

DOLLAR GENERAL CORP
Form 10-K
March 22, 2011

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 January 28, 2011

Commission file number: 001-11421

DOLLAR GENERAL CORPORATION
(Exact name of registrant as specified in its charter)

TENNESSEE
*(State or other jurisdiction of
incorporation or organization)*

61-0502302
*(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 ☒ No ☐

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

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 ☐ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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 ☒

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☐

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

The aggregate fair market value of the registrant's common stock outstanding and held by non-affiliates as of July 30, 2010 was \$2,057,296,011 calculated using the closing market price of our common stock as reported on the NYSE on such date (\$29.18). For this purpose, directors, executive officers and greater than 10% record shareholders are considered the affiliates of the registrant.

The registrant had 341,521,858 shares of common stock outstanding as of March 16, 2011.

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 25, 2011.

INTRODUCTION

General

This report contains references to years 2011, 2010, 2009, 2008, 2007 and 2006, which represent fiscal years ending or ended February 3, 2012, January 28, 2011, January 29, 2010, January 30, 2009, February 1, 2008 and February 2, 2007, respectively. 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 referred to in this document may appear without the ® or ™ symbol, but such references are not intended to indicate, in any way, 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, plan, expect, estimate, objective, forecast, goal, potential, opportunity, intend, will likely result, or 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 written and oral forward-looking statements are expressly 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 forward-looking 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 or our operations in the way we expect.

The forward-looking statements included in this report 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 9,414 stores located in 35 states as of February 25, 2011, 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 (approximately 7,200 square feet) locations.

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. On November 13, 2009 our common stock again became publicly traded upon our completion of an initial public offering of 39,215,000 shares of our common stock, including 22,700,000 newly issued shares. We are majority owned by Buck Holdings, L.P., a Delaware limited partnership controlled by KKR, which beneficially owns approximately 71% of our outstanding common stock.

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.

Fiscal year 2010 represented our 21st 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. Both customer traffic and average transaction amount increased during 2009 and 2010 despite a very difficult economic environment. We believe that our customers recognize our efforts to provide them with a pleasant, efficient shopping experience along with our ongoing commitment to meet their everyday needs, which encourages them to continue to shop with us in the future.

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 over 9,400 stores in 35 states, and provide us significant opportunities to continue our strategy of profitable store growth.

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 nearly 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 where shopping carts are located to promote efficient navigation of the store. 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 hours are 8:00 a.m. to 9:00 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 24% 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.

Attractive Store Economics. The traditional Dollar General store size, design and location requires minimal initial investment and low maintenance capital expenditures. Our typical locations involve a modest, no-frills building, which helps keep our rental and other fixed overhead costs relatively low. When coupled with our new stores' ability to generally deliver positive cash flow in the first year, this low capital expenditure requirement typically results in pay back of capital in less than two years. Our stringent market analysis, real estate site selection

and new store approval processes as well as our new store marketing programs help us optimize financial returns and minimize the risks of opening unprofitable stores.

Our lean store staffing model and centralized management of utilities, maintenance and supplies procurement contribute to our relatively low operating costs and efficient store operations.

Substantial Growth Opportunities. We believe that we have substantial growth opportunities through both improved profitability of existing stores and new store openings. We are pursuing a number of initiatives which we expect to continue to improve the profitability of our existing store base. In addition, we have identified significant opportunities to add new stores in both existing and new markets. We believe we have the long-term potential in the U.S. to more than double our existing store base while maintaining strong returns on capital. See Our Growth Strategy for additional details.

Our Growth Strategy

We believe we have the right strategy and execution capabilities to capitalize on the considerable growth opportunities afforded by our business model. 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 the combination of our necessity-driven product mix and our attractive value proposition, including a well-balanced merchandising approach, provides a strong basis for increased sales. Our average sales per square foot increased to \$201 in 2010 from \$195 in 2009 and \$180 in 2008. We believe we will continue to have additional opportunities to increase our store productivity through improved in-stock positions, price optimization, continued improvements in space utilization, and additional operating and merchandising initiatives. Among numerous additional projects in 2011, we plan to further expand our frozen and refrigerated food and health and beauty aids offerings. We will also continue to focus on increasing sales in our home, apparel and seasonal categories.

In addition, we plan to relocate or remodel approximately 550 stores in 2011, which we expect to further drive same-store sales growth. In 2010, we remodeled or relocated 504 stores. Remodels and relocations generally consist of updating the stores to our new customer centric format, which we believe appeals to a broader customer base. A relocation typically results in an improved, more visible and accessible location, and usually includes increased square footage. We continue to have opportunities for additional remodels and relocations beyond 2011.

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. Our financial results during 2010 and 2009 reflect the favorable impact of our strong category management processes on gross margin improvement and our continued efforts to reduce selling, general and administrative expenses as a percent of sales.

In recent months, we have begun to see many of our product categories impacted by increased costs of commodities, including cotton, wheat, corn, sugar, coffee and resin, as well as increased transportation fuel costs, which have increased significantly in early 2011. These

increases pose a challenge to our continued priority of improving our gross profit rate. However, we believe we have options available to mitigate the impact of these increases, including our price optimization, changes to our product selection, such as alternate national brands and the expansion of our private brands, and modifications to our packaging and product size, including items in our planned expansion of merchandise selections priced at \$1.00. In addition, we continue to focus on reducing inventory shrinkage and improving distribution efficiencies.

We intend to continue to drive our private brand penetration going forward. Our private brand program complements our model of offering customers nationally branded consumables merchandise at everyday low prices. Generally, private brand items have higher gross profit margins than similar national brand items, and in 2010 represented approximately 22% of our consumables sales. In 2010, we made significant progress in expanding our private brand efforts to our non-consumable offerings, dramatically improving the visual impact of our many non-consumables, including housewares, domestics, lawn and garden tools and summer toys.

We believe we have the potential to directly source a larger portion of our products at significant savings to current costs. In 2010, we imported approximately \$750 million of goods, or 8% of total purchases, at cost.

We continually look for ways to improve our cost structure and enhance efficiencies throughout the organization. In 2010, we centralized our procurement system which we expect to aid us in reducing the cost of purchases throughout the company in 2011 and beyond. In addition, we have begun to implement a store labor management and work simplification program, and we are continuing our store rent reduction initiative.

Growing Our Store Base. Based on a detailed, market-by-market analysis, we believe we have the potential to at least double our current number of stores through expansion in both existing and new markets. In 2011, we plan to enter three new states, Connecticut, New Hampshire and Nevada. We have confidence in our real estate disciplines and in our ability to identify, open and operate successful new stores. As a result, we believe that at least our present level of new store growth is sustainable for the foreseeable future. In addition, we continue to believe that in the current real estate market environment there may be opportunities to negotiate lower rent than would have previously been available, allowing us to continue to improve the overall quality of our sites at attractive rental rates.

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, Kimberly Clark, Unilever, Kellogg's, General Mills, Nabisco, Coca-Cola and PepsiCo, which are typically found at higher retail prices elsewhere. Additionally, our private brand selections offer consumers even greater value with options to purchase value items and national brand equivalent products at substantial discounts to the national brand.

Edgar Filing: DOLLAR GENERAL CORP - Form 10-K

Our stores generally offer approximately 10,000 total SKUs per store. 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 24% 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); food, including packaged food and perishables (such as cereals, canned soups and vegetables, sugar, flour, milk, eggs and bread); beverages and 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 cell 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:

	2010
	2009
	2008
Consumables	
	71.6
%	
	70.8
%	

69.3

%

Seasonal

14.5

%

14.5

%

14.6

%

Home
products

7.0

%

7.4

%

8.2

%

Apparel

6.9

%

7.3

%

7.9

%

Our home products and seasonal 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 average Dollar General store has approximately 7,200 square feet of selling space and is typically operated by a manager, an assistant manager and three or more sales clerks. Approximately 58% of our stores are in freestanding buildings, 41% in strip shopping centers and 1% are in downtown buildings. Most of our customers live within three to five miles, or a 10 minute drive, of our stores. Our store strategy features low initial capital expenditures, limited maintenance capital, low occupancy and 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. In 2010, the average cost of equipment and fixtures in our leased stores was approximately \$165,000. Initial inventory, net of payables, increases the investment in a new store by approximately \$75,000.

Edgar Filing: DOLLAR GENERAL CORP - Form 10-K

We generally have not encountered difficulty locating suitable store sites in the past. Given the size of the communities that we target, we believe that there is ample opportunity for new store growth in existing and new markets. In addition, the current real estate market is providing an opportunity for us to access higher quality sites at lower rates than in recent years. Also, we believe we have significant opportunities available for our relocation and remodel programs. We spend approximately \$75,000 for equipment and fixtures to remodel a store and approximately \$140,000 to relocate one. We remodeled or relocated 504 stores in 2010, 450 in 2009 and 404 in 2008.

Our recent store growth is summarized in the following table:

Year	Stores at Beginning of Year	Stores Opened	Stores Closed	Net Store Increase/(Decrease)	Stores at End of Year
2008	8,194	207		39	
				168	
	8,362				
2009	8,362	500		34	

466

8,828

2010

8,828

600

56

544

9,372

Our Customers

Our customers seek value and convenience. Depending on their financial situation and geographic proximity, customers' reliance on Dollar General varies from fill-in shopping to periodic routine trips in order to stock up on household items, to weekly or more frequent trips to meet most essential needs. We believe that our value and convenience proposition attracts customers from a wide range of income brackets and life stages. In the last year, we have seen increases in the annual number of shopping trips that our customers make to Dollar General as well as the amount spent during each trip.

We continue to focus on the quality, selection and pricing of our merchandise, targeted advertising, improved store standards and site selection processes, among other initiatives, to attract new and retain existing customers.

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, Kimberly Clark, Unilever, Kellogg's, General Mills, Nabisco, Coca-Cola and PepsiCo. 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 9% and 7% of our purchases in 2010 were from our largest and second largest suppliers, respectively. Our private brands come from a diversified supplier base. We directly imported approximately 8% of our purchases at cost (13% of our purchases at retail) in 2010. Our vendor arrangements generally provide for payment for such merchandise in U.S. dollars.

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 or reduce the quality of our merchandise, and an inability to obtain alternative sources could adversely affect our sales.

Distribution, Transportation and Inventory Management

Our stores are supported by nine distribution centers located strategically throughout our geographic footprint. Of these nine, we own six and lease the other three. We lease additional temporary warehouse space as necessary to support our distribution needs. To support our growth, we are in the process of constructing our tenth distribution center near Birmingham, Alabama. We expect this new distribution center to be operational in 2012. 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 distributions 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, and have risen in recent months, including considerable increases in early 2011. If such increased prices remain in effect, or 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.

In addition, we believe that there remains opportunity to improve our inventory turns. Initiatives in process include operational efforts to optimize presentation levels and decrease excess quantities shipped to our stores. We continue to focus on SKU optimization in an attempt to ensure that we can meet our customers' demands for our most popular products as well as for product assortment. We are also in the early stages of implementing an improved supply chain solution to assist in ordering, monitoring and tracking inventory from purchase order to receipt to maintain efficient levels of inventory. We turned our inventory approximately 5.2 times over the most recent four quarters.

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 new store openings and store closings, the amount of sales contributed by new and existing stores, as well as the timing of certain holidays. 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.

Edgar Filing: DOLLAR GENERAL CORP - Form 10-K

The following table reflects the seasonality of net sales, gross profit, and net income (loss) by quarter for each of the quarters of our three most recent fiscal years. All of the quarters reflected below are comprised of 13 weeks.

*(in
millions)*

**1st
Quarter**

**2nd
Quarter**

**3rd
Quarter**

**4th
Quarter**

**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

**Year
Ended
January
29, 2010**

Net sales

\$
2,779.9
\$
2,901.9
\$
2,928.8
\$
3,185.8
Gross profit
855.4
906.0
903.1
1,025.4
Net income (a)
83.0
93.6
75.6

87.2

**Year
Ended
January
30, 2009**

Net sales

\$

2,403.5

\$

2,609.4

\$

2,598.9

\$

2,845.8

Gross
profit

693.1

758.0

772.3

837.7

Net
income
(loss) (b)

5.9

27.7

(7.3)

81.9

(a)

Includes expenses, net of income taxes, of \$82.9 million related to our initial public offering during the fourth quarter of 2009.

(b)

Includes expenses, net of income taxes, of \$37.4 million related to the settlement of a shareholder lawsuit during the third quarter of 2008.

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, Walgreens, CVS, Rite Aid, Target and Costco, 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. Historically, we have minimized labor by offering fewer price points and a reliance on simple merchandise presentation. 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 February 25, 2011, we employed approximately 85,900 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®, DG Guarantee®, Smart & Simple®, trueliving®, Sweet Smiles® and the Dollar General price point designs, 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 an exclusive license to the Bobbie Brooks brand for clothing through March 31, 2011, with the option to renew such license on a year-to-year basis, 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. In addition, the risks described below 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, as well as other risks that are not currently known to us or that we currently view to be immaterial. While we attempt to mitigate known risks to the extent we believe to be practicable and reasonable, we can provide no assurance, and we make no representation, that our mitigation efforts will be successful.

Current economic conditions and other economic factors may adversely affect our financial performance and other aspects of our business.

We believe that many of our customers are on fixed or low incomes and generally have limited discretionary spending dollars. A further slowdown in the economy, or a delayed recovery, or other economic conditions affecting disposable consumer income, such as increased 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, and further erosion in consumer confidence, may adversely affect our business by reducing our customers spending or by causing them 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. Many of those factors, 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 saw product costs begin to escalate in our 2010 fourth quarter as a result of increases in the costs of certain commodities (including cotton, wheat, corn, sugar, coffee, resin), and increasing diesel fuel costs. 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 marketing, merchandising, promotions, sourcing, shrink, private brand, store operations 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, 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. We operate in the basic discount consumer goods market, which is competitive with respect to price, store location, merchandise quality, assortment and presentation, in-stock consistency, and customer service. 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 operating in the basic discount consumer goods market (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. We compete for customers, employees, store sites, products and services and in other important aspects of our business with many other local, regional and national retailers. We compete with retailers operating discount, mass merchandise, outlet, warehouse club, grocery, drug, convenience, variety and other specialty stores. 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. These other competitors

compete in a variety of other ways, including aggressive promotional activities, merchandise selection and availability, services offered to customers, location, store hours, in-store amenities and price. 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 larger 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 an increase in competition.

Our private brands may not achieve or 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 gaining and 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 or a decrease in transportation capacity for overseas shipments) could significantly decrease our ability to make sales and earn profits. In addition, 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 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, the planned construction of a new distribution center in 2011, and any future distribution-related construction or expansion projects, entail risks which could cause delays and cost overruns, such as: shortages of materials; shortages of skilled labor or 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 this or future 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 have risen considerably in recent months and are significantly influenced by international, political and economic circumstances. These increases pose a challenge to our continued priority of improving our gross profit rate. If such increased prices remain in effect, or 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, adversely affecting our gross profit and results of operations. In addition, competitive pressures in our industry may have the effect of inhibiting our ability to reflect these increased costs in the prices of our products. 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.

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 fact, our largest supplier accounted for 9% of our purchases in 2010, 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 8% of our purchases (measured at cost) in 2010, 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. 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 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. In addition, such changes or new laws may require the write off and disposal of existing product inventory, resulting in significant adverse financial impact to us. 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 operation 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 new stores profitably and on schedule, our planned future growth will be impeded, which would adversely affect sales.

Our ability to open profitable new stores is a key component of our planned future growth. Our ability to timely open such stores and to expand into additional market areas depends in part on the following factors: the availability of attractive store locations; the absence of 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 sufficient funds for expansion. Many of these factors affect our ability to successfully relocate stores, and many of them are beyond our control. In addition, our credit ratings, combined with tighter lending practices, have made financing more challenging for our real estate developers in today's market. These unfavorable lending trends could potentially impact the timing of our store openings and build-to-suit program.

Delays or failures in opening new stores, or achieving lower than expected sales in new stores, or drawing a greater than expected proportion of sales in new stores away from existing stores, could materially adversely affect our growth and/or profitability. In addition, we 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 conditions, market conditions, consumer tastes and discretionary spending patterns than our existing

markets, which may cause our new stores to be less successful than stores in our existing markets.

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 of markets 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 (whether or not caused by climate change), 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 to, or interruptions to, our information systems as a result of external factors, staffing shortages and 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, such as the implementation of our new supply chain solution, 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, and to control 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 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 address 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 45% of our total assets exclusive of goodwill and other intangible assets as of January 28, 2011. 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 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 recently enacted 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.

We face risks related to protection of customers' credit and debt card data and private data relating to us or our customers or employees.

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 and employees, as well as our business. We have procedures and technology in place to safeguard our customers' debit and credit card information, our employees' private data, and our confidential business information. However, third parties may have the technology or know-how to breach the security of this information, and our security measures and those of our technology vendors may not effectively prohibit others from obtaining improper access to this 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 in our financial results.

While we have reduced our debt levels since 2007, we continue to have substantial debt that will need to 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 January 28, 2011, we had total outstanding debt (including the current portion of long-term obligations) of \$3.29 billion, including a \$1.964 billion senior secured term loan facility which matures on July 6, 2014, \$864.3 million aggregate principal amount of 10.625% senior notes due 2015 and \$450.7 million aggregate principal amount of 11.875% / 12.625% senior

subordinated toggle notes due 2017. We also had an additional \$959.3 million available for borrowing under our senior secured asset-based revolving credit facility of up to \$1.031 billion, which matures July 6, 2013. This level of debt and our ability to repay or refinance this debt prior to maturity 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 pay dividends;

.

limiting our ability to pursue our growth strategy;

.

placing us at a disadvantage compared to our competitors who are less highly 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 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 indentures 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") have significant influence over us, including control over decisions that require the approval of shareholders, which could limit your ability to influence the outcome of key transactions, including a change of control.

