opened 600 new stores and remodeled or relocated 504 stores.

Capital expenditures during 2013 are projected to be in the range of $575-$625 million. We anticipate funding 2013 capital requirements with cash flows from operations, and if necessary, we also have significant availability under our ABL Facility. We plan to continue to invest in store growth and development of approximately 635 new stores and approximately 550 stores to be remodeled or relocated. Capital expenditures in 2013 are anticipated for the construction of new stores; costs related to new leased stores such as leasehold improvements, fixtures and equipment; the purchase of existing stores; continued investment in our existing store base including our plans to improve the productivity of our legacy stores; our tobacco initiative; transportation and distribution, including a new distribution center that is under construction in Pennsylvania; and also for routine and ongoing capital requirements.

Included in our 2013 new store growth plans are approximately 20 new Dollar General Market stores and approximately 40 Dollar General Plus stores, which will expand our presence in markets such as California and Nevada. The Market and Plus stores require higher investments than our traditional stores which can vary depending on numbers of coolers, square feet, type of construction and layout. Because we continue to test several different formats, the costs of rolling out these concepts in larger quantities, should we decide to do so, are uncertain at the present time. Any plans to undertake these expenditures would be part of our efforts to improve our infrastructure and increase our cash generated from operating activities.

Cash flows from financing activities. In 2012 we repurchased 14.4 million outstanding shares of our common stock at a total cost of $671.4 million, including 11.7 million shares repurchased from Buck Holdings, L.P. In July 2012, we issued $500.0 million aggregate principal amount of 4.125% senior notes due 2017. Also in July 2012, we redeemed the remaining aggregate principal amount of our Senior Subordinated Notes at a redemption price of 105.938% of the principal amount thereof, resulting in a cash outflow of $477.5 million. Net borrowings under the ABL Facility were $101.8 million during 2012.

In July 2011, we redeemed $839.3 million aggregate principal amount of our outstanding senior notes due 2015 at total cost of $883.9 million including associated premiums, and in April 2011, we repurchased in the open market $25.0 million aggregate principal amount of senior notes due 2015 at a total cost of $26.8 million including associated premiums. A portion of the July 2011 redemption of senior notes due 2015 was financed by borrowings under the ABL Facility. Net borrowings under the ABL Facility were $184.7 million during 2011. In December 2011, we repurchased 4.9 million outstanding shares from Buck Holdings, L.P. at a total cost of $185.0 million.

During 2010, we repurchased $115.0 million principal amount of outstanding senior notes due 2015 at a total cost of $127.5 million including associated premiums. We had no borrowings or repayments under the ABL Facility in 2010.

Accounting Standards

In February 2013, the Financial Accounting Standards Board issued an accounting standards update which will revise the manner in which entities report amounts reclassified out of other comprehensive income in their financial statements. We are in the process of evaluating this guidance, which will be effective for us in the first quarter of 2013. At the current time, we do not expect this guidance to have a material effect on our consolidated financial statements.

Critical Accounting Policies and Estimates

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect reported amounts and related disclosures. In addition to the estimates presented below, there are other items within our financial statements that require estimation, but are not deemed critical as defined below. We believe these estimates are reasonable and appropriate. However, if actual experience differs from the assumptions and other considerations used, the resulting changes could have a material effect on the financial statements taken as a whole.

Management believes the following policies and estimates are critical because they involve significant judgments, assumptions, and estimates. Management has discussed the development and selection of the critical accounting estimates with the Audit Committee of our Board of Directors, and the Audit Committee has reviewed the disclosures presented below relating to those policies and estimates.

Merchandise Inventories. Merchandise inventories are stated at the lower of cost or market with cost determined using the retail last-in, first-out ("LIFO") method. Under our retail inventory method ("RIM"), the calculation of gross profit and the resulting valuation of inventories at cost are computed by applying a calculated cost-to-retail inventory ratio to the retail value of sales at a department level. The RIM is an averaging method that has been widely used in the retail industry due to its practicality. Also, it is recognized that the use of the RIM will result in valuing inventories at the lower of cost or market ("LCM") if markdowns are currently taken as a reduction of the retail value of inventories.