We are controlled by the Investors. The Investors have an indirect interest in approximately 71% of our outstanding common stock through their investment in Buck

Holdings, L.P. In addition, the Investors have the ability to elect our entire Board of Directors. As a result, the Investors have control over our decisions to enter into any corporate transaction and the ability to prevent any transaction that requires shareholder approval regardless of whether others believe that the transaction is in our best interests. As long as the Investors continue to have an indirect interest in a majority of our outstanding common stock, they will have the ability to control the vote in any election of directors. In addition, pursuant to a shareholders agreement that we entered into with Buck Holdings, L.P., KKR and the GS Investors, KKR has a consent right over certain significant corporate actions and KKR and the GS Investors have certain rights to appoint directors to our Board and its committees.

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. So long as the Investors, or other funds controlled by or associated with the Investors, continue to indirectly own a significant amount of our outstanding common stock, even if such amount is less than 50%, the Investors will continue to be able to strongly influence or effectively control our decisions. The concentration of ownership may have the effect of delaying, preventing or deterring a change of control of our company, could deprive shareholders of an opportunity to receive a premium for their common stock as part of a sale of our company and might ultimately affect the market price of our common stock.

If we, the Investors or other significant shareholders sell shares of our common stock, the market price of our common stock could decline.

The market price of our common stock could decline as a result of sales of a large number of shares of common stock in the market, or the perception that such sales could occur. These sales, or the possibility that these sales may occur, also might make it more difficult for us to issue equity securities in the future at a time and at a price that we deem appropriate. As of January 28, 2011, we had approximately 341.5 million shares of common stock outstanding, of which less than 29% were freely tradable on the New York Stock Exchange.

Pursuant to shareholders agreements, we have granted the Investors the right to cause us, in certain instances, at our expense, to file registration statements under the Securities Act of 1933, as amended, covering resales of our common stock held by them or to piggyback on a registration statement in certain circumstances. Certain members of management hold similar piggyback registration rights. Collectively, these shares represent approximately 71% of our outstanding common stock. To the extent that such registration rights are exercised, the resulting sale of a substantial number of shares of our common stock into the market could cause the market price of our common stock to decline. These shares also may be sold pursuant to Rule 144 under the Securities Act, depending on their holding period and subject to restrictions in the case of shares held by persons deemed to be our affiliates.

ITEM 1B.

UNRESOLVED STAFF COMMENTS

None.

24

ITEM 2.

PROPERTIES

As of February 25, 2011, we operated 9,414 retail stores located in 35 states as follows:

State

**Number of
Stores**

State

**Number of
Stores**

Alabama

512

Nebraska

79

Arizona

61

New Jersey

44

Arkansas

268

New Mexico

46

Colorado

27

New York

245

Delaware

29

N o r t h
Carolina

536

Florida

505

Ohio

510

Georgia

541

Oklahoma

295

Illinois

352

Pennsylvania

421

Indiana

358

S o u t h
Carolina

375

Iowa

169

S o u t h
Dakota

12

Kansas

173

Tennessee

489

Kentucky

363

Texas

1,081

Louisiana

369

Utah

8

Maryland

72

Vermont

11

Michigan

270

Virginia

265

Minnesota

16

W e s t
Virginia

161

Mississippi

310

Wisconsin

93

Missouri

348

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 (usually with initial or current terms of three to five years), and many of these leases have multiple renewal options as well. In recent years, an increasing percentage of our new stores have been subject to build-to-suit arrangements, including approximately 72% of our new stores in 2010.

As of February 25, 2011, we operated nine distribution centers, as described in the following table:

Location

**Year
Opened**

**Approximate
Square
Footage**

**Approximate
Number of
Stores
Served**

Scottsville,
KY

1959

720,000

949

Ardmore, OK

1994

1,310,000

1,402

S o u t h
Boston, VA

1997

1,250,000

895

Indianola,
MS

1998

820,000

809

Fulton, MO

1999

1,150,000

1,273

Alachua, FL

2000

980,000

876

Zanesville,
OH

2001

1,170,000

1,229

Jonesville,
SC

2005

1,120,000

981

Marion, IN

2006

1,110,000

1,000

We lease the distribution centers located in Oklahoma, Mississippi and Missouri and own the other six distribution centers. Approximately 7.25 acres of the land on which our Kentucky distribution center is located is subject to a ground lease. As of January 28, 2011, we leased

approximately 600,000 square feet of additional temporary warehouse space to support our distribution needs.

Our executive offices are located in approximately 302,000 square feet of buildings in Goodlettsville, Tennessee which are owned by us.

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.

EXECUTIVE OFFICERS OF THE REGISTRANT

Information regarding our current executive officers as of March 22, 2011 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

57

Chairman and Chief Executive Officer

David M. Tehle

54

Executive Vice President and Chief Financial Officer

Kathleen R. Guion

59

Executive Vice President, Division President, Store
Operations and Store Development

Todd Vasos

49

Executive Vice President, Division President and Chief
Merchandising Officer

John W. Flanigan

59

Executive Vice President, Global Supply Chain

Susan S. Lanigan

48

Executive Vice President and General Counsel

Robert D. Ravener

52

Executive Vice President and Chief People Officer

Anita C. Elliott

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.

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 Haggard 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 currently serves as a director of Jack in the Box, Inc.

Ms. Guion joined Dollar General in October 2003 as Executive Vice President, Store Operations. She was named Executive Vice President, Store Operations and Store Development in February 2005, and was promoted to Executive Vice President, Division President, Store

Operations and Store Development in November 2005. From 2000 until joining Dollar General, Ms. Guion served as President and Chief Executive Officer of Duke and Long Distributing Company. Prior to that time, she served as an operating partner for Devon Partners (1999-2000), where she developed operating plans and assisted in the identification of acquisition targets in the convenience store industry, and as President and Chief Operating Officer of E-Z Serve Corporation (1997-1998), an owner/operator of convenience stores, mini-marts and gas marts. From 1987 to 1997, Ms. Guion served as the Vice President and General Manager of the largest division (Chesapeake Division) of company-owned stores at 7-Eleven, Inc., a convenience store chain. Other positions held by Ms. Guion during her tenure at 7-Eleven include District Manager, Zone Manager, Operations Manager, and Division Manager (Midwest Division).

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.

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 both Senior Vice President of U.S. Partner Resources and 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.

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. There was no established public trading market for our common stock after our merger that occurred on July 6, 2007 until our initial public offering of our common stock (IPO) on November 13, 2009. The range of the high and low sales prices of our common stock during our fourth quarter of fiscal 2009, as reported in the consolidated transaction reporting system, were \$24.90 (high) and \$21.75 (low). The high and low sales prices during fiscal 2010 were as follows:

2010

First
Quarter

Second
Quarter

Third
Quarter

Fourth
Quarter

High

\$

29.91

\$

31.41

\$

30.20

\$

33.73

Low

\$
21.30

\$
26.61

\$
26.64

\$
27.29

Our stock price at the close of the market on March 16, 2011, was \$29.78. There were approximately 1,044 shareholders of record of our common stock as of March 16, 2011.

Dividends

We have not declared or paid recurring dividends since prior to our 2007 merger. However, prior to our IPO, on September 8, 2009, our Board of Directors declared a special dividend on our outstanding common stock of approximately \$239.3 million in the aggregate. The special dividend was paid on September 11, 2009 to shareholders of record on September 8,

2009 with cash generated from operations. 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 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 and in the indentures governing our outstanding 10.625% senior notes due 2015 (the "Senior Notes") and 11.875%/12.625% senior subordinated toggle notes due 2017 (the "Senior Subordinated Notes" and, collectively with the Senior Notes, the "Notes"). 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 January 28, 2011 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 (a)**

**Average
Price Paid
per Share**

**Total Number
of Shares Purchased
as Part of Publicly
Announced Plans or
Programs**

**Maximum Number
of Shares that May
Yet Be Purchased
Under the Plans or
Programs**

10/30/10-11/30/10

-

\$

-

-

-

12/01/10-12/31/10

11,270

\$

29.34

-

-

1/1/11-1/28/11

-

	\$
	-
	-
	-
Total	
	11,270
	\$
	29.34
	-
	-

(a) Represents shares repurchased from employees pursuant to the terms of management stockholder's agreements.

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 January 28, 2011, January 29, 2010 and January 30, 2009, and balance sheet data as of January 28, 2011 and January 29, 2010, 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 February 1, 2008, July 6, 2007 and February 2, 2007 and balance sheet data as of January 30, 2009, February 1, 2008 and February 2, 2007 presented in this table have been derived from audited consolidated financial statements not included in this report.

We completed a merger with Buck Acquisition Corp. (BAC) on July 6, 2007, and, as a result, we are majority owned by a Delaware limited partnership controlled by investment funds affiliated with Kohlberg Kravis Roberts & Co. L.P. As a result of the merger, the related purchase accounting adjustments, and a new basis of accounting beginning on July 7, 2007, the 2007 financial reporting periods presented below include the Predecessor period of the Company reflecting 22 weeks of operating results from February 3, 2007 to July 6, 2007 and 30 weeks of operating results for the Successor period, reflecting the merger from July 7, 2007 to February 1, 2008. BAC's results of operations for the period from March 6, 2007 to July 6, 2007 (prior to the merger on July 6, 2007) are also included in the consolidated financial statements for the 2007 Successor period described above, as a result of certain derivative financial instruments entered into by BAC prior to the merger. Other than these financial instruments, BAC had no assets, liabilities, or operations prior to the merger. The 2006 fiscal year presented reflects the Predecessor.

Due to the significance of the merger and related transactions that occurred in 2007, the 2010, 2009, 2008 and 2007 Successor financial information is not comparable to that of the Predecessor periods presented in the accompanying table.

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.

Successor

Predecessor

Year Ended

Year Ended

*(Amounts in
millions,
excluding per
share data,
number of
stores, selling
square feet,
and net sales
per square
foot)*

**January 28,
2011**

**January 29,
2010**

**January 30,
2009**

**March 6,
2007
through
February 1,
2008(1)(2)**

**February 3,
2007
through
July 6,
2007(2)**

**February 2,
2007(2)**

**Statement of
Operations
Data:**

Net sales

\$

13,035.0

\$

11,796.4

\$

10,457.7

\$

5,571.5

\$

3,923.8

\$

9,169.8

Cost of goods
sold

8,858.4

8,106.5

7,396.6

3,999.6

2,852.2

6,801.6

Gross profit

4,176.6

3,689.9

3,061.1

1,571.9

1,071.6

2,368.2

Selling,
general and
administrative
expenses

2,902.5

2,736.6

2,448.6

1,324.5

960.9

2,119.9

Litigation
settlement and
related costs,
net

-

-

32.0

-

-

-

Transaction
and related
costs

-

-

-

1.2

101.4

-

Operating
profit

1,274.1

953.3

580.5

246.1

9.2

248.3

Interest
income

(0.2)

(0.1)

(3.1)

81

(3.8)

(5.0)

(7.0)

Interest
expense

274.2

345.7

391.9

252.9

10.3

34.9

Other
(income)
expense

15.1

55.5

(2.8)

3.6

-

-

Income (loss)
before income
taxes

985.0

552.1

194.4

(6.6)

4.0

220.4

Income tax
expense
(benefit)

357.1

212.7

86.2

(1.8)

12.0

82.4

Net income
(loss)

\$

627.9

\$

339.4

\$

108.2

\$

(4.8)

\$

(8.0)

\$

137.9

Earnings (loss)
per share
basic

\$

1.84

\$

1.05

\$

0.34

\$

(0.02)

Earnings (loss)
per share -
diluted

1.82

1.04

0.34

(0.02)

Dividends per
share

-

0.7525

-

-

**Statement of
Cash Flows
Data:**

Net cash
provided by
(used in):

Operating
activities

\$

824.7

\$

672.8

\$

575.2

\$

239.6

\$

88

201.9

\$

405.4

Investing
activities

(418.9)

(248.0)

(152.6)

(6,848.4)

(66.9)

(282.0)

Financing
activities

(130.4)

(580.7)

(144.8)

6,709.0

25.3

(134.7)

Total capital
expenditures

(420.4)

(250.7)

(205.5)

(83.6)

(56.2)

(261.5)

**Other
Financial and
Operating
Data:**

Same store
sales growth
(3)

4.9%

9.5%

9.0%

1.9%

2.6%

3.3%

Same store
sales (3)

\$

12,227.1

\$

11,356.5

\$

10,118.5

\$

5,264.2

\$

3,656.6

\$

8,327.2

Number of
stores included
in same store
sales
calculation

8,712

8,324

8,153

7,735

7,655

7,627

Number of
stores (at
period end)

9,372

8,828

8,362

8,194

8,205

8,229

Selling square
feet (in
thousands at
period end)

67,094

62,494

58,803

57,376

57,379

57,299

Net sales per
square foot (4)

\$

201

\$

195

\$

180

\$

165

\$

164

94

\$

163

Consumables
sales

71.6%

70.8%

69.3%

66.4%

66.7%

65.7%

Seasonal sales

14.5%

14.5%

14.6%

16.3%

15.4%

16.4%

Home
products sales

7.0%

7.4%

8.2%

9.1%

9.2%

10.0%

Apparel sales

6.9%

7.3%

7.9%

8.2%

8.7%

7.9%

Rent expense

\$

489.3

\$

428.6

\$

389.6

\$

214.5

\$

150.2

\$

343.9

**Balance Sheet
Data (at
period end):**

Cash and cash
equivalents
and short-term
investments

\$

497.4

\$

222.1

\$

98

378.0

\$

119.8

\$

219.2

Total assets

9,546.2

8,863.5

8,889.2

8,656.4

3,040.5

Total debt

3,288.2

3,403.4

4,137.1

4,282.0

270.0

Total
shareholders
equity

4,054.5

3,390.3

2,831.7

2,703.9

1,745.7

(1)

Includes the results of BAC for the period prior to its merger with and into Dollar General Corporation from March 6, 2007 (the date of BAC's formation) through July 6, 2007 and the post-merger results of Dollar General Corporation for the period from July 7, 2007 through February 1, 2008.

(2)

Includes the effects of certain strategic merchandising and real estate initiatives that resulted in the closing of approximately 460 stores and changes in our inventory management model which resulted in greater inventory markdowns than in previous years.

(3)

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 53rd week of a 53-week year from the same-store sales calculation.

(4)

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. For the period from February 3, 2007 through July 6, 2007, average selling square footage was calculated using the average square footage as of July 6, 2007 and as of the end of each of the four preceding quarters.

Successor

Predecessor

Year Ended

Year Ended

**January 28,
2011**

**January 29,
2010**

**January 30,
2009**

**March 6,
2007
through
February 1,
2008**

**February 3,
2007**

**through
July 6,
2007**

**February 2,
2007**

Ratio of
earnings to
fixed
charges (1):

3.1x

2.1x

1.4x

(2)

1.1x

2.5x

(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.

(2)

For the Successor period from March 6, 2007 through February 1, 2008, fixed charges exceeded earnings by \$6.6 million.

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 9,414 stores located in 35 states as of February 25, 2011, 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 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.

On July 6, 2007, we completed a merger and, as a result, we are majority owned by Buck Holdings, L.P. ("Buck"), a Delaware limited partnership controlled by investment funds affiliated with Kohlberg Kravis Roberts & Co. L.P. (collectively, "KKR"). The membership interests of Buck and Buck Holdings, LLC ("Buck LLC"), the general partner of Buck, are held by a private investor group, including affiliates of each of KKR and Goldman, Sachs & Co. and other equity investors (collectively, the "Investors"). The merger consideration was funded through the use of our available cash, cash equity contributions from the Investors, equity contributions of certain members of our management and certain debt financings discussed below under "Liquidity and Capital Resources." In November 2009, we completed an initial public offering of approximately 39.2 million shares, including 22.7 million newly issued shares and approximately 16.5 million outstanding shares sold by Buck. In April and December of 2010, we completed secondary offerings of approximately 29.9 million and 28.8 million shares,

respectively, all of which were sold by selling shareholders. We did not receive any proceeds from either of the secondary offerings in 2010.

The customers we serve are value-conscious, and Dollar General has always been intensely focused on helping our customers 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 in an environment with heightened economic challenges and uncertainties. Consumers are facing very high rates of unemployment, fluctuating food, gasoline and energy costs, rising medical costs, and a continued weakness in housing and credit markets, and the timetable for economic recovery is uncertain. Nonetheless, as a result of our long-term mission of serving the value-conscious customer, coupled with a vigorous focus on improving our operating and financial performance, our 2010 and 2009 financial results were strong, and we remain optimistic with regard to executing our operating priorities in 2011.

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. Our category management processes allow us to identify opportunities to add more productive items and remove unproductive items in a timely manner and have allowed us to continue expanding our consumables offerings while also improving profitability. We raised the shelf height in our stores in three phases from 2008 through 2010 in order to utilize the space in our stores more productively. We are adding a fourth phase in 2011. In addition, we believe we have significant potential to grow sales through new store growth in both existing and new markets. We opened 600 new stores in 2010 and plan to open approximately 625 new stores in 2011.