Inherent in the RIM calculation are certain significant management judgments and estimates including, among others, initial markups, markdowns, and shrinkage, which significantly impact the gross profit calculation as well as the ending inventory valuation at cost. These significant estimates, coupled with the fact that the RIM is an averaging process, can, under certain circumstances, produce distorted cost figures. Factors that can lead to distortion in the calculation of the inventory balance include:

- applying the RIM to a group of products that is not fairly uniform in terms of its cost and selling price relationship and turnover;

- applying the RIM to transactions over a period of time that include different rates of gross profit, such as those relating to seasonal merchandise;

- inaccurate estimates of inventory shrinkage between the date of the last physical inventory at a store and the financial statement date; and

- inaccurate estimates of LCM and/or LIFO reserves.

Factors that reduce potential distortion include the use of historical experience in estimating the shrink provision (see discussion below) and an annual LIFO analysis whereby all SKUs are considered for inclusion in the index formulation. An actual valuation of inventory under the LIFO method is made at the end of each year based on the inventory levels and costs at that time. Accordingly, interim LIFO calculations are based on management's estimates of expected year-end inventory levels, sales for the year and the expected rate of inflation/deflation for the year and are thus subject to adjustment in the final year-end LIFO inventory valuation. We also perform interim inventory analysis for determining obsolete inventory. Our policy is to write down inventory to an LCM value based on various management assumptions including estimated markdowns and sales required to liquidate such inventory in future periods. Inventory is reviewed on a quarterly basis and adjusted to reflect write-downs as appropriate.

Factors such as slower inventory turnover due to changes in competitors' practices, consumer preferences, consumer spending and unseasonable weather patterns, among other factors, could cause excess inventory requiring greater than estimated markdowns to entice consumer purchases, resulting in an unfavorable impact on our consolidated financial statements. Sales shortfalls due to the above factors could cause reduced purchases from vendors and associated vendor allowances that would also result in an unfavorable impact on our consolidated financial statements.

We calculate our shrink provision based on actual physical inventory results during the fiscal period and an accrual for estimated shrink occurring subsequent to a physical inventory through the end of the fiscal reporting period. This accrual is calculated as a percentage of sales at each retail store, at a department level, and is determined by dividing the book-to-physical inventory adjustments recorded during the previous twelve months by the related sales for the same period for each store. To the extent that subsequent physical inventories yield different results than this estimated accrual, our effective shrink rate for a given reporting period will include the impact of adjusting the estimated results to the actual results. Although we perform physical inventories in virtually all of our stores on an annual basis, the same stores do not necessarily get counted in the same reporting periods from year to year, which could impact comparability in a given reporting period.

We believe our estimates and assumptions related to merchandise inventories have generally been accurate in recent years and we do not currently anticipate material changes in these estimates and assumptions.

Goodwill and Other Intangible Assets. We amortize intangible assets over their estimated useful lives unless such lives are deemed indefinite. If impairment indicators are noted, amortizable intangible assets are tested for impairment based on projected undiscounted cash flows, and, if impaired, written down to fair value based on either discounted projected cash flows or appraised values. Future cash flow projections are based on management's projections. Significant judgments required in this testing process may include projecting future cash flows, determining appropriate discount rates, correctly applying valuation techniques, correctly computing the implied fair value of goodwill as discussed in greater detail below, and other assumptions. Projections are based on management's best estimates given recent financial performance, market trends, strategic plans and other available information which in recent years have been materially accurate. Although not currently anticipated, changes in these estimates and assumptions could materially affect the determination of fair value or impairment. Future indicators of impairment could result in an asset impairment charge.

Under accounting standards for goodwill and other indefinite-lived intangible assets, an entity has the option first to assess qualitative factors to determine whether events and circumstances indicate that it is more likely than not that the asset is impaired. If after such assessment an entity concludes that the asset is not impaired, then the entity is not required to take further action. However, if an entity concludes otherwise, then it is required to perform quantitative impairment tests as discussed further below. Significant judgments required in the analysis of qualitative factors may include determining the appropriate factors to consider, the relative importance of those factors, along with other assumptions.