Our second priority is to increase gross profit through effective category management, the expansion of private brand offerings and increased foreign sourcing, shrink reduction, distribution 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 vendor cost increases as we focus on providing our customers 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. In 2011, we expect increased product costs. We saw the costs of certain commodities (including cotton, wheat, corn, sugar, coffee, resin) and the costs of diesel fuel begin to escalate in our 2010 fourth quarter. The market prices of these commodities, including the cost of diesel fuel, are outside of our control. However, 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.

Our third priority is leveraging process improvements and information technology to reduce costs. We are committed as an organization to extract costs that do not affect the customer experience. Examples of ongoing cost reduction initiatives include the installation of

energy management systems, continued preventive maintenance with the goal of reducing overall repairs and maintenance costs, and recycling of cardboard to reduce waste management costs. Our real estate team continues to seek out opportunities to negotiate favorable lease renewals. We are focusing our information technology resources on improving systems to create greater efficiencies in merchandising and retail store operations, evidenced by our intention to implement a new store staffing module in 2011 to better align store labor hours with our customer's shopping needs. In 2010, we centralized our procurement system which we expect to aid us in reducing the cost of purchases throughout the company in 2011 and beyond. We plan to continue our diligent efforts with regard to our cost reduction initiatives in 2011.

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. For shareholders, this means meeting their expectations of an efficiently and profitably run organization that operates with compassion and integrity.

For the year ended January 28, 2011, our continued focus on our four priorities resulted in improved financial performance over the year ended January 29, 2010 in each of our key financial metrics, as follows. Basis points, as referred to below, are equal to 0.01 percent of total sales.

.

Total sales in fiscal 2010 increased 10.5 percent over 2009. Sales in same-stores increased 4.9 percent, following a strong 9.5 percent increase in 2009. Customer traffic and average transaction amount increased in both 2010 and 2009. Average sales per square foot in 2010 were \$201, up from \$195 in 2009.

.

Gross profit, as a percentage of sales, was 32.0 percent in 2010, an increase of 76 basis points over 2009. This improvement was primarily attributable to increased purchase markups, net of increased markdowns, resulting from increased volume, which enabled us to lower our average costs from vendors. The improvement also reflected the continued impact of our comprehensive category management enhancements.

.

SG&A, as a percentage of sales, for fiscal 2010 was 22.3 percent compared to 23.2 percent in 2009. SG&A in 2009 included incremental expenses of \$68.3 million, or 58 basis points, resulting from the termination of our sponsor advisory agreement and the accelerated vesting of certain equity-based compensation related to our initial public offering. SG&A in 2010 included incremental expenses of \$19.7 million, or 15 basis points, resulting from costs related to two secondary offerings of our common stock during the year by certain of our shareholders. Excluding the impact of these costs, SG&A, as a percentage of sales declined primarily due to lower employee incentive compensation, which is based on financial targets set at the beginning of each fiscal year (our results exceeded those targets in 2010 but not to the same degree as in 2009), lower healthcare expense, and the impact of other cost reduction and

productivity initiatives which resulted in various expenses decreasing or increasing at a rate lower than the 10.5 percent increase in sales.

Interest expense decreased by \$71.5 million in 2010 to \$274.2 million, primarily as the result of lower average outstanding long-term obligations. Net proceeds from our initial public offering and excess cash were utilized in our fiscal 2009 fourth quarter to voluntarily reduce long-term obligations by \$725.9 million, and in 2010 we repurchased an additional \$115.0 million of long-term obligations utilizing operating cash flow. Other non-operating expenses include charges totaling \$14.7 million in 2010 and \$55.3 million in 2009 resulting from these repurchases.

We reported net income of \$627.9 million, or \$1.82 per diluted share, for fiscal 2010, compared to net income of \$339.4 million, or \$1.04 per diluted share, in 2009. Charges relating to secondary stock offerings by certain of our shareholders, including the acceleration of certain equity appreciation rights, and losses from the repurchase of long-term obligations, reduced 2010 net income by \$21.3 million, or \$0.06 per diluted share. In 2009, charges resulting from the termination of our sponsor advisory agreement, the acceleration of certain equity-based compensation and the repurchase of long-term obligations, related to or resulting from our initial public offering, reduced net income by \$82.9 million, or \$0.26 per diluted share.

We generated approximately \$825 million of cash flows from operating activities in 2010, an increase of over 22 percent compared to 2009. Cash flow was primarily utilized to support our capital expenditures and repurchase long-term obligations.

During 2010, we opened 600 new stores, remodeled or relocated 504 stores, and closed 56 stores, resulting in a store count of 9,372 on January 28, 2011.

As discussed in more detail below, in recent years, we have generated significant cash flows from operating activities. We have used a portion of these cash flows to pay down debt and to invest in new store growth through our traditional leased stores. During 2010 we made a strategic decision to purchase certain of our leased stores. We believe that the current environment in the real estate markets provides an opportunity to make these investments at levels which are expected to result in favorable returns and positively impact our operating results. We initiated the store purchase program in the second half of 2010 and have plans to purchase additional stores during 2011.

Like other companies, we face uncertainties with regard to the future impact of healthcare reform legislation, including the Patient Protection and Affordable Care Act and the HealthCare and Education Reconciliation Act of 2010, signed into law in March 2010, which will likely affect the cost associated with employer-sponsored medical plans. Specifically, this legislation requires that employers provide a minimum level of coverage for full-time

employees or pay penalties. Some of the plan coverage requirements may have an impact on our costs such as bans on exclusions for pre-existing conditions, extension of dependent coverage to age 26, and caps on employee premium sharing costs. Certain coverage provisions do not go into effect until 2014, but there are a number of dependent coverage and insurance market reforms that took

effect immediately. Although this legislation did not have a material effect on our consolidated financial statements in 2010, we continue to evaluate the impact it will have on our costs in future years, and those costs could be material. Due to the breadth and complexity of the healthcare reform legislation, the current lack of implementing regulations and interpretive guidance, the phased-in nature of the implementation, and uncertainty with respect to the outcome of pending litigation with respect to the legislation, it is difficult to predict its overall impact on our business in the coming years.

In 2011, we plan to continue to focus on our four key operating priorities. We will continue to refine and improve our store standards in order to increase sales, focusing on achieving a consistent look and feel across the chain. We have begun and will continue to measure customer satisfaction which will allow us to identify areas needing improvement. We expect to continue the process of raising the height of certain merchandise fixtures, allowing us to better utilize our store square footage. As part of our overall category management processes, we plan to further expand our private brand consumables offerings and to continue to upgrade the selection, quality and presentation of our private brand offerings in our apparel, seasonal and home categories, and we expect a greater impact on gross margin from our foreign sourcing efforts in 2011. As noted above, we expect cost increases in certain commodities, including diesel fuel, to present a challenge as we focus on improving our gross profit rate, while managing our everyday low prices.

We now have improved processes and tools in place to assist us in our ongoing inventory shrink reduction efforts. Our work on shrink remains a high priority, and we plan to use the information supplied by these analytical and monitoring tools to help improve on our recent successes.

With regard to leveraging information technology and process improvements to reduce costs, we will continue to focus on making improvements that benefit our merchandising and operations efforts, including item profitability analysis, merchandise selection and allocation and labor scheduling. In 2010, we completed the installation of back office computers in all of our stores, which we will utilize to improve reporting and communications with the stores and, consequently, we believe will assist in improving store productivity. Also in 2010, we completed the rollout of a new voice pick system in our distribution centers, allowing our distribution associates to communicate with warehouse software systems using speech recognition.

Finally, we are very pleased with the performance of our 2010 new stores, remodels and relocations, and in 2011 we plan to increase our new store openings to 625 stores within the 35 states in which we currently operate as well as three new states, Connecticut, Nevada and New Hampshire, and to increase our number of remodels or relocations to an additional 550 stores. With regard to planned new store openings, our criteria are based on numerous factors including, among other things, availability of appropriate sites, expected sales, lease terms, population demographics, competition, and the employment environment. We use various real estate site selection tools to determine target markets and optimum site locations within those markets. With respect to store relocations, we begin to evaluate a store for relocation opportunities approximately 18 months prior to the store's lease expiration using the same basic tools and criteria as those used for new stores. Remodels, which require a much smaller investment, are

determined based on the need, the opportunity for sales improvement at the location and an expectation of a desirable return on investment.

Key Financial Metrics. We have identified the following as our most critical financial metrics for 2011:

.

Same-store sales growth;

.

Sales per square foot;

.

Gross profit, as a percentage of sales;

.

Operating profit;

.

Inventory turnover;

.

Cash flow;

.

Net income;

.

Earnings per share;

.

Earnings before interest, income taxes, depreciation and amortization; and

.

Return on invested capital.

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 2010, 2009 and 2008, which represent fiscal years ended January 28, 2011, January 29, 2010 and January 30, 2009, respectively. Our fiscal year ends on the Friday closest to January 31. Fiscal years 2010, 2009 and 2008 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.

Edgar Filing: DOLLAR GENERAL CORP - Form 10-K

The following table contains results of operations data for fiscal years 2010, 2009 and 2008, and the dollar and percentage variances among those years.

2010 vs. 2009

2009 vs. 2008

(amounts in
millions,
except per
share
amounts)

2010

2009

2008

Amount

Change

% Change

Amount
Change

%
Change

Net sales by
category:

Consumables

\$

9,332.1

\$

8,356.4

\$

7,248.4

\$

975.7

11.7

%

\$

116

1,108.0

15.3

%

% of net sales

71.59%

70.84%

69.31%

Seasonal

1,887.9

1,711.5

1,521.5

176.4

10.3

190.0

12.5

% of net sales

14.48%

14.51%

14.55%

Home
products

917.6

869.8

862.2

47.9

5.5

7.5

0.9

% of net sales

7.04%

7.37%

8.24%

Apparel

897.3

858.8

825.6

38.6

4.5

33.2

4.0

% of net sales

6.88%

7.28%

7.89%

Net sales

\$

13,035.0

\$

11,796.4

\$

10,457.7

\$

1,238.6

10.5

%

\$

121

1,338.7

12.8

%

Cost of goods
sold

8,858.4

8,106.5

7,396.6

751.9

9.3

709.9

9.6

% of net sales

67.96%

68.72%

70.73%

Gross profit

4,176.6

3,689.9

3,061.1

486.7

13.2

628.8

20.5

% of net sales

32.04%

31.28%

29.27%

Selling,
general and
administrative
expenses

2,902.5

2,736.6

2,448.6

165.9

6.1

288.0

11.8

% of net sales

22.27%

23.20%

23.41%

Litigation
settlement and
related costs,

net

-

-

32.0

-

-

(32.0)

-

% of net sales

-

-

0.31%

Operating
profit

1,274.1

953.3

580.5

320.8

33.7

372.8

64.2

% of net sales

9.77%

8.08%

5.55%

Interest
income

(0.2)

(0.1)

(3.1)

(0.1)

52.8

2.9

(95.3)

% of net sales

(0.00)%

(0.00)%

(0.03)%

Interest
expense

274.2

345.7

129

391.9

(71.5)

(20.7)

(46.2)

(11.8)

% of net sales

2.10%

2.93%

3.75%

Other
(income)
expense

15.1

55.5

(2.8)

(40.4)

(72.8)

58.3

-

% of net sales

0.12%

0.47%

(0.03)%

Income before
income taxes

985.0

552.1

194.4

432.9

78.4

357.7

184.0

% of net sales

7.56%

4.68%

1.86%

Income taxes

357.1

212.7

86.2

144.4

67.9

133

126.5

146.7

% of net sales

2.74%

1.80%

0.82%

Net income

\$

627.9

\$

339.4

134

\$
108.2

\$
288.4

85.0

%

\$
231.3

213.8

%

% of net sales

4.82%

2.88%

1.03%

Diluted
earnings per
share

\$

1.82

\$

1.04

\$

0.34

\$

0.78

75.0

%

\$

0.70

205.9

%

Net Sales. The net sales increase in 2010 reflects a same-store sales increase of 4.9% compared to 2009. Same-stores include stores that have been open for 13 months and remain open at the end of the reporting period. For 2010, there were 8,712 same-stores which accounted for sales of \$12.23 billion. The remainder of the increase in sales in 2010 was attributable to new stores, partially offset by sales from closed stores. The increase in sales reflects the continued refinement of our merchandise offerings, the optimization of our category management processes, further improvement in store standards, and increased utilization of square footage in our stores.

The net sales increase in 2009 reflects a same-store sales increase of 9.5% compared to 2008. For 2009, there were 8,324 same-stores which accounted for sales of \$11.36 billion. The

remainder of the increase in sales in 2009 was attributable to new stores, partially offset by sales from closed stores. The strong increase in sales reflects the results of our various initiatives implemented throughout 2008 and 2009, including the impact of improved store standards, the expansion of our merchandise offerings, including significant enhancements to our convenience food and beverages and health and beauty products, in addition to improved utilization of square footage, extended store hours and improved marketing efforts.

Of our four major merchandise categories, the consumables category has grown most significantly over the past several years. Although this category generally has a lower gross profit rate than the other three categories, as discussed below, we were able to increase our overall gross profit rate in both 2010 and 2009 as compared to the previous year. 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 2010 and 2009, and we believe that our stores have benefited to some degree from attracting new customers who are seeking value as a result of the recent economic environment.

Gross Profit. The gross profit rate as a percentage of sales was 32.0% in 2010 compared to 31.3% in 2009. Factors contributing to the increase in the 2010 gross profit rate include increased markups resulting primarily from higher purchase markups, partially offset by increased markdowns, as well as our category management efforts and increased sales volumes which have contributed to our ability to reduce purchase costs from our vendors. Our merchandising team continues to work closely with our vendors to provide quality merchandise at value prices to meet our customers demands. In 2010 we recorded a LIFO provision of \$5.3 million, reflecting an increase in certain merchandise costs, the most significant of which occurred in the 2010 fourth quarter, compared to a LIFO benefit of \$2.5 million in 2009.

The gross profit rate as a percentage of sales was 31.3% in 2009 compared to 29.3% in 2008. Factors contributing to the increase in the 2009 gross profit rate include increased markups resulting primarily from higher purchase markups, partially offset by increased markdowns. In addition, our increased sales volumes have contributed to our ability to reduce purchase costs from our vendors. Transportation and distribution costs decreased for the year driven by lower fuel costs as well as the impact of cost reduction initiatives. Higher sales volumes and productivity initiatives also contributed to improved leverage of our distribution costs. In addition, inventory shrinkage as a percentage of sales declined in 2009 from 2008, contributing to our gross profit rate improvement. In 2009 we recorded a LIFO benefit of \$2.5 million, reflecting a flattening of merchandise costs in 2009, compared to a LIFO provision of \$43.9 million in 2008, when we faced increased commodity cost pressures mainly related to food and pet products which were driven by rising fruit and vegetable prices and freight costs. Increases in petroleum, resin, metals, pulp and other raw material commodity driven costs also resulted in multiple product cost increases in 2008. Also in 2008, we marked down merchandise as the result of our interpretation of the phthalates provision of the Consumer Product Safety Improvement Act of 2008, resulting in a charge of \$8.6 million.

Selling, General and Administrative (SG&A) Expense. SG&A expense was 22.3% as a percentage of sales in 2010 compared to 23.2% in 2009, a decrease of 93 basis points. SG&A in

2010 included expenses totaling \$19.7 million, or 15 basis points, relating to two secondary offerings of our common stock, consisting of \$1.1 million of legal and other transaction expenses and \$18.6 million relating to the acceleration of certain equity appreciation rights. SG&A in 2009 included expenses totaling \$68.3 million, or 58 basis points, including \$58.8 million relating to the termination of an advisory agreement among us, KKR and Goldman, Sachs & Co. and \$9.4 million resulting from the acceleration of certain equity based compensation related to the completion of our initial public offering. Decreases in incentive compensation, the cost of health benefits, consulting fees and severance costs contributed to the overall decrease in SG&A as a percentage of sales, as did other cost reduction and productivity initiatives. Other costs increasing at a rate lower than our 10.5% increase in sales include utilities, which reflect lower waste management costs resulting from our recycling efforts, as well as repairs and maintenance. Our increased sales levels in 2010 also favorably impacted SG&A, as a percentage of sales. Debit card fees increased at a higher rate than the increase in sales, primarily as a result of increased usage.

SG&A, as a percentage of sales, was 23.2% in 2009 compared to 23.4% in 2008, representing an improvement of 21 basis points before taking into account the impact of our initial public offering as discussed above. Our increased sales levels in 2009 favorably impacted SG&A, as a percentage of sales, with the most significant impact on store occupancy costs, including rent and utilities. Our cost of utilities, as a percentage of sales, was further reduced by energy savings resulting from our store energy management initiatives, including forward purchase contracts, increased preventive maintenance and the installation of energy management systems in substantially all of our new and relocated stores. In addition, we continued to significantly reduce our workers' compensation expense through safety initiatives implemented over the last several years, and legal expenses were lower in 2009 than 2008, which included expenses incurred in connection with a shareholder litigation settlement in 2008 relating to our 2007 merger. Also during 2008, we recorded a \$5.0 million gain relating to potential losses on distribution center leases indirectly related to our 2007 merger.

Litigation Settlement and Related Costs, Net. Expenses in 2008 included \$32.0 million which represents the settlement of a class action lawsuit filed in response to our 2007 merger, and includes a \$40.0 million settlement plus related expenses of \$2.0 million, net of \$10.0 million of insurance proceeds received in the fourth quarter of 2008.

Interest Expense. The decrease in interest expense in 2010 compared to 2009 was primarily the result of lower average outstanding long-term obligations. The decrease in interest expense in 2009 compared to 2008 was primarily the result of lower average outstanding long-term obligations and lower interest rates on our term loan.