We are required to test goodwill and indefinite-lived intangible assets for impairment annually, or more frequently if impairment indicators occur. The quantitative goodwill impairment test is a two-step process that requires management to make judgments in determining what assumptions to use in the calculation. If these judgments or assumptions are incorrect or flawed, the analysis could be negatively impacted. The first step of the process consists of estimating the fair value of our reporting unit based on valuation techniques (including a discounted cash flow model using revenue and profit forecasts) and comparing that estimated fair value with the recorded carrying value, which includes goodwill. If the estimated fair value is less than the carrying value, a second step is performed to compute the amount of the impairment, if any, by determining an "implied fair value" of goodwill. The determination of the implied fair value of goodwill would require us to allocate the estimated fair value of our reporting unit to its assets and liabilities. Any unallocated fair value represents the implied fair value of goodwill, which would be compared to its corresponding carrying value.

The quantitative impairment test for indefinite-lived intangible assets consists of a comparison of the fair value of the intangible asset with its carrying amount. If the carrying amount of an indefinite-lived intangible asset exceeds its fair value, an impairment loss is recognized in an amount equal to that excess.

Our most recent testing of our goodwill and indefinite lived trade name intangible assets was completed during the third quarter of 2012. No indicators of impairment were evident and no adjustment to these assets was required. We are not currently projecting a decline in cash flows that could be expected to have an adverse effect such as a violation of debt covenants or future impairment charges.

Property and Equipment. Property and equipment are recorded at cost. We group our assets into relatively homogeneous classes and generally provide for depreciation on a straight-line basis over the estimated average useful life of each asset class, except for leasehold improvements, which are amortized over the lesser of the applicable lease term or the estimated useful life of the asset. Certain store and warehouse fixtures, when fully depreciated, are removed from the cost and related accumulated depreciation and amortization accounts. The valuation and classification of these assets and the assignment of depreciable lives involves significant judgments and the use of estimates, which we believe have been materially accurate in recent years.

Impairment of Long-lived Assets. We review the carrying value of long-lived assets for impairment at least annually, and whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. In accordance with accounting standards for impairment or disposal of long-lived assets, we review for impairment stores open for approximately two years or more for which recent cash flows from operations are negative. Impairment results when the carrying value of the assets exceeds the estimated undiscounted future cash flows over the life of the lease. Our estimate of undiscounted future cash flows over the lease term is based upon historical operations of the stores and estimates of future store profitability which encompasses many factors that are subject to variability and are difficult to predict. If our estimates of future cash flows are not materially accurate, our impairment analysis could be impacted accordingly. If a long-lived asset is found to be impaired, the amount recognized for impairment is equal to the difference between the carrying value and the asset's estimated fair value. The fair value is estimated based primarily upon projected future cash flows (discounted at our credit adjusted risk-free rate) or other reasonable estimates of fair market value in accordance with U.S. GAAP. Although not currently anticipated, changes in these estimates, assumptions or projections could materially affect the determination of fair value or impairment.

Insurance Liabilities. We retain a significant portion of the risk for our workers' compensation, employee health, property loss, automobile and general liability. These represent significant costs primarily due to our large employee base and number of stores. Provisions are made for these liabilities on an undiscounted basis based on actual claim data and estimates of incurred but not reported claims developed using actuarial methodologies based on historical claim trends, which have been and are anticipated to continue to be materially accurate. If future claim trends deviate from recent historical patterns, or other unanticipated events affect the number and significance of future claims, we may be required to record additional expenses or expense reductions, which could be material to our future financial results.

Contingent Liabilities Income Taxes. Income tax reserves are determined using the methodology established by accounting standards relating to uncertainty in income taxes. These standards require companies to assess each income tax position taken using a two-step process. A determination is first made as to whether it is more likely than not that the position will be sustained, based upon the technical merits, upon examination by the taxing authorities. If the tax position is expected to meet the more likely than not criteria, the benefit recorded for the tax position equals the largest amount that is greater than 50% likely to be realized upon ultimate settlement of the respective tax position. Uncertain tax positions require determinations and estimated liabilities to be made based on provisions of the tax law which may be subject to change or varying interpretation. If our determinations and estimates prove to be inaccurate, the resulting adjustments could be material to our future financial results.