We had outstanding variable-rate debt of \$931 million and \$560 million as of January 28, 2011 and January 29, 2010, respectively, after taking into consideration the impact of interest rate swaps. The remainder of our outstanding indebtedness at January 28, 2011 and January 29, 2010 was fixed rate debt.

See the detailed discussion under *Liquidity and Capital Resources* regarding indebtedness incurred to finance our 2007 merger along with subsequent repurchases of various long-term obligations and the related effect on interest expense in the periods presented.

Other (Income) Expense. 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 plus accrued and unpaid interest.

In 2009, we recorded charges totaling \$55.5 million, which primarily represents losses on debt retirement totaling \$55.3 million, and also includes expense of \$0.6 million related to hedge ineffectiveness on certain of our interest rate swaps.

In 2008, we recorded a gain of \$3.8 million resulting from the repurchase of \$44.1 million of our senior subordinated notes, offset by expense of \$1.0 million related to hedge ineffectiveness on certain of our interest rate swaps.

Income Taxes. The effective income tax rates for 2010, 2009 and 2008 were expenses of 36.3%, 38.5%, and 44.4%, respectively.

The 2010 effective tax rate is greater than the expected tax rate of 35% due primarily to the inclusion of state income taxes in the total effective tax rate. The 2010 effective rate is less than the 2009 rate due principally to reductions in state income tax expense, income tax related interest expense and other expense items. The 2010 effective resolution of various examinations by the taxing authorities, when combined with unfavorable examination results in 2009, resulted in a decrease in the year-to-year state income tax expense rate. This decrease in state income tax expense was partially offset by an increase in state income tax expense due to a shift in income to companies within the group that have a higher effective state income tax rate. In addition, decreases also occurred due to favorable outcomes in 2010 associated with reductions in income tax related interest accruals and income tax related penalty accruals due to favorable income tax examination results, the completion of a federal income tax examination, and reductions in expense associated with uncertain tax benefit accruals.

The 2009 effective tax rate is greater than the expected tax rate of 35% due primarily to the inclusion of state income taxes in the total effective tax rate. The 2009 effective tax rate is less than the 2008 rate due principally to the unfavorable impact that the non-deductible, merger-related lawsuit settlement had on the 2008 rate. This reduction in the effective tax rate was partially offset by a decrease in the tax rate benefit related to federal jobs credits. While the total amount of jobs credits earned in 2009 was similar to the amount earned in 2008, the impact of this benefit on the effective tax rate was reduced due to the 2009 increase in income before tax. The 2009 rate was also increased by accruals associated with uncertain tax benefits.

The 2008 effective income tax rate was greater than the expected tax rate of 35% principally due to the non-deductibility of the settlement and related expenses associated with the shareholder lawsuit related to our 2007 merger.

Off Balance Sheet Arrangements

We lease three of our distribution centers. The entities involved in the ownership structure underlying these leases 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

In 2008, increased commodity cost pressures mainly related to food and pet products, which were driven by fruit and vegetable prices and rising freight costs, increased the costs of certain products. Increases in petroleum, resin, metals, pulp and other raw material commodity driven costs also resulted in multiple product cost increases. We believe that our ability to increase selling prices in response to cost increases largely mitigated the effect of these cost increases on our overall results of operations. These 2008 trends generally reversed or stabilized in 2009 and 2010.

Liquidity and Capital Resources

Current Financial Condition and Recent Developments

During the past three years, we have generated an aggregate of approximately \$2.07 billion in cash flows from operating activities. During that period, we expanded the number of stores we operate by 1,178, or over 14%, remodeled or relocated 1,358 stores, or approximately 14% of stores we operated as of February 25, 2011, and incurred approximately \$877 million in capital expenditures. We made certain strategic decisions which slowed our store growth in 2007 and 2008, but we reaccelerated store growth beginning in 2009 and currently plan to continue that strategy in 2011 and beyond.

At January 28, 2011, we had total outstanding debt (including the current portion of long-term obligations) of \$3.29 billion. We also had an additional \$959.3 million available for borrowing under our senior secured asset-based revolving credit facility (ABL Facility) and, together with the Term Loan Facility, the Credit Facilities) at that date. Our liquidity needs are significant, primarily due to our debt service and other obligations. Our substantial debt could adversely affect our ability to raise additional capital to fund our operations, limit our ability to react to changes in the economy or our industry or to pursue our growth strategy, expose us to interest rate risk to the extent of our variable rate debt, and increase the difficulty of our ability to make payments on our outstanding debt securities.

Nevertheless, management believes our cash flow from operations and existing cash balances, combined with availability under the Credit Facilities (described below), 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 and the next several years.

Credit Facilities

Overview. We have two senior secured credit facilities which provide financing of up to \$2.995 billion as of January 28, 2011. The Credit Facilities consist of the \$1.964 billion Term Loan Facility and the \$1.031 billion ABL Facility (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.

The amount available under the ABL Facility (including letters of credit) shall not exceed the sum of the tranche A borrowing base and the tranche A-1 borrowing base. The tranche A borrowing base equals the sum of (i) 85% of the net orderly liquidation value of all our eligible inventory and that of each guarantor thereunder and (ii) 90% of all our accounts receivable and credit/debit card receivables and that of each guarantor thereunder, in each case, subject to customary reserves and eligibility criteria. An additional 10% of the net orderly liquidation value of all of our eligible inventory and that of each guarantor thereunder is made available to us in the form of a last out tranche under which we may borrow up to a maximum amount of \$101.0 million. Borrowings under the ABL Facility will be incurred first under the last out tranche, and no borrowings will be permitted under any other tranche until the last out tranche is fully utilized. Repayments of the ABL Facility will be applied to the last out tranche only after all other tranches have been fully paid down.

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 is (i) under the Term Loan Facility, 2.75% for LIBOR borrowings and 1.75% for base-rate borrowings (ii) under the ABL Facility (except in the last out tranche described above) as of January 28, 2011 and January 29, 2010, 1.25% for LIBOR borrowings; 0.25% for base-rate borrowings and for any last out borrowings, 2.25% for LIBOR borrowings and 1.25% for base-rate borrowings. The applicable margins for borrowings under the ABL Facility (except in the case of last out borrowings) are subject to adjustment each quarter based on average daily excess availability under the ABL Facility. 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 both January 28, 2011 and January 29, 2010, respectively. We are also required to pay a commitment fee to the lenders under the ABL Facility for any unutilized commitments at a rate of 0.375% per annum. We also must pay customary letter of credit fees. 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:

.

50% of our annual excess cash flow (as defined in the credit agreement) which will be reduced to 25% and 0% if we achieve and maintain a total net leverage ratio of 6.0 to 1.0 and 5.0 to 1.0, respectively;

.

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. Through January 28, 2011, 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. Through January 28, 2011, 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.

Amortization. The original terms of the Term Loan Facility required quarterly payments of principal beginning September 30, 2009. As a result of voluntary prepayments under the Term Loan Facility, no further quarterly principal installments will be required prior to maturity of the Term Loan on July 6, 2014. There is no amortization under the ABL Facility. The entire principal amounts (if any) outstanding under the ABL Facility are due and payable in full at maturity, on July 6, 2013, on which day the commitments thereunder will terminate.

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.

All obligations and related guarantees under the ABL Facility are secured by the Revolving Facility Collateral, subject to certain exceptions.

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;

.

sell assets;

.

pay dividends and distributions or repurchase our capital stock;

.

make investments or acquisitions;

.

repay or repurchase subordinated indebtedness (including the Senior Subordinated Notes discussed below) and the Senior Notes discussed below;

.

amend material agreements governing our subordinated indebtedness (including the Senior Subordinated Notes discussed below) or our Senior Notes discussed below;

.

change our lines of business.

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

At January 28, 2011, we had no borrowings, \$52.7 million of standby letters of credit, and \$19.1 million of commercial letters of credit, outstanding under our ABL Facility.

Senior Notes due 2015 and Senior Subordinated Toggle Notes due 2017

Overview. As of January 28, 2011, we have \$864.3 million aggregate principal amount of 10.625% senior notes due 2015 (the Senior Notes) outstanding (reflected in our consolidated balance sheet net of a \$11.2 million discount), which mature on July 15, 2015, pursuant to an indenture dated as of July 6, 2007 (the senior indenture), and \$450.7 million aggregate principal amount of 11.875%/12.625% senior subordinated toggle notes due 2017 (the Senior Subordinated Notes) outstanding, which mature on July 15, 2017, pursuant to an indenture dated as of July 6, 2007 (the senior subordinated indenture). The Senior Notes and the Senior Subordinated Notes are collectively referred to herein as the Notes. The senior indenture and the senior subordinated indenture are collectively referred to herein as the indentures.

Interest on the Notes is payable on January 15 and July 15 of each year. Interest on the Senior Notes is payable in cash. Cash interest on the Senior Subordinated Notes accrues at a rate of 11.875% per annum. For the Senior Subordinated Notes, we previously had the ability to elect to pay interest by increasing the principal amount of the Senior Subordinated Notes or issuing new Senior Subordinated Notes (PIK interest) instead of paying cash interest. Due to the

expiration of the notification period for such option, all interest on the Notes has been and will be paid in cash.

The Notes are fully and unconditionally guaranteed by each of the existing and future direct or indirect wholly owned domestic subsidiaries that guarantee the obligations under our Credit Facilities.

We intend to redeem some or all of the Senior Notes at the first scheduled call date in July 2011 or later. We may redeem some or all of the Notes at any time at redemption prices described or set forth in the indentures. We also may seek, from time to time, to retire some or all of the 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. We repurchased \$115.0 million aggregate principal amount of outstanding Senior Notes during 2010. In connection with our initial public offering in 2009, we redeemed \$195.7 million principal amount of outstanding Senior Notes and \$205.2 million principal amount of outstanding Senior Subordinated Notes. We repurchased \$44.1 million and \$25.0 million of Senior Subordinated Notes in 2008 and 2007, respectively.

Change of Control. Upon the occurrence of a change of control, which is defined in the indentures, each holder of the Notes has the right to require us to repurchase some or all of such holder's 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 indentures contain covenants limiting, among other things, our ability and the ability of our restricted subsidiaries to (subject to certain exceptions):

.
incur additional debt, issue disqualified stock or issue certain preferred stock;

.
pay dividends and or 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;

.

consolidate, merge, sell or otherwise dispose of all or substantially all of our assets; and

.

designate our subsidiaries as unrestricted subsidiaries.

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

Adjusted EBITDA

Under the agreements governing the Credit Facilities and the indentures, 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 January 28, 2011, this ratio was 1.0 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 principle 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 generally accepted accounting principles in the United States (U.S. GAAP), are not measures of financial performance or condition, liquidity or profitability, and should not be considered as an alternative to (i) net income, operating income or any other performance measures determined in accordance with U.S. GAAP or (ii) 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, subject to specified exceptions, 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).

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

(in millions)

Year Ended

January 28,
2011

January 29,
2010

Net income

\$

627.9

\$

339.4

Add (subtract):

Interest income

(0.2)

(0.1)

Interest
expense

274.1

345.6

Depreciation
and
amortization

242.3

241.7

Income taxes

357.1

212.7

EBITDA

1,501.2

1,139.3

Adjustments:

Loss on debt
retirements

14.6

55.3

Loss on
hedging
instruments

0.4

0.5

Impact of
markdowns
related to
inventory
clearance
activities, net
of purchase
accounting
adjustments

-

(7.3)

Advisory and
consulting fees
to affiliates

0.1
63.5
Non-cash expense for share-based awards
16.0
18.7
Indirect merger-related costs
1.3
10.6
Other non-cash charges (including LIFO)
11.5
6.6
Total Adjustments
43.9

147.9

Adjusted
EBITDA

\$

1,545.1

\$

1,287.2

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 January 28, 2011, we had interest rate swaps with a total notional amount of approximately \$1.05 billion. 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 and model selection does not involve significant management judgment.

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 January 28, 2011, the net credit valuation adjustments reduced the settlement values of our derivative liabilities by \$0.7 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 January 28, 2011.

Contractual Obligations

The following table summarizes our significant contractual obligations and commercial commitments as of January 28, 2011 (in thousands):

Payments Due by Period
Contractual obligations
Total
1 year
1-3 years
3-5 years
5+ years
Long-term debt obligations
\$
3,293,025
\$
-
\$
-
\$
2,827,923

\$

465,102

Capital lease
obligations

6,363

1,157

999

679

3,528

Interest (a)

1,093,039

243,435

486,754

282,408

80,442

Self-insurance
liabilities (b)

213,736

78,540

85,881

30,265

19,050

Operating
leases (c)

3,003,342

481,921

839,585

614,080

1,067,756

Subtotal

\$

7,609,505

\$

805,053

\$

1,413,219

\$

3,755,355

\$
1,635,878

**Commitments
Expiring by
Period**

**Commercial
commitments
(d)**

Total

1 year

1-3 years

3-5 years

5+ years

Letters of
credit

\$
19,059

\$
19,059

\$

-

\$

-

\$
-

Purchase
obligations (e)

853,862

850,871

2,991

-

-

Subtotal

\$

872,921

\$

869,930

\$

2,991

\$

-

\$

-

**Total
contractual
obligations
and
commercial
commitments
(f)**

\$

8,482,426

\$

1,674,983

\$

1,416,210

\$

3,755,355

\$

1,635,878

(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 2010 year end rates.

(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 our 2007 merger 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 \$0.2 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 \$27.3 million of reserves for uncertain tax positions.

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 debt repayment. 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 and in the indentures governing the Notes 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 45% of our total assets exclusive of goodwill and other intangible assets as of January 28, 2011. 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 6 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 June 2010, Standard & Poor's upgraded our long-term debt rating to BB from BB- with a stable outlook and in November 2010, Moody's upgraded our long-term debt rating to Ba3 from B1 with a positive outlook. These current ratings are considered non-investment grade. Our current credit ratings, as well as future rating agency actions, could (i) impact our ability to obtain financings to finance 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.

Cash flows

Cash flows from operating activities.

A significant component of our increase in cash flows from operating activities in 2010 compared to 2009 was the increase in net income due to greater sales, higher gross margins and lower SG&A expenses as a percentage of sales, as described in more detail above under Results of Operations. Partially offsetting this increase in cash flows were changes in inventory balances, which increased by 16% in 2010 compared to an increase of 7% in 2009. Although we continue to closely monitor our inventory balances, they often fluctuate from period to period and from year to year based on new store openings, the timing of purchases, merchandising initiatives and other factors. Inventory levels in the consumables category increased by \$133.9 million, or 16%, in 2010 compared to an increase of \$111.4 million, or 15%, in 2009. The seasonal category increased by \$55.2 million, or 18%, in 2010 compared to an increase of \$25.3 million, or 9%, in 2009. The home products category increased \$25.2 million, or 17%, in 2010 compared to a decline of \$9.1 million, or 6%, in 2009. The apparel category increased by \$32.3 million, or 15%, in 2010 compared to a decline of \$22.9 million, or 10%, in 2009. In addition, increased net income resulted in an increase in income taxes paid in 2010 compared to 2009. Changes in Accrued expenses and other were affected in part by reductions of income tax reserves and reduced accruals for incentive compensation, partially offset by the timing of payments related to a litigation settlement in prior years (as discussed in more detail below) and by lower accruals for interest on long-term debt.

Our increase in cash flows from operating activities in 2009 compared to 2008 was also driven by an increase in net income due to greater sales, higher gross margins and lower SG&A expenses as a percentage of sales. In addition, we experienced increased inventory turns in 2009 as compared to 2008. Changes in inventory balances increased by 7% in 2009 compared to an increase of 10% in 2008. Inventory levels in the consumables category increased by \$111.4

million, or 15%, in 2009 compared to an increase of \$77.8 million, or 12%, in 2008. The seasonal category increased by \$25.3 million, or 9%, in 2009 compared to an increase of \$20.9 million, or 8%, in 2008. The home products category declined \$9.1 million, or 6%, in 2009 compared to a decline of \$2.6 million, or 2%, in 2008. The apparel category declined by \$22.9 million, or 10%, in 2009 compared to an increase of \$30.2 million, or 15%, in 2008. In addition, increased net income in 2009 compared to 2008 was a principal factor in the increase in income taxes paid in 2009 compared to 2008. Changes in Accrued expenses and other were affected in part by the timing of the payments related to the Litigation settlement and related costs discussed above under Results of Operations, as the associated insurance proceeds of \$10.0 million were received at the end of 2008 while the payment of the \$40.0 million settlement occurred at the beginning of 2009.

Cash flows from investing activities. Cash flows used in investing activities totaling \$418.9 million in 2010 were primarily related to capital expenditures. Significant components of our property and equipment purchases in 2010 included the following approximate amounts: \$156 million for improvements, upgrades, remodels and relocations of existing stores; \$100 million for new leased stores; \$91 million for stores purchased or built by us; \$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.

Cash flows used in investing activities totaling \$248.0 million in 2009 were also primarily related to capital expenditures. Significant components of our property and equipment purchases in 2009 included the following approximate amounts: \$114 million for improvements, upgrades, remodels and relocations of existing stores; \$69 million for new leased stores; \$28 million for distribution and transportation-related capital expenditures; \$24 million for various administrative capital costs; and \$11 million for information systems upgrades and technology-related projects. During 2009 we opened 500 new stores and remodeled or relocated 450 stores.

Cash flows used in investing activities totaling \$152.6 million in 2008 were primarily related to capital expenditures, offset by sales of investments. Significant components of our property and equipment purchases in 2008 included the following approximate amounts: \$149 million for improvements, upgrades, remodels and relocations of existing stores; \$22 million for new leased stores; \$17 million for distribution and transportation-related capital expenditures; and \$13 million for information systems upgrades and technology-related projects. During 2008 we opened 207 new stores and remodeled or relocated 404 stores.

Purchases and sales of short-term investments equal to net sales of \$51.6 million in 2008 primarily reflected investment activities in our captive insurance subsidiary.

Capital expenditures during 2011 are projected to be in the range of \$550-\$600 million. We anticipate funding 2011 capital requirements with cash flows from operations, and if necessary, we also have significant availability under our ABL Facility. Significant components of the 2011 capital plan include growth initiatives, such as approximately 625 new stores including the purchase of existing stores and the construction of new stores; costs related to new leased stores including leasehold improvements, fixtures and equipment; continued investment in our existing store base with plans for remodeling and relocating approximately 550 stores; the

construction of a new distribution center in Alabama; as well as additional investments in our supply chain and information technology. We plan to undertake these expenditures as part of our efforts to improve our infrastructure and increase our cash generated from operating activities.

Cash flows from financing activities. During 2010, we repurchased \$115.0 million outstanding principal amount of our outstanding Senior Notes at a total cost of \$127.5 million including associated premiums. We had no borrowings or repayments under the ABL Facility in 2010.

In 2009, we had cash inflows from the issuance of equity of \$443.8 million primarily due to our initial public offering of 22.7 million shares of common stock. We used the proceeds from the offering to redeem outstanding Notes with a total principal amount of \$400.9 million at a premium, and used cash generated from operations to repay \$336.5 million outstanding principal amount on our Term Loan Facility. We had no borrowings or repayments under the ABL Facility in 2009. In addition, we paid a dividend and related amounts totaling \$239.7 million using cash generated from operations.

In February 2008, we repaid outstanding borrowings of \$102.5 million under our ABL Facility, and have had no borrowings outstanding under the ABL facility since that time. Also during 2008, we repurchased \$44.1 million principal amount of our outstanding Senior Subordinated Notes.

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 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 as appropriate to reflect write-downs determined to be necessary.

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 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 intangible assets, we are required to test such assets with indefinite lives for impairment annually, or more frequently if impairment indicators occur. The goodwill impairment test is a two-step process that requires management to make judgments in determining what assumptions to use in the calculation. 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 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 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.

We performed our annual impairment tests of goodwill and indefinite-lived intangible assets during the third quarter of 2010 based on conditions as of the end of the second quarter of 2010. The tests indicated that no impairment charge was necessary. 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 all 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 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. During 2010, 2009 and 2008 we recorded pre-tax impairment charges of \$1.7 million, \$5.0 million and \$4.0 million, respectively, for certain store assets that we deemed to be impaired.

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 the large employee base and number of stores. Provisions are made to 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, 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. 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 (usually with initial or current terms of 3 to 5 years), and many of these leases have multiple renewal options. As of January 28, 2011, approximately 35% of our stores had 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 an estimate of the fair value of our common stock, the term that the options are expected to be outstanding, an estimate of the volatility of our stock price (which is based on a peer group of publicly traded companies), applicable interest rates and the dividend yield of our stock. Our volatility estimates are based on a peer group due to the fact that our stock has been publicly traded for a relatively short period of time in relation to the expected term of outstanding options. 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, property and equipment, 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. 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 January 28, 2011, our Credit Facilities provide for variable rate borrowings of up to \$2.995 billion including availability of up to \$1.031 billion under our ABL Facility, subject to the borrowing base. In order to mitigate a portion of the variable rate interest exposure under the Credit Facilities, we entered into certain interest rate swaps which became effective on July 31, 2007. Pursuant to these swaps, we swapped three month LIBOR rates for fixed interest rates, resulting in the payment of an all-in fixed rate of 7.68% on an original notional amount of \$2.0 billion originally scheduled to amortize on a quarterly basis until maturity at July 31, 2012.

In October 2008, a counterparty to one of our 2007 swap agreements defaulted. We terminated this agreement and in November 2008 we subsequently cash settled the swap. Representatives of the counterparty have challenged our calculation of the cash settlement. See Legal Proceedings under Note 9 of the footnotes to the consolidated financial statements. As of January 28, 2011, the notional amount under the remaining 2007 swaps is \$646.7 million.

Effective December 31, 2008, we entered into a \$475.0 million interest rate swap in order to mitigate an additional portion of the variable rate interest exposure under the Credit Facilities. This swap is scheduled to mature on January 31, 2013. Under the terms of this agreement we swapped one month LIBOR rates for fixed interest rates, resulting in the payment of a fixed rate of 5.06% on a notional amount of \$475.0 million through April 2010, \$400.0 million from May 2010 through October 2011, and \$300.0 million to maturity.

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 during 2010 and 2009, the annualized effect of a one percentage point change in variable interest rates would have resulted in a pretax reduction of our earnings and cash flows of approximately \$9.3 million in 2010 and \$5.6 million in 2009.

The conditions and uncertainties in the global credit markets have increased the credit risk of other 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 counterparty credit risk by periodically evaluating the financial position and creditworthiness of such counterparties, monitoring the amount for which we are at risk with each counterparty, and where possible, dispersing the risk among multiple counterparties. There can be no assurance that we will manage or mitigate our counterparty credit risk effectively.

ITEM 8.

FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of

Dollar General Corporation

We have audited the accompanying consolidated balance sheets of Dollar General Corporation and subsidiaries as of January 28, 2011 and January 29, 2010, and the related consolidated statements of income, shareholders' equity, and cash flows for the years ended January 28, 2011, January 29, 2010 and January 30, 2009. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Dollar General Corporation and subsidiaries at January 28, 2011 and January 29, 2010, and the consolidated results of their operations and their cash flows for the years ended January 28, 2011, January 29, 2010 and January 30, 2009, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Dollar General Corporation's internal control over financial reporting as of January 28, 2011, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 22, 2011 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Nashville, Tennessee

March 22, 2011

Edgar Filing: DOLLAR GENERAL CORP - Form 10-K
DOLLAR GENERAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands, except per share amounts)

January 28,
2011

January 29,
2010

ASSETS

Current assets:

Cash and cash
equivalents

\$

497,446

\$

222,076

Merchandise
inventories

1,765,433

1,519,578

Income taxes
receivable

-

7,543

Prepaid expenses and
other current assets

104,946

96,252

Total current assets

2,367,825

1,845,449

Net property and
equipment

1,524,575

1,328,386

Goodwill

4,338,589

4,338,589

Intangible assets, net

1,256,922

1,284,283

Other assets, net

58,311

66,812

Total assets

\$

9,546,222

\$

8,863,519

**LIABILITIES AND
SHAREHOLDERS
EQUITY**

Current liabilities:

Current portion of
long-term obligations

\$

1,157

\$

3,671

Accounts payable

953,641

830,953

Accrued expenses
and other

347,741

342,290

Income taxes payable

25,980

4,525

Deferred income
taxes payable

36,854

25,061

Total current
liabilities

1,365,373

1,206,500

Long-term
obligations

3,287,070

3,399,715

Deferred income
taxes payable

598,565

546,172

195

Other liabilities

231,582

302,348

Commitments and
contingencies

Redeemable
common stock

9,153

18,486

Shareholders' equity:

Preferred stock,
1,000 shares
authorized

-

-

Common stock;
\$0.875 par value,
1,000,000 shares

authorized, 341,507
and 340,586 shares
issued and
outstanding at

January 28, 2011 and
January 29, 2010,
respectively

298,819

298,013

Additional paid-in
capital

2,945,024

2,923,377

Retained earnings

830,932

203,075

Accumulated other
comprehensive loss

(20,296)

(34,167)

Total shareholders
equity

4,054,479

3,390,298

Total liabilities and
shareholders equity

\$

9,546,222

\$

8,863,519

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

Edgar Filing: DOLLAR GENERAL CORP - Form 10-K

DOLLAR GENERAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share amounts)

For the Year
Ended

January 28,
2011

January 29,
2010

January 30,
2009

Net sales

\$

13,035,000

\$

11,796,380

\$

10,457,668

Cost of goods
sold

8,858,444

8,106,509

7,396,571

Gross profit

4,176,556

3,689,871

3,061,097

Selling,
general and
administrative
expenses

2,902,491

2,736,613

2,448,611

Litigation
settlement and
related costs,
net

-

-

32,000

Operating
profit

1,274,065

953,258

580,486

Interest
income

(220)

(144)

(3,061)

Interest
expense

274,212

345,744

391,932

Other
(income)
expense

15,101

55,542

(2,788)

Income before
income taxes

984,972

552,116

194,403

Income tax
expense

357,115

212,674

86,221

Net income

\$

627,857

\$

339,442

\$

108,182

Earnings per
share:

Basic

\$

1.84

\$

1.05

\$

0.34

Diluted

\$

1.82

\$

1.04

\$

0.34

Weighted
average
shares:

Basic

341,047

322,778

317,024

Diluted

344,800

324,836

317,503

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

65

DOLLAR GENERAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(In thousands except per share amounts)

Common Stock Shares
Common Stock
Additional Paid-in Capital
Retained Earnings (Accumulated Deficit)
Accumulated Other Comprehensive Loss
Total
Balances, February 1, 2008
317,418
\$
277,741
\$
2,480,062
\$
(4,818)
\$

(49,112)

\$

2,703,873

Comprehensive
income:

Net income

-

-

-

108,182

-

108,182
Unrealized net gain on hedged transactions, net of income tax expense of \$4,518
-
-
-
-
9,682
9,682
Comprehensive income

	117,864
Issuance of common stock under stock incentive plans	
	484
	423
	(423)
	-
	-
	-
Repurchases of common stock	
	(57)
	(50)
	50
	-

-

-

Share-based
compensation
expense

-

-

9,958

-

-

9,958

Balances,
January 30,
2009

317,845

\$

278,114

\$

2,489,647

\$

103,364

\$

(39,430)

\$

2,831,695

Comprehensive
income:

Net income

-

-

-

339,442

-

	339,442
Unrealized net gain on hedged transactions, net of income tax expense of \$2,553	
	-
	-
	-
	-
	5,263
	5,263
Comprehensive income	

344,705

Issuance of
common stock

22,700

19,863

421,299

-

-

441,162

Cash
dividends,
\$0.7525 per
common share,
and related
amounts

-

-

-

(239,731)

	-
	(239,731)
Share-based compensation expense	-
	-
	15,009
	-
	-
	15,009
Tax benefit from stock option exercises	-
	-
	3,072

-	
-	
3,072	
	Issuance of common stock under stock incentive plans
304	
266	
2,020	
-	
-	
2,286	
	Equity settlements under stock incentive plans
(263)	
(230)	
(7,670)	

-
-
(7,900)
Balances, January 29, 2010
340,586
\$
298,013
\$
2,923,377
\$
203,075
\$
(34,167)
\$
3,390,298
Comprehensive income:

Net income

-

-

-

627,857

-

627,857

Unrealized net
gain on hedged
transactions,
net of income
tax expense of
\$9,406

-

-

-

-

13,871

13,871

Comprehensive
income

641,728

Share-based
compensation
expense

-

-

12,805

-

-

12,805

Tax benefit
from stock
option
exercises

-

-

10,110

-

-

10,110

Issuance of
common stock
under stock
incentive plans

93

82

222

1,943

-

-

2,025

Exercise of
stock options

872

763

(8,399)

-

-

(7,636)

Other equity
settlements
under stock
incentive plans

(44)

(39)

5,188

-

-

5,149

Balances,
January 28,
2011

341,507

\$

298,819

\$

2,945,024

\$

830,932

\$

(20,296)

\$

4,054,479

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

Edgar Filing: DOLLAR GENERAL CORP - Form 10-K

DOLLAR GENERAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

For the Year
Ended

January 28,

2011

January 29,
2010

January 30,

2009

*Cash flows
from
operating
activities:*

Net income

\$

627,857

\$

339,442

\$

108,182

Adjustments
to reconcile
net income to
net cash
provided by
operating
activities:

Depreciation
and
amortization

254,927

256,771

247,899

Deferred
income taxes

50,985

14,860

73,434

Tax benefit of
stock options

(13,905)

(5,390)

(950)

Loss (gain) on
debt
retirement

14,576

55,265

(3,818)

Noncash
share-based
compensation

15,956

17,295

9,958

Noncash
inventory
adjustments
and asset
impairments

7,607

647

50,671

Other noncash
gains and
losses

5,942

7,920

6,252

Change in
operating
assets and
liabilities:

Merchandise
inventories

(251,809)

(100,248)

(173,014)

Prepaid
expenses and
other current
assets

(10,157)

(7,298)

(598)

Accounts
payable

123,424

106,049

140,356

Accrued
expenses and
other
liabilities

(42,428)

(12,643)

68,736

Income taxes

42,903

1,153

33,986

Other

(1,194)

(1,000)

14,084

Net cash
provided by
operating
activities

824,684

672,823

575,178

*Cash flows
from investing
activities:*

Purchases of
property and

equipment

(420,395)

(250,747)

(205,546)

Purchases of
short-term
investments

-

-

(9,903)

Sales of
short-term
investments

-

-

61,547

Sales of
property and
equipment

1,448

2,701

1,266

Net cash used
in investing
activities

(418,947)

(248,046)

(152,636)

*Cash flows
from
financing*

activities:

Issuance of
common stock

631

443,753

4,228

Repayments
under
revolving
credit facility

-

-

(102,500)

Issuance of
long-term
obligations

-

1,080

-

Repayments
of long-term
obligations

(131,180)

(785,260)

(44,425)

Payment of
cash
dividends and
related
amounts

-

(239,731)

-

Repurchases
of common
stock and
settlement of
equity awards,
net of
employee
taxes paid

(13,723)

(5,928)

(3,009)

Tax benefit of
stock options

13,905

5,390

950

Net cash used
in financing
activities

(130,367)

(580,696)

(144,756)

Net increase
(decrease) in
cash and cash
equivalents

275,370

(155,919)

277,786

Cash and cash
equivalents,
beginning of
year

222,076

377,995

100,209

Cash and cash
equivalents,
end of year

\$

497,446

\$

222,076

\$

377,995

*Supplemental
cash flow
information:*

Cash paid
for:

Interest

\$

244,752

\$

328,433

\$

377,022

Income taxes

314,123

187,983

7,091

*Supplemental
schedule of
noncash
investing and
financing*

activities:

Purchases of
property and
equipment
awaiting
processing
for payment,
included in
Accounts
payable

\$

29,658

\$

30,393

\$

7,474

Purchases of
property and
equipment
under capital
lease
obligations

-

50

3,806

Expiration of
equity
repurchase
rights

-

-

2,548

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

Edgar Filing: DOLLAR GENERAL CORP - Form 10-K
DOLLAR GENERAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1.

Basis of presentation and accounting policies

Basis of presentation

These notes contain references to the years 2010, 2009 and 2008, which represent fiscal years ended January 28, 2011, January 29, 2010 and January 30, 2009, respectively, each of which were 52-week accounting periods. The Company's fiscal year ends on the Friday closest to January 31. The consolidated financial statements include all subsidiaries of the Company, except for its not-for-profit subsidiary which the Company does not control. Intercompany transactions have been eliminated.

Business description

The Company sells general merchandise on a retail basis through 9,372 stores (as of January 28, 2011) in 35 states covering most of the southern, southwestern, midwestern and eastern United States. The Company has distribution centers (DCs) in Scottsville, Kentucky; Ardmore, Oklahoma; South Boston, Virginia; Indianola, Mississippi; Fulton, Missouri; Alachua, Florida; Zanesville, Ohio; Jonesville, South Carolina and Marion, Indiana.

The Company purchases its merchandise from a wide variety of suppliers. Approximately 9% and 7% of the Company's purchases in 2010 were made from the Company's largest and second largest suppliers, respectively.

Cash and cash equivalents

Cash and cash equivalents include highly liquid investments with insignificant interest rate risk and original maturities of three months or less when purchased. Such investments primarily consist of money market funds, bank deposits, certificates of deposit (which may include foreign time deposits), and commercial paper. The carrying amounts of these items are a reasonable estimate of their fair value due to the short maturity of these investments.

Payments due from processors for electronic tender transactions classified as cash and cash equivalents totaled approximately \$26.1 million and \$23.2 million at January 28, 2011 and January 29, 2010, respectively.

The Company's cash management system provides for daily investment of available balances and the funding of outstanding checks when presented for payment. Outstanding but unpresented checks totaling approximately \$153.6 million and \$159.6 million at January 28, 2011 and January 29, 2010, respectively, have been included in Accounts payable in the consolidated balance sheets. Upon presentation for payment, these checks are funded through available cash balances or the Company's credit facilities.

At January 28, 2011, the Company maintained cash balances to meet a \$20 million minimum threshold set by insurance regulators, as further described below under Insurance liabilities.

Investments in debt and equity securities

The Company accounts for its investments in debt and marketable equity securities as held-to-maturity, available-for-sale, or trading, depending on their classification. Debt securities categorized as held-to-maturity are stated at amortized cost. Debt and equity securities categorized as available-for-sale are stated at fair value, with any unrealized gains and losses, net of deferred income taxes, reported as a component of Accumulated other comprehensive loss. Trading securities (primarily mutual funds held pursuant to deferred compensation and supplemental retirement plans, as further discussed in Note 10) are stated at fair value, with changes in fair value recorded as a component of Selling, general and administrative (SG&A) expense.