Contingent Liabilities Legal Matters. We are subject to legal, regulatory and other proceedings and claims. We establish liabilities as appropriate for these claims and proceedings based upon the probability and estimability of losses and to fairly present, in conjunction with the disclosures of these matters in our financial statements and SEC filings, management's view of our exposure. We review outstanding claims and proceedings with external counsel to assess probability and estimates of loss, which includes an analysis of whether such loss estimates are probable, reasonably possible, or remote. We re-evaluate these assessments on a quarterly basis or as new and significant information becomes available to determine whether a liability should be established or if any existing liability should be adjusted. The actual cost of resolving a claim or proceeding ultimately may be substantially different than the amount of the recorded liability. In addition, because it is not permissible under U.S. GAAP to establish a litigation liability until the loss is both probable and estimable, in some cases there may be insufficient time to establish a liability prior to the actual incurrence of the loss (upon verdict and judgment at trial, for example, or in the case of a quickly negotiated settlement).

Lease Accounting and Excess Facilities. Many of our stores are subject to build-to-suit arrangements with landlords, which typically carry a primary lease term of 10-15 years with multiple renewal options. We also have stores subject to shorter-term leases and many of these leases have renewal options. Certain of our stores have provisions for contingent rentals based upon a percentage of defined sales volume. We recognize contingent rental expense when the achievement of specified sales targets is considered probable. We recognize rent expense over the term of the lease. We record minimum rental expense on a straight-line basis over the base, non-cancelable lease term commencing on the date that we take physical possession of the property from the landlord, which normally includes a period prior to store opening to make necessary leasehold improvements and install store fixtures. When a lease contains a predetermined fixed escalation of the minimum rent, we recognize the related rent expense on a straight-line basis and record the difference between the recognized rental expense and the amounts payable under the lease as deferred rent. Tenant allowances, to the extent received, are recorded as deferred incentive rent and amortized as a reduction to rent expense over the term of the lease. We reflect as a liability any difference between the calculated expense and the amounts actually paid. Improvements of leased properties are amortized over the shorter of the life of the applicable lease term or the estimated useful life of the asset.

For store closures (excluding those associated with a business combination) where a lease obligation still exists, we record the estimated future liability associated with the rental obligation on the date the store is closed in accordance with accounting standards for costs associated with exit or disposal activities. Based on an overall analysis of store performance and expected trends, management periodically evaluates the need to close underperforming stores. Liabilities are established at the point of closure for the present value of any remaining operating lease obligations, net of estimated sublease income, and at the communication date for severance and other exit costs. Key assumptions in calculating the liability include the timeframe expected to terminate lease agreements, estimates related to the sublease potential of closed locations, and estimation of other related exit costs. Historically, these estimates have not been materially inaccurate; however, if actual timing and potential termination costs or realization of sublease income differ from our estimates, the resulting liabilities could vary from recorded amounts. These liabilities are reviewed periodically and adjusted when necessary.

Share-Based Payments. Our share-based stock option awards are valued on an individual grant basis using the Black-Scholes-Merton closed form option pricing model. We believe that this model fairly estimates the value of our share-based awards. The application of this valuation model involves assumptions that are judgmental and highly sensitive in the valuation of stock options, which affects compensation expense related to these options. These assumptions include the term that the options are expected to be outstanding, the historical volatility of our stock price, applicable interest rates and the dividend yield of our stock. Other factors involving judgments that affect the expensing of share-based payments include estimated forfeiture rates of share-based awards. Historically, these estimates have not been materially inaccurate; however, if our estimates differ materially from actual experience, we may be required to record additional expense or reductions of expense, which could be material to our future financial results.

Fair Value Measurements. We measure fair value of assets and liabilities in accordance with applicable accounting standards, which require that fair values be determined based on the assumptions that market participants would use in pricing the asset or liability. These standards establish a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy). Therefore, Level 3 inputs are typically based on an entity's own assumptions, as there is little, if any, related market activity, and thus require the use of significant judgment and estimates. Currently, we have no assets or liabilities that are valued based solely on Level 3 inputs.