As of January 28, 2011 and January 29, 2010, the Company had investments in trading securities of \$8.3 million and \$8.8 million, respectively, \$2.2 million and \$1.6 million of which were classified as Prepaid expenses and other current assets, respectively, and \$6.1 million and \$7.2 million of which were classified as Other assets, net, respectively, in the consolidated balance sheets. Historical cost information pertaining to these investments in mutual funds by participants in the Company's supplemental retirement and compensation deferral plans is not readily available to the Company.

During 2008, the Company's South Carolina-based wholly owned captive insurance subsidiary, Ashley River Insurance Company (ARIC), had investments in various debt securities. These investments were held pursuant to South Carolina regulatory requirements to maintain certain asset balances related to ARIC's liability and equity balances, which could have limited the Company's ability to use these assets for general corporate purposes. In May 2008, the state of South Carolina made certain changes to these regulations, which in turn changed the Company's investment requirements. As a result, the Company reclassified certain investments held by ARIC from held-to-maturity to available-for-sale, and ARIC subsequently liquidated certain investments totaling \$48.6 million during 2008.

For the years ended January 28, 2011, January 29, 2010 and January 30, 2009, gross realized gains and losses on the sales of available-for-sale securities were not material. The cost of securities sold is based upon the specific identification method.

Merchandise inventories

Inventories are stated at the lower of cost or market with cost determined using the retail last-in, first-out (LIFO) method as this method results in a better matching of costs and revenues. Under the Company's 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. Costs directly associated with warehousing and distribution are capitalized into inventory. The excess of current cost over LIFO cost was approximately \$52.8 million and \$47.5 million at January 28, 2011 and January

29, 2010, respectively. Current cost is determined using the RIM on a first-in, first-out basis. Under the LIFO inventory method, the impacts of rising or falling market price changes increase or decrease cost of sales (the LIFO provision or benefit). The Company recorded a LIFO provision of \$5.3 million in 2010, a LIFO benefit of \$2.5 million in 2009, and a LIFO provision of \$43.9 million in 2008.

The 2008 LIFO provision was impacted by increased commodity costs related to food and pet products which were driven by fruit and vegetable prices and rising freight costs. In addition, increases in petroleum, resin, metals, pulp and other raw material commodity costs also resulted in multiple product cost increases. These trends generally stabilized or reversed in 2009 and 2010.

Vendor rebates

The Company accounts for all cash consideration received from vendors in accordance with applicable accounting standards pertaining to such arrangements. Cash consideration received from a vendor is generally presumed to be a rebate or an allowance and is accounted for as a reduction of merchandise purchase costs as earned. However, certain specific, incremental and otherwise qualifying SG&A expenses related to the promotion or sale of vendor products may be offset by cash consideration received from vendors, in accordance with arrangements such as cooperative advertising, when earned for dollar amounts up to but not exceeding actual incremental costs. The Company recognizes amounts received for cooperative advertising on performance, first showing or distribution, consistent with its policy for advertising expense in accordance with applicable accounting standards for reporting on advertising costs.

Prepaid expenses and other current assets

Prepaid expenses and other current assets include prepaid amounts for rent, maintenance, advertising, and insurance, as well as amounts receivable for certain vendor rebates (primarily those expected to be collected in cash), coupons, and other items.

Property and equipment

Property and equipment are recorded at cost. The Company provides for depreciation and amortization on a straight-line basis over the following estimated useful lives:

Land improvements

20

Buildings

Furniture, fixtures and equipment

3-10

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.

Impairment of long-lived assets

When indicators of impairment are present, the Company evaluates the carrying value of long-lived assets, other than goodwill, in relation to the operating performance and future cash

flows or the appraised values of the underlying assets. In accordance with accounting standards for long-lived assets, the Company reviews for impairment stores open more than two years for which current cash flows from operations are negative. Impairment results when the carrying value of the assets exceeds the undiscounted future cash flows over the life of the lease. The Company's 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 difficult to predict. 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 estimated future cash flows (discounted at the Company's credit adjusted risk-free rate) or other reasonable estimates of fair market value. Assets to be disposed of are adjusted to the fair value less the cost to sell if less than the book value.

The Company recorded impairment charges included in SG&A expense of approximately \$1.7 million in 2010, \$5.0 million in 2009 and \$4.0 million in 2008, to reduce the carrying value of certain of its stores' assets. Such action was deemed necessary based on the Company's evaluation that such amounts would not be recoverable primarily due to insufficient sales or excessive costs resulting in negative current and projected future cash flows at these locations.

Capitalized interest

To assure that interest costs properly reflect only that portion relating to current operations, interest on borrowed funds during the construction of property and equipment is capitalized where applicable. No interest costs were capitalized in 2010, 2009 or 2008.

Goodwill and other intangible assets

The Company amortizes intangible assets over their estimated useful lives unless such lives are deemed indefinite. Amortizable intangible assets are tested for impairment when indicators of impairment are present, based on undiscounted cash flows, and if impaired, written down to fair value based on either discounted cash flows or appraised values.

Goodwill and intangible assets with indefinite lives are tested for impairment annually or more frequently if indicators of impairment are present and written down to fair value as required. No impairment of intangible assets has been identified during any of the periods presented.

The goodwill impairment test is a two-step process that requires management to make judgments in determining what assumptions to use in the calculation. The first step of the process consists of estimating the fair value of the Company's 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 by determining an implied fair value of goodwill. The determination of the implied fair value of goodwill

would require the Company to allocate the estimated fair value of its reporting unit to its assets and liabilities. Any unallocated fair value would represent the implied fair value of goodwill, which would be compared to its corresponding carrying value.

Other assets

Non-current Other assets consist primarily of qualifying prepaid expenses, debt issuance costs which are amortized over the life of the related obligations, and utility and security deposits.

Accrued expenses and other liabilities

Accrued expenses and other consist of the following:

*(In
thousands)*

January 28,
2011

January 29,
2010

Compensation
and benefits

\$

81,786

\$

100,843

Insurance

76,372

65,408

Taxes (other
than taxes on
income)

74,900

72,902

Other

114,683

103,137

\$

347,741

\$

342,290

Other accrued expenses primarily include the current portion of liabilities for legal settlements, freight expense, contingent rent expense, interest, utilities, common area and other maintenance charges, and income tax related reserves.

Insurance liabilities

The Company retains a significant portion of risk for its workers' compensation, employee health, general liability, property and automobile claim exposures. Accordingly, provisions are made for the Company's estimates of such risks. The undiscounted future claim costs for the workers' compensation, general liability, and health claim risks are derived using actuarial methods. To the extent that subsequent claim costs vary from those estimates, future results of operations will be affected. Ashley River Insurance Company (or ARIC, as defined above), a South Carolina-based wholly owned captive insurance subsidiary of the Company, charges the operating subsidiary companies premiums to insure the retained workers' compensation and non-property general liability exposures. Pursuant to South Carolina insurance regulations, ARIC is required to maintain certain levels of cash and cash equivalents related to its self-insured exposures. ARIC currently insures no unrelated third-party risk.

As a result of the Merger discussed in Note 3, the Company recorded its assumed self-insurance reserves as of the Merger date at their present value in accordance with applicable accounting standards for business combinations, using a discount rate of 5.4%. The balance of the resulting discount was \$4.8 million and \$7.4 million at January 28, 2011 and January 29, 2010, respectively. Other than for reserves assumed in a business combination, the Company's policy is to record self-insurance reserves on an undiscounted basis.

Operating leases and related liabilities

Rent expense is recognized over the term of the lease. The Company records minimum rental expense on a straight-line basis over the base, non-cancelable lease term commencing on the date that the Company takes physical possession of the property from the landlord, which

normally includes a period prior to the store opening to make necessary leasehold improvements and install store fixtures. When a lease contains a predetermined fixed escalation of the minimum rent, the Company recognizes the related rent expense on a straight-line basis and records 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 are amortized as a reduction to rent expense over the term of the lease. Any difference between the calculated expense and the amounts actually paid are reflected as a liability, with the current portion in Accrued expenses and other and the long-term portion in Other liabilities in the consolidated balance sheets, and totaled approximately \$23.2 million and \$14.5 million at January 28, 2011 and January 29, 2010, respectively.

The Company recognizes contingent rental expense when the achievement of specified sales targets are considered probable, in accordance with applicable accounting standards for contingent rent. The amount expensed but not paid as of January 28, 2011 and January 29, 2010 was approximately \$9.2 million and \$10.8 million, respectively, and is included in Accrued expenses and other in the consolidated balance sheets (See Note 9).

In the normal course of business, based on an overall analysis of store performance and expected trends, management periodically evaluates the need to close underperforming stores. Generally, for store closures where a lease obligation still exists, the Company records the estimated future liability associated with the rental obligation on the date the store is closed in accordance with applicable accounting standards for costs associated with exit or disposal activities. 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. Liabilities are reviewed periodically and adjusted when necessary. The current portion of the closed store rent liability is reflected in Accrued expenses and other and the long-term portion in Other liabilities in the consolidated balance sheets, and totaled approximately \$7.0 million and \$7.6 million at January 28, 2011 and January 29, 2010, respectively.

Other liabilities

Non-current Other liabilities consist of the following:

*(In
thousands)*

January 28,
2011

January 29,
2010

Compensation
and benefits

\$

14,531

\$

12,441

Insurance

131,912

140,633

Income tax
related
reserves

27,255

68,021

Derivatives

34,923

57,058

Other

22,961

24,195

\$

231,582

\$

302,348

Amounts reflected as other in the table above consist primarily of deferred rent, lease contract termination liabilities for closed stores, and rebate obligations.

Fair value accounting

The Company utilizes accounting standards for fair value, which include the definition of fair value, the framework for measuring fair value, and disclosures about fair value measurements. Fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, fair value accounting 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).

Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access. Level 2 inputs are inputs other than quoted prices included in Level 1 that are directly or indirectly observable for the asset or liability. Level 2 inputs may include quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset or liability (other than quoted prices), such as interest rates, foreign exchange rates, and yield curves that are observable at commonly quoted intervals. Level 3 inputs are unobservable inputs for the asset or liability, which are based on an entity's own assumptions, as there is little, if any, related market activity. In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

The valuation of the Company's derivative financial instruments is 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 Company incorporates credit valuation adjustments (CVAs) to appropriately reflect both its own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements. In adjusting the fair value of its derivative contracts for the effect of nonperformance risk, the Company has considered the impact of netting and any applicable credit enhancements, such as collateral postings, thresholds, mutual puts, and guarantees.

The Company has determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy. However, the CVAs associated with its derivatives

utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by itself and its counterparties. As of January 28, 2011, the Company has assessed the significance of the impact of the CVAs on the overall valuation of its derivative positions and has determined that the CVAs are not significant to the overall valuation of its derivatives. Based on the Company's review of the CVAs by counterparty portfolio, the Company has determined that the CVAs are not significant to the overall portfolio valuations, as the CVAs are deemed to be immaterial in terms of basis points and are a very small percentage of the aggregate notional value. Although some of the CVAs as a percentage of termination value appear to be more significant, primary emphasis was placed on a review of the CVA in basis points and the percentage of the notional value. As a result, the Company has determined that its derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy.

The following table presents the Company's assets and liabilities measured at fair value on a recurring basis as of January 28, 2011, aggregated by the level in the fair value hierarchy within which those measurements fall.

(In thousands)

Quoted Prices
in Active
Markets
for Identical
Assets and
Liabilities
(Level 1)

Significant
Other
Observable
Inputs
(Level 2)

Significant
Unobservable
Inputs
(Level 3)

Balance at
January 28,
2011

Assets:

Trading
securities (a)

\$

8,289

\$

-

\$

-

\$

8,289

Liabilities:

Long-term
obligations (b)

3,450,812

20,858

-

3,471,670

Derivative
financial
instruments
(c)

-

34,923

-

34,923

Deferred
compensation
(d)

16,710

-

-

16,710

(a)

Reflected at fair value in the consolidated balance sheet as Prepaid expenses and other current assets of \$2,179 and Other assets, net of \$6,110.

(b)

Reflected at book value in the consolidated balance sheet as Current portion of long-term obligations of \$1,157 and Long-term obligations of \$3,287,070.

(c)

Reflected at fair value in

the
consolidated
balance sheet
as noncurrent
Other
liabilities.

(d)

Reflected at
fair value in
the condensed
consolidated
balance sheet
as Accrued
expenses and
other current
liabilities of
\$2,179 and
non-current
Other
liabilities of
\$14,531.

The carrying amounts reflected in the consolidated balance sheets for cash, cash equivalents, short-term investments, receivables and payables approximate their respective fair values. The Company does not have any fair value measurements using significant unobservable inputs (Level 3) as of January 28, 2011.

Derivative financial instruments

The Company accounts for derivative financial instruments in accordance with accounting standards for derivative instruments and hedging activities. All financial instrument positions taken by the Company are intended to be used to reduce risk by hedging an underlying economic exposure.

The Company records all derivatives on the balance sheet at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether the Company has elected to designate a derivative in a hedging relationship and apply hedge accounting and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting. Derivatives designated and qualifying as a hedge of the exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges. Derivatives designated and qualifying as a hedge of the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. Derivatives may also be designated as hedges of the foreign currency exposure of a net investment in a foreign operation. Hedge accounting generally provides for the matching of the timing of gain or loss recognition on the hedging instrument with the recognition of the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk in a fair value hedge or the earnings effect of the hedged forecasted transactions in a cash flow hedge. The Company may enter into derivative contracts that are intended to economically hedge a certain portion of its risk, even though hedge accounting does not apply or the Company elects not to apply the hedge accounting standards.

The Company's derivative financial instruments, in the form of interest rate swaps at January 28, 2011, are related to variable interest rate risk exposures associated with the Company's long-term debt and were entered into in an effort to manage that risk. The counterparties to the Company's derivative agreements are all major international financial institutions. The Company continually monitors its position and the credit ratings of its counterparties and does not anticipate nonperformance by the counterparties; however, there can be no assurance that such nonperformance will not occur.

Revenue and gain recognition

The Company recognizes retail sales in its stores at the time the customer takes possession of merchandise. All sales are net of discounts and estimated returns and are presented net of taxes assessed by governmental authorities that are imposed concurrent with those sales. The liability for retail merchandise returns is based on the Company's prior experience. The Company records gain contingencies when realized.

The Company recognizes gift card sales revenue at the time of redemption. The liability for the gift cards is established for the cash value at the time of purchase. The liability for outstanding gift cards was approximately \$2.4 million and \$1.9 million at January 28, 2011 and January 29, 2010, respectively, and is recorded in Accrued expenses and other liabilities. Through January 28, 2011, the Company has not recorded any breakage income related to its gift card program.

Advertising costs

Advertising costs are expensed upon performance, first showing or distribution, and are reflected net of qualifying cooperative advertising funds provided by vendors in SG&A expenses. Advertising costs were \$46.9 million, \$41.5 million and \$27.8 million in 2010, 2009 and 2008, respectively. These costs primarily include promotional circulars, targeted circulars supporting new stores, television and radio advertising, in-store signage, and costs associated

with the sponsorships of certain automobile racing activities. Vendor funding for cooperative advertising offset reported expenses by \$14.2 million, \$9.0 million and \$7.8 million in 2010, 2009 and 2008, respectively.

Share-based payments

The Company recognizes compensation expense for share-based compensation based on the fair value of the awards on the grant date. Forfeitures are estimated at the time of valuation and reduce expense ratably over the vesting period. This estimate is adjusted periodically based on the extent to which actual forfeitures differ, or are expected to differ, from the prior estimate. The forfeiture rate is the estimated percentage of options granted that are expected to be forfeited or canceled before becoming fully vested. The Company bases this estimate on historical experience or estimates of future trends, as applicable. An increase in the forfeiture rate will decrease compensation expense.

The fair value of each option grant is separately estimated and amortized into compensation expense on a straight-line basis between the applicable grant date and each vesting date. The Company has estimated the fair value of all stock option awards as of the grant date by applying the Black-Scholes-Merton option pricing valuation model. The application of this valuation model involves assumptions that are judgmental and highly sensitive in the determination of compensation expense.

The Company calculates compensation expense for nonvested restricted stock and similar awards as the difference between the market price of the underlying stock on the grant date and the purchase price, if any, and recognizes such amount on a straight-line basis over the period in which the recipient earns the nonvested restricted stock and similar awards.

Store pre-opening costs

Pre-opening costs related to new store openings and the related construction periods are expensed as incurred.

Income taxes

Under the accounting standards for income taxes, the asset and liability method is used for computing the future income tax consequences of events that have been recognized in the Company's consolidated financial statements or income tax returns. Deferred income tax expense or benefit is the net change during the year in the Company's deferred income tax assets and liabilities.

The Company includes income tax related interest and penalties as a component of the provision for income tax expense.

Income tax reserves are determined using a methodology which requires 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 the Company's determinations and estimates prove to be inaccurate, the resulting adjustments could be material to the Company's future financial results.

Management estimates

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

Accounting standards

In June 2009 the FASB issued a new accounting standard relating to variable interest entities. This standard amends previous standards and requires an enterprise to perform an analysis to determine whether the enterprise's variable interest or interests give it a controlling financial interest in a variable interest entity, specifies updated criteria for determining the primary beneficiary, requires ongoing reassessments of whether an enterprise is the primary beneficiary of a variable interest entity, eliminates the quantitative approach previously required for determining the primary beneficiary of a variable interest entity, amends certain guidance for determining whether an entity is a variable interest entity, requires enhanced disclosures about an enterprise's involvement in a variable interest entity, among other provisions. This standard was effective as of the beginning of the Company's 2010 reporting periods. The adoption of this standard did not have a material effect on the Company's consolidated financial statements.

Reclassifications

Certain reclassifications of the 2008 and 2009 amounts have been made to conform to the 2010 presentation.

2.

Initial public offering and special dividend

On November 18, 2009, the Company completed the initial public offering of its common stock. The Company issued 22,700,000 shares in the offering, and an existing shareholder sold an additional 16,515,000 outstanding shares. Net proceeds to the Company from the offering of \$446.0 million were used to redeem outstanding debt, as discussed in more detail in Note 7 below. The Company paid a \$4.8 million transaction fee to Kohlberg Kravis Roberts & Co., L.P. (KKR) and Goldman, Sachs & Co. in connection with the offering. Although this transaction fee was not paid from

the net proceeds of the offering, it was directly related to the offering and accounted for as a cost of raising equity.

Upon the completion of the offering, the Company incurred additional charges of \$58.8 million for fees paid to terminate its advisory agreement with KKR and Goldman, Sachs & Co. The transaction and termination fees paid to such parties are discussed in more detail in Note 12 below. The Company also incurred charges of \$9.4 million for the accelerated vesting of certain share-based awards as discussed in more detail in Note 11 below.

On September 8, 2009, the Company's Board of Directors declared a special dividend on the Company's outstanding common stock (including shares of restricted stock) of \$0.7525 per share, or approximately \$239.3 million in the aggregate, which was paid on September 11, 2009 to shareholders of record on September 8, 2009. The special dividend was paid with cash generated from operations. Pursuant to the terms of the Company's stock option plans, holders of stock options received either a pro-rata adjustment to the terms of their share-based awards or a cash payment (totaling approximately \$0.5 million for all such grantees) in substitution for such adjustment as a result of the dividend.

3.

Merger

On July 6, 2007, the Company consummated a merger transaction (the Merger), and as a result, the Company is a subsidiary of an entity controlled by investment funds affiliated with KKR. The aggregate purchase price was approximately \$7.1 billion, including direct costs of the Merger, and was funded primarily through debt financings as described more fully below in Note 7 and cash equity contributions from KKR, GS Capital Partners VI Fund, L.P. and affiliated funds (affiliates of Goldman, Sachs & Co.), and other equity co-investors (collectively, the Investors).

The Merger was accounted for as a reverse acquisition in accordance with applicable purchase accounting provisions. Because of this accounting treatment, the Company's assets and liabilities were properly accounted for at their estimated fair values as of the Merger date. The purchase price allocation included approximately \$4.34 billion of goodwill, none of which is expected to be deductible for tax purposes.

The purchase price allocation as of the Merger date also included approximately \$1.4 billion of other intangible assets. As of January 28, 2011 and January 29, 2010, these balances were as follows:

As of
January 28,
2011

(In
thousands)

Estimated
Useful Life

Amount

Accumulated

Amortization

Net

Leasehold
interests

2 to 17.5
years

\$

141,180

\$

83,458

\$

57,722

Trade names
and
trademarks

Indefinite

1,199,200

-

1,199,200

\$

1,340,380

\$

83,458

\$

1,256,922

As of
January 29,
2010

*(In
thousands)*

Estimated
Useful Life

Amount

Accumulated
Amortization

Net

Leasehold
interests

2 to 17.5
years

\$

184,168

\$

100,793

\$

83,375

Internally
developed
software

3 years

12,300

10,592

1,708

196,468

111,385

85,083

Trade names
and
trademarks

Indefinite

1,199,200

-

1,199,200

\$

1,395,668

\$

111,385

\$

1,284,283

80

The Company recorded amortization expense related to amortizable intangible assets for 2010, 2009 and 2008 of \$27.4 million, \$41.3 million and \$45.0 million, respectively, (\$25.7 million, \$37.2 million and \$40.9 million, respectively, of which is included in rent expense). Expected future cash flows associated with the Company's intangible assets are not expected to be materially affected by the Company's intent or ability to renew or extend the arrangements.

For intangible assets subject to amortization, the estimated aggregate amortization expense for each of the five succeeding fiscal years is as follows: 2011 \$20.9 million, 2012 \$17.0 million, 2013 \$12.0 million, 2014 \$5.8 million and 2015 \$0.9 million.

4.

Earnings per share

Earnings per share is computed as follows (in thousands except per share data):

2010
Net
Income
Weighted
Average
Shares
Per Share
Amount
Basic
earnings per
share
\$
627,857
278

341,047

\$

1.84

Effect of
dilutive
share-based
awards

3,753

Diluted
earnings per
share

\$

627,857

344,800

\$

1.82

2009

Net

Income

Weighted
Average

Shares

Per Share

Amount

Basic
earnings per
share

\$

339,442

322,778

\$

1.05

Effect of
dilutive
share-based
awards

2,058

Diluted
earnings per
share

\$

339,442

324,836

\$

1.04

2008

Net
Income

Weighted
Average
Shares
Per Share
Amount

Basic
earnings per
share

\$

108,182

317,024

\$

0.34

Effect of
dilutive
share-based
awards

479

282

Diluted
earnings per
share

\$

108,182

317,503

\$

0.34

Basic earnings per share was computed by dividing net income by the weighted average number of shares of common stock outstanding during the year. Diluted earnings per share was determined based on the dilutive effect of share-based awards using the treasury stock method.

Options to purchase shares of common stock that were outstanding at the end of the respective periods, but were not included in the computation of diluted earnings per share because the effect of exercising such options would be antidilutive, were 0.4 million, 0.2 million and 12.1 million in 2010, 2009 and 2008, respectively.

5.

Property and equipment

Property and equipment is recorded at cost and summarized as follows:

(In thousands)

January 28,
2011

January 29,
2010

Land and land
improvements

\$

174,439

\$

137,903

Buildings

575,305

520,867

Leasehold
improvements

173,836

130,774

Furniture,
fixtures and
equipment

1,235,756

992,423

Construction
in progress

17,933

10,406

2,177,269

1,792,373

Less
accumulated
depreciation
and

amortization

652,694

463,987

Net property
and equipment

\$

1,524,575

\$

1,328,386

Depreciation expense related to property and equipment was approximately \$215.7 million, \$201.1 million and \$190.5 million for 2010, 2009 and 2008. Amortization of capital lease assets is included in depreciation expense.

6.

Income taxes

The provision (benefit) for income taxes consists of the following:

*(In
thousands)*

2010

2009

2008

Current:

Federal

\$

273,005

\$

173,027

\$

10,489

Foreign

1,269

1,465

1,084

State

28,062

21,002

1,214

302,336

195,494

12,787

Deferred:

Federal

42,024

12,412

64,403

Foreign

-

(49)

(3)

State

12,755

4,817

9,034

54,779

17,180

73,434

\$
357,115

\$
212,674

\$

86,221

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

*(Dollars in
thousands)*

2010

2009

2008

U.S. federal
statutory rate
on earnings
before income
taxes

\$

344,740

35.0

%

\$

193,241

35.0

%

\$

68,041

35.0

%

State income
taxes, net of
federal income
tax benefit

26,877

2.7

18,375

3.3

5,361

2.8

Jobs credits,
net of federal
income taxes

(8,845)

(0.9)

(8,590)

(1.6)

(9,149)

(4.7)

Increase
(decrease) in
valuation

292

allowances

(1,003)

(0.1)

(1,722)

(0.3)

3,038

1.6

Income tax
related interest
expense
(benefit), net of
federal income
taxes

(5,004)

(0.5)

1,289

0.2

(2,015)

293

(1.0)

Nondeductible
Merger-related
lawsuit
settlement

-

-

(366)

(0.1)

18,130

9.3

Other, net

350

0.1

10,447

2.0

2,815

294

1.4

\$

357,115

36.3

%

\$

212,674

38.5

%

\$

86,221

44.4

%

82

The 2010 effective tax rate is an expense of 36.3%. This expense is greater than the expected tax rate of 35% due primarily to the inclusion of state income taxes in the total effective tax rate. The 2010 effective rate is less than the 2009 rate of 38.5% due principally to reductions in state income tax expense, income tax related interest expense and other expense items. The 2010 effective resolution of various examinations by the taxing authorities, when combined with unfavorable examination results in 2009, resulted in a decrease in the year-to-year state income tax expense rate (net of federal income tax expense) of approximately 1.8%. This decrease in state income tax expense was partially offset by an increase in state income tax expense due to a shift in income to companies within the group that have a higher effective state income tax rate. In addition, income tax related interest accruals and income tax related penalty accruals (with the penalty accruals being included in Other, net) were also reduced due to favorable income tax examination results, thereby resulting in a decrease in income tax related interest expense and a decrease in Other income tax expense. Additional decreases in Other, net items occurred due to favorable outcomes in 2010 associated with the completion of a federal income tax examination and reductions in expense associated with uncertain tax benefit accruals.

The 2009 effective tax rate is an expense of 38.5%. This expense is greater than the expected tax rate of 35% due primarily to the inclusion of state income taxes in the total effective tax rate. The 2009 effective tax rate is less than the 2008 rate of 44.4% due principally to the unfavorable impact that the non-deductible, Merger-related lawsuit settlement had on the 2008 rate. This reduction in the effective tax rate was partially offset by a decrease in the tax rate benefit related to federal jobs credits. While the total amount of jobs credits earned in 2009 was similar to the amount earned in 2008, the impact of this benefit on the effective tax rate was reduced due to the 2009 increase in income before tax. The 2009 rate was also increased by accruals associated with uncertain tax benefits, which are included in Other, net.

The 2008 effective income tax rate is an expense of 44.4%. This expense is greater than the expected U.S. statutory tax rate of 35% principally due to the non-deductibility of the settlement and related expenses associated with the Merger-related shareholder lawsuit.

Deferred taxes reflect the effects of temporary differences between carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets and liabilities are as follows:

(In thousands)

January 28,
2011

January 29,
2010

Deferred tax
assets:

D e f e r r e d
compensation
expense

\$

6,653

\$

7,214

A c c r u e d
expenses and
other

298

4,798

4,223

Accrued rent

8,581

5,329

A c c r u e d
insurance

67,634

67,124

A c c r u e d
bonuses

20,116

299

26,112

Interest rate
hedges

13,650

22,249

Tax benefit of
income tax and
i n t e r e s t
r e s e r v e s
related to
uncertain tax
positions

2,520

9,498

Other

16,321

15,399

300

State tax net
operating loss
carryforwards,
net of federal
tax

4,697

7,000

State tax credit
carryforwards,
net of federal
tax

12,511

15,696

157,481

179,844

301

Less valuation
allowances

(7,083

)

(8,086

)

Total deferred
tax assets

150,398

171,758

Deferred tax
liabilities:

Property and
equipment

(222,757

302

)

(177,171

)

Inventories

(68,314

)

(66,002

)

Trademarks

(435,543

)

(435,336

)

Amortizable
assets

(21,288

)

(31,724

)

Insurance
related tax
method change

(14,844

)

(30,059

)

Bonus related
tax method
change

(19,520

)

-

Other

(3,551

)

(2,699

)

Total deferred
tax liabilities

(785,817

)

(742,991

)

Net deferred
tax liabilities

\$

(635,419

)

\$

(571,233

)

Net deferred tax liabilities are reflected separately on the consolidated balance sheets as current and noncurrent deferred income taxes. The following table summarizes net deferred tax liabilities as recorded in the consolidated balance sheets:

(In
thousands)

January 28,
2011

January 29,
2010

C u r r e n t
d e f e r r e d
i n c o m e t a x
l i a b i l i t i e s ,
n e t

\$

(36,854)

\$

(25,061)

Noncurrent
deferred
income tax
liabilities,
net

(598,565)

(546,172)

Net deferred
tax
liabilities

\$

(635,419)

\$

(571,233)

The Company has state net operating loss carryforwards as of January 28, 2011 that total approximately \$136.7 million which will expire in 2022 through 2029. The Company also has state tax credit carryforwards of approximately \$19.2 million that will expire beginning in 2011 through 2025.

The valuation allowance has been provided for state tax credit carryforwards and federal capital losses. The 2010 and 2009 decreases of \$1.0 and \$1.7 million, respectively, were recorded as a reduction in income tax expense. The 2008 increase of \$8.2 million was recorded

as income tax expense of \$3.0 million and an adjustment to goodwill of \$5.2 million. Based upon expected future income, management believes that it is more likely than not that the results of operations will generate sufficient taxable income to realize the deferred tax assets after giving consideration to the valuation allowance.

The Internal Revenue Service (IRS) is examining the Company's federal income tax returns for fiscal years 2006, 2007 and 2008. The 2005 and earlier years are not open for examination. The 2009 and 2010 fiscal years, while not currently under examination, are subject to examination at the discretion of the IRS. The Company has various state income tax examinations that are currently in progress. The estimated liability related to these state income tax examinations is included in the Company's reserve for uncertain tax positions. Generally, the Company's tax years ended in 2007 and forward remain open for examination by the various state taxing authorities.

As of January 28, 2011, accruals for uncertain tax benefits, interest expense related to income taxes and potential income tax penalties were \$26.4 million, \$1.9 million and \$0.5 million, respectively, for a total of \$28.8 million. Of this amount, \$0.2 million and \$27.3 million are reflected in current liabilities as Accrued expenses and other and in noncurrent Other liabilities, respectively, in the consolidated balance sheet with the remaining \$1.3 million reducing deferred tax assets related to net operating loss carry forwards.

As of January 29, 2010, accruals for uncertain tax benefits, interest expense related to income taxes and potential income tax penalties were \$67.6 million, \$8.8 million and \$1.7 million, respectively, for a total of \$78.1 million. Of this amount, \$8.5 million and \$68.0 million are reflected in current liabilities as Accrued expenses and other and in noncurrent Other liabilities, respectively, in the consolidated balance sheet with the remaining \$1.6 million reducing deferred tax assets related to net operating loss carry forwards.

The Company believes that it is reasonably possible that the reserve for uncertain tax positions may be reduced by approximately \$1.4 million in the coming twelve months principally as a result of the settlement of currently ongoing income tax examinations. The reasonably possible change of \$1.4 million is included in current liabilities in Accrued expenses and other (\$0.2 million) and in noncurrent Other liabilities (\$1.2 million) in the consolidated balance sheet as of January 28, 2011. Also, as of January 28, 2011, approximately \$26.4 million of the uncertain tax positions would impact the Company's effective income tax rate if the Company were to recognize the tax benefit for these positions.

The consolidated statements of income for the respective years reflected below include the following amounts:

(In
thousands)

2010

2009

2008

Income tax
e x p e n s e
(benefit)

\$

(12,000

)

\$

11,900

\$

800

Income tax
r e l a t e d
i n t e r e s t
e x p e n s e
(benefit)

(5,800

)

2,300

(1,000

)

Income tax
r e l a t e d
p e n a l t y
e x p e n s e
(benefit)

(700

)

400

300

85

Edgar Filing: DOLLAR GENERAL CORP - Form 10-K

A reconciliation of the uncertain income tax positions from February 1, 2008 through January 28, 2011 is as follows:

*(In
thousands)*

2010

2009

2008

Beginning
balance

\$

67,636

\$

59,057

\$

96,600

Increases
t a x
positions
taken in the
c u r r e n t
year

125

13,701

25,977

Decreases
t a x
positions
taken in the
c u r r e n t
year

-

-

(2,250

)

Increases
t a x
positions
taken in
prior years

-

4,039

312

3,271

Decreases
t a x
positions
taken in
prior years

(36,973

)

(1,111

)

(58,607

)

S t a t u t e
expirations

(1,570

)

-

(1,955

313

)

Settlements

(2,789

)

(8,050

)

(3,979

)

E n d i n g
balance

\$

26,429

\$
67,636

\$
59,057

7.

Current and long-term obligations

Current and long-term obligations consist of the following:

*(In
thousands)*

January 28,
2011

January 29,
2010

Senior
secured term
loan facility

\$
1,963,500

\$
1,963,500

ABL Facility

-

-

10 5/8%
Senior Notes
due July 15,
2015, net of
discount of
\$11,161 and
\$14,788,
respectively

853,172

964,545

11 7/8/12
5/8% Senior
Subordinated
Notes due
July 15, 2017

450,697

450,697

8 5/8% Notes
due June 15,
2010

-

1,822

Capital lease
obligations

6,363

8,327

Tax
increment
financing due
February 1,
2035

14,495

14,495

3,288,227

3,403,386

Less: current
portion

(1,157)

(3,671)

Long-term
portion

\$

3,287,070

\$

3,399,715

The Company entered into two senior secured credit agreements (the "Credit Facilities") at the time of the Merger. As of January 28, 2011, the Credit Facilities provide total financing of \$2.995 billion, consisting of \$1.964 billion in a senior secured term loan facility ("Term Loan Facility") which matures on July 6, 2014, and a senior secured asset-based revolving credit facility ("ABL Facility") of up to \$1.031 billion, subject to borrowing base availability, which matures on July 6, 2013.

The amount available under the ABL Facility (including up to \$350.0 million for letters of credit) may not exceed the borrowing base (consisting of specified percentages of eligible inventory and credit card receivables less any

applicable availability reserves). The ABL Facility includes a \$930.0 million tranche and a \$101.0 million (last out) tranche. Repayments of the ABL Facility will be applied to the \$101.0 million tranche only after all other tranches have been fully paid down.