Our fair value measurements are primarily associated with our derivative financial instruments, intangible assets, debt instruments, and to a lesser degree our investments. The values of our derivative financial instruments are determined using widely accepted valuation techniques, including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves. The fair values of interest rate swaps are determined using the market standard methodology of netting the discounted future fixed cash payments (or receipts) and the discounted expected variable cash receipts (or payments). The variable cash receipts (or payments) are based on an expectation of future interest rates (forward curves) derived from observable market interest rate curves. The application of valuation models involves assumptions such as discounted cash flow analysis and interest rate curves that are judgmental and highly sensitive in the fair value computations. In recent years, these methodologies have produced materially accurate valuations.

Derivative Financial Instruments. We account for our derivative instruments in accordance with accounting standards for derivative instruments (including certain derivative instruments embedded in other contracts) and hedging activities, as amended and interpreted, which establish accounting and reporting requirements for such instruments and activities. These standards require that every derivative instrument be recorded in the balance sheet as either an asset or liability measured at its fair value, and that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. See "Fair Value Measurements" above for a discussion of derivative valuations. Special accounting for qualifying hedges allows a derivative's gains and losses to either offset related results on the hedged item in the statement of operations or be accumulated in other comprehensive income, and requires that a company formally document, designate, and assess the effectiveness of transactions that receive hedge accounting. We use derivative instruments to manage our exposure to changing interest rates, primarily with interest rate swaps.

In addition to making valuation estimates, we also bear the risk that certain derivative instruments that have been designated as hedges and currently meet the strict hedge accounting requirements may not qualify in the future as "highly effective," as defined, as well as the risk that hedged transactions in cash flow hedging relationships may no longer be considered probable to occur. Further, new interpretations and guidance related to these instruments may be issued in the future, and we cannot predict the possible impact that such guidance may have on our use of derivative instruments going forward.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Financial Risk Management

We are exposed to market risk primarily from adverse changes in interest rates, and to a lesser degree commodity prices. To minimize this risk, we may periodically use financial instruments, including derivatives. As a matter of policy, we do not buy or sell financial instruments for speculative or trading purposes and all derivative financial instrument transactions must be authorized and executed pursuant to approval by the Board of Directors. All financial instrument positions taken by us are intended to be used to reduce risk by hedging an underlying economic exposure. Because of high correlation between the derivative 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.

Interest Rate Risk

We manage our interest rate risk through the strategic use of fixed and variable interest rate debt and, from time to time, derivative financial instruments. Our principal interest rate exposure relates to outstanding amounts under our Credit Facilities. As of February 1, 2013, we had variable rate borrowings of $1.964 billion under our Term Loan Facility and $286.5 million under our ABL Facility. In order to mitigate a portion of the variable rate interest exposure under the Credit Facilities, we have entered into various interest rate swaps in recent years.

Currently, we are counterparty to certain interest rate swaps with a total notional amount of $875.0 million entered into in May 2012 in order to mitigate a portion of the variable rate interest exposure under the Credit Facilities. These swaps are scheduled to mature in May 2015. Under the terms of these agreements we swapped one month LIBOR rates for fixed interest rates, resulting in the payment of an all-in fixed rate of 3.34% on a notional amount of $875.0 million.

A change in interest rates on variable rate debt impacts our pre-tax earnings and cash flows; whereas a change in interest rates on fixed rate debt impacts the economic fair value of debt but not our pre-tax earnings and cash flows. Our interest rate swaps qualify for hedge accounting as cash flow hedges. Therefore, changes in market fluctuations related to the effective portion of these cash flow hedges do not impact our pre-tax earnings until the accrued interest is recognized on the derivatives and the associated hedged debt. Based on our variable rate borrowing levels and interest rate swaps outstanding as of February 1, 2013 and February 3, 2012, respectively, the annualized effect of a one percentage point increase in variable interest rates would have resulted in a pretax reduction of our earnings and cash flows of approximately $13.9 million in 2012 and $16.3 million in 2011.

The conditions and uncertainties in the global credit markets may increase the credit risk of counterparties to our swap agreements. In the event such counterparties fail to perform under our swap agreements and we are unable to enter into new swap agreements on terms favorable to us, our ability to effectively manage our interest rate risk may be materially impaired. We attempt to manage counterpart