Borrowings under the Credit Facilities bear interest at a rate equal to an applicable margin plus, at the Company's option, either (a) LIBOR or (b) a base rate (which is usually equal to the prime rate). The applicable margin for borrowings is (i) under the Term Loan, 2.75% for LIBOR borrowings and 1.75% for base-rate borrowings (ii) under the ABL Facility (except in the last out tranche described above) as of January 28, 2011 and January 29, 2010, 1.25% for

LIBOR borrowings and 0.25% for base-rate borrowings and for any last out borrowings, 2.25% for LIBOR borrowings and 1.25% for base-rate borrowings. The applicable margins for borrowings under the ABL Facility (except in the case of last out borrowings) are subject to adjustment each quarter based on average daily excess availability under the ABL Facility. The interest rate for borrowings under the Term Loan Facility was 3.0% (without giving effect to the interest rate swaps discussed in Note 8) as of both January 28, 2011 and January 29, 2010, respectively.

In addition to paying interest on outstanding principal under the Credit Facilities, the Company is required to pay a commitment fee to the lenders under the ABL Facility for any unutilized commitments. The commitment fee rate is 0.375% per annum. The commitment fee rate will be reduced (except with regard to the last out tranche) to 0.25% per annum at any time that the unutilized commitments under the ABL Facility are equal to or less than 50% of the aggregate commitments under the ABL Facility. The Company also must pay customary letter of credit fees.

The senior secured credit agreement for the Term Loan Facility requires the Company to prepay outstanding term loans, subject to certain exceptions, with percentages of excess cash flow, proceeds of non-ordinary course asset sales or dispositions of property, and proceeds of incurrences of certain debt. In addition, the senior secured credit agreement for the ABL Facility requires the Company to prepay the ABL Facility, subject to certain exceptions, with proceeds of non-ordinary course asset sales or dispositions of property and any borrowings in excess of the then current borrowing base. The Term Loan Facility can be prepaid in whole or in part at any time.

Beginning September 30, 2009, the Company was required to repay installments on the loans under the Term Loan Facility in equal quarterly principal amounts in an aggregate amount per annum equal to 1% of the total funded principal amount at July 6, 2007. During 2009, the Company paid two such quarterly installments totaling \$11.5 million. In addition, in January 2010 the Company voluntarily prepaid \$325 million of the principal balance of the Term Loan Facility, and as a result, no further quarterly principal installments will be required prior to maturity of the Term Loan Facility on July 6, 2014. The Company incurred a pretax loss of \$4.7 million in 2009 for the write off of debt issuance costs associated with this prepayment.

All obligations under the Credit Facilities are unconditionally guaranteed by substantially all of the Company's existing and future domestic subsidiaries (excluding certain immaterial subsidiaries and certain subsidiaries designated by the Company under the Credit Facilities as "unrestricted subsidiaries").

All obligations and guarantees of those obligations under the Term Loan Facility are secured by, subject to certain exceptions, a second-priority security interest in all existing and after-acquired inventory and accounts receivable; a first priority security interest in substantially all of the Company's and the guarantors' tangible and intangible assets (other than the inventory and accounts receivable collateral); and a first-priority pledge of the capital stock held by the Company. All obligations under the ABL Facility are secured by all existing and after-acquired inventory and accounts receivable, subject to certain exceptions.

The Credit Facilities contain certain covenants, including, among other things, covenants that limit the Company's ability to incur additional indebtedness, sell assets, incur additional liens, pay dividends, make investments or acquisitions, or repay certain indebtedness.

Under the ABL facility, for the years ended January 28, 2011 and January 29, 2010, the Company had no borrowings or repayments; for the year ended January 30, 2009, the Company had no borrowings and repayments of \$102.5 million. As of January 28, 2011 and January 29, 2010, respectively, amounts outstanding under the ABL Facility included \$52.7 million and \$85.1 million of standby letters of credit, and \$19.1 million and \$15.4 million of commercial letters of credit, while excess availability under the ABL Facility was \$959.3 million and \$930.6 million, respectively.

On July 6, 2007, in conjunction with the Merger, the Company issued \$1.175 billion aggregate principal amount of 10.625% senior notes due 2015 (the "Senior Notes") which were issued net of a discount of \$23.2 million and which mature on July 15, 2015 pursuant to an indenture, dated as of July 6, 2007 (the "senior indenture"), and \$725 million aggregate principal amount of 11.875%/12.625% senior subordinated toggle notes due 2017 (the "Senior Subordinated Notes"), which mature on July 15, 2017, pursuant to an indenture, dated as of July 6, 2007 (the "senior subordinated indenture"). The Senior Notes and the Senior Subordinated Notes are collectively referred to herein as the "Notes". The senior indenture and the senior subordinated indenture are collectively referred to herein as the "indentures".

Interest on the Notes is payable on January 15 and July 15 of each year. Interest on the Senior Notes and Senior Subordinated Notes is payable in cash. Cash interest on the Senior Subordinated Notes accrues at a rate of 11.875% per annum. For certain interest periods, the Company previously had the ability to elect to pay interest on the Senior Subordinated Notes by increasing the principal amount of the Senior Subordinated Notes or issuing new senior subordinated notes ("PIK interest"), instead of paying interest in cash. This election was never utilized by the Company and due to the expiration of the notification period for such option, all interest on the Notes has been paid in cash.

The Notes are fully and unconditionally guaranteed by each of the existing and future direct or indirect wholly owned domestic subsidiaries that guarantee the obligations under the Company's Credit Facilities.

The Company may redeem some or all of the Notes at any time at redemption prices described or set forth in the indentures. In addition, the holders of the Notes can require the Company to redeem the Notes at 101% of the aggregate principal amount outstanding in the event of certain change in control events.

In May 2010, the Company repurchased in the open market \$50.0 million aggregate principal amount of 10.625% senior notes due 2015 at a price of 111.0% plus accrued and unpaid interest. In September 2010, the Company repurchased in the open market \$65.0 million aggregate principal amount of 10.625% senior notes due 2015 at a price of 110.75% plus accrued and unpaid interest. The 2010 repurchases resulted in pretax losses totaling \$14.7 million. In connection with the Company's November 2009 initial public offering, as further discussed in Note 2, the Company repurchased \$195.7 million of the Senior Notes and \$205.2 million of the

Senior Subordinated Notes at redemption prices of 110.625% and 111.875%, respectively, plus accrued and unpaid interest, resulting in pretax losses totaling \$50.6 million. In January 2009, the Company repurchased \$44.1 million of the Senior Subordinated Notes, resulting in a pretax gain of \$3.8 million. Pretax gains and losses associated with the redemption of the Notes are reflected in Other (income) expense in the consolidated statements of operations.

The indentures contain certain covenants, including, among other things, covenants that limit the Company's ability to incur additional indebtedness, create liens, sell assets, enter into transactions with affiliates, or consolidate or dispose of all of its assets.

Scheduled debt maturities, including capital lease obligations, for the Company's fiscal years listed below are as follows (in thousands): 2011 - \$1,157; 2012 - \$707; 2013 - \$292; 2014 - \$1,963,815; 2015 - \$864,787; thereafter - \$468,630.

8.

Derivative financial instruments

The Company is exposed to certain risks arising from both its business operations and economic conditions. The Company principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. The Company manages economic risks, including interest rate, liquidity, and credit risk, primarily by managing the amount, sources, and duration of its debt funding and the use of derivative financial instruments. Specifically, the Company enters into derivative financial instruments to manage exposures that arise from business activities that result in the receipt or payment of future known and uncertain cash amounts, the value of which are determined primarily by interest rates. The Company's derivative financial instruments are used to manage differences in the amount, timing, and duration of the Company's known or expected cash receipts and its known or expected cash payments principally related to the Company's borrowings.

In addition, the Company is exposed to certain risks arising from uncertainties of future market values caused by the fluctuation in the prices of commodities. From time to time the Company has entered into derivative financial instruments to protect against future price changes related to transportation costs associated with forecasted distribution of inventory.

Cash flow hedges of interest rate risk

The Company's objectives in using interest rate derivatives are to add stability to interest expense and to manage its exposure to interest rate changes. To accomplish this objective, the Company primarily uses interest rate swaps as part of its interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable-rate amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount.

The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in Accumulated other comprehensive income (loss) (also referred to as OCI) and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. Subsequent to the Merger, these

transactions represent the only amounts reflected in Accumulated other comprehensive income (loss) in the

consolidated statements of shareholders' equity. During the year ended January 28, 2011, such derivatives were used to hedge the variable cash flows associated with existing variable-rate debt. The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings.

As of January 28, 2011, the Company had three interest rate swaps with a combined notional value of \$1.05 billion that were designated as cash flow hedges of interest rate risk. Amounts reported in Accumulated other comprehensive income (loss) related to derivatives will be reclassified to interest expense as interest payments are made on the Company's variable-rate debt. The Company terminated an interest rate swap in October 2008 due to the bankruptcy declaration of the counterparty bank. The Company continues to report the net gain or loss related to the discontinued cash flow hedge in OCI and such net gain or loss is being reclassified into earnings during the original contractual terms of the swap agreement as the hedged interest payments are expected to occur as forecasted. During the next 52-week period, the Company estimates that an additional \$27.2 million will be reclassified as an increase to interest expense for all of its interest rate swaps.

Non-designated hedges of commodity risk

Derivatives not designated as hedges are not speculative and are used to manage the Company's exposure to commodity price risk but do not meet strict hedge accounting requirements. In February 2009, the Company entered into a commodity hedge related to diesel fuel to limit its exposure to variability in diesel fuel prices and their effect on transportation costs. Changes in the fair value of derivatives not designated in hedging relationships are recorded directly in earnings. As of January 28, 2011, the Company had no outstanding commodity hedges. During 2009, the Company entered into one diesel fuel commodity swap hedging monthly usage of diesel fuel that was not designated as a hedge in a qualifying hedging relationship, which expired prior to January 29, 2010.

The table below presents the fair value of the Company's derivative financial instruments as well as their classification on the consolidated balance sheets as of January 28, 2011 and January 29, 2010 (in thousands):

Tabular Disclosure of Fair Values of Derivative Instruments

Asset Derivatives

Liability Derivatives

Balance
Sheet
Classification

Fair Value

Balance
Sheet
Classification

Fair Value

**Derivatives
designated
as hedging
instruments**

Interest rate
swaps:

As of January
28, 2011

Other
liabilities

\$

34,923

As of January
29, 2010

Other
liabilities

\$

57,058

The tables below present the pre-tax effect of the Company's derivative financial instruments on the consolidated statement of operations (including OCI) for the years ended January 28, 2011 and January 29, 2010:

**Tabular
Disclosure of
the Effect of
Derivative
Instruments
on the
Consolidated
Statement of
Operations
For the year
ended
January 28,
2011**

**Derivatives in
Cash Flow
Hedging
Relationships**

**Amount of
(Gain) or Loss
Recognized in
OCI on
Derivative
(Effective
Portion)**

**Location of
Gain or
Loss
Reclassified
from
Accumulated
OCI into
Income
(Effective
Portion)**

**Amount of
(Gain) or Loss
Reclassified
from
Accumulated
OCI into
Income
(Effective
Portion)**

**Location of
Gain or
Loss
Recognized in
Income on
Derivative
(Ineffective
Portion
and Amount
Excluded
from
Effectiveness
Testing)**

**Amount of
(Gain)
or Loss
Recognized
in Income on
Derivative
(Ineffective
Portion
and Amount
Excluded
from
Effectiveness
Testing)**

Interest rate
swaps

\$

19,717

Interest
expense

\$

42,994

Other (income)
expense

\$

526

**Tabular
Disclosure of
the Effect of
Derivative
Instruments
on the
Consolidated
Statement of
Operations
For the year
ended
January 29,
2010**

**Derivatives in
Cash Flow
Hedging
Relationships**

**Amount of
(Gain) or Loss
Recognized in
OCI on
Derivative
(Effective
Portion)**

**Location of
Gain or
Loss
Reclassified
from
Accumulated
OCI into
Income
(Effective
Portion)**

**Amount of
(Gain) or Loss
Reclassified
from
Accumulated
OCI into
Income
(Effective
Portion)**

**Location of
Gain or
Loss
Recognized in
Income on
Derivative
(Ineffective
Portion
and Amount
Excluded
from
Effectiveness
Testing)**

**Amount of
(Gain)
or Loss
Recognized
in Income on
Derivative
(Ineffective
Portion
and Amount
Excluded
from
Effectiveness**

Testing)

Interest rate
swaps

\$

42,324

Interest
expense

\$

50,140

Other (income)
expense

\$

618

**Derivatives
Not
Designated as
Hedging
Instruments**

**Location of
Gain or
Loss
Recognized in
Income on
Derivative**

**Amount of
(Gain) or Loss
Recognized in
Income on
Derivative**

Commodity
hedges

Other (income)
expense

\$

(341)

Credit-risk-related contingent features

The Company has agreements with all of its interest rate swap counterparties that contain a provision providing that the Company could be declared in default on its derivative obligations if repayment of the underlying indebtedness is accelerated by the lender due to the Company's default on such indebtedness.

As of January 28, 2011, the fair value of interest rate swaps in a net liability position, which includes accrued interest but excludes any adjustment for nonperformance risk related to these agreements, was \$44.0 million. If the Company had breached any of these provisions at January 28, 2011, it could have been required to post full collateral or settle its obligations under the agreements at an estimated termination value equal to the fair value of \$44.0 million. As of January 28, 2011, the Company had not breached any of these provisions or posted any collateral related to these agreements.

9.**Commitments and contingencies****Leases**

As of January 28, 2011, the Company was committed under operating lease agreements for most of its retail stores. Many of the Company's 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. The Company also has stores subject to shorter-term leases (usually with initial or current terms of three to five years), and many of these leases have multiple renewal options. Approximately 35% of the leased stores have provisions for contingent rentals based upon a specified percentage of defined sales volume. The Company leases three of its DCs. The land and buildings of two of the DCs are subject to operating lease agreements and the third DC is subject to a financing arrangement. The entities involved in the ownership structure underlying these leases meet the accounting definition of a Variable Interest Entity (VIE). The Company is not the primary beneficiary of these VIEs and, accordingly, has not included these entities in its consolidated financial statements. Certain leases contain restrictive covenants. As of January 28, 2011, the Company is not aware of any material violations of such covenants.

In January 1999, the Company sold its DC located in Ardmore, Oklahoma for 100% cash consideration. Concurrent with the sale transaction, the Company leased the property back for a period of 23 years. The transaction was recorded as a financing obligation rather than a sale as a result of, among other things, the lessor's ability to put the property back to the Company under certain circumstances. The property and equipment, along with the related lease obligation associated with this transaction are recorded in the consolidated balance sheets. In August 2007, the Company purchased a secured promissory note (the Ardmore Note) from an unrelated third party with a face value of \$34.3 million at the date of purchase which approximated the remaining financing obligation. The Ardmore Note represents debt issued by the third party entity from which the Company leases the Ardmore DC and therefore the Company holds the debt instrument pertaining to its lease financing obligation. Because a legal right of offset exists, the Company is accounting for the Ardmore Note as a reduction of its outstanding financing obligation in its consolidated balance sheets.

Future minimum payments as of January 28, 2011 for capital and operating leases are as follows:

*(In
thousands)*

Capital

Leases

Operating

Leases

2011

\$

1,535

\$

481,921

2012

1,040

444,804

2013

599

394,781

2014

602

338,781

2015

627

275,299

Thereafter

4,609

1,067,756

Total
minimum
payments

9,012

\$

3,003,342

Less:
imputed
interest

(2,649)

Present
value of net
minimum
lease
payments

6,363

Less:
current
portion, net

(1,157)

Long-term
portion

\$

5,206

Capital leases were discounted at an effective interest rate of approximately 6.3% at January 28, 2011. The gross amount of property and equipment recorded under capital leases and financing obligations at January 28, 2011 and at January 29, 2010, was \$31.0 million and \$34.8 million, respectively. Accumulated depreciation on property and equipment under capital leases and financing obligations at January 28, 2011 and January 29, 2010, was \$7.4 million and \$6.9 million, respectively.

Rent expense under all operating leases is as follows:

(In thousands)

2010

2009

2008

Minimum rentals
(a)

\$

471,402

\$

407,379

\$

370,827

Contingent
rentals

17,882

21,248

18,796

\$
489,284

\$
428,627

\$
389,623

(a)

Excludes
amortization of
leasehold
interests of \$25.7
million, \$37.2
million and \$40.9
million included
in rent expense
for the years
ended January 28,
2011, January 29,
2010 and January
30, 2009,
respectively.

Legal proceedings

On August 7, 2006, a lawsuit entitled *Cynthia Richter, et al. v. Dolgencorp, Inc., et al.* was filed in the United States District Court for the Northern District of Alabama (Case No. 7:06-cv-01537-LSC) (Richter) in which the plaintiff alleges that she and other current and former Dollar General store managers were improperly classified as exempt executive employees under the Fair Labor Standards Act (FLSA) and seeks to recover overtime pay, liquidated damages, and attorneys fees and costs. On August 15, 2006, the Richter plaintiff filed a motion in which she asked the court to certify a nationwide class of current and former store managers. The Company opposed the plaintiff s motion. On March 23, 2007, the court conditionally certified a nationwide class. On December 2, 2009, notice was mailed to over 28,000 current or former Dollar General store managers, and approximately 3,860 individuals

opted into the lawsuit. In September 2010, the court entered a scheduling order that governs, among other things, deadlines for fact discovery (September 30, 2011) and the Company's anticipated decertification motion (August 15, 2011). The court's scheduling order establishes a trial date of February 12, 2012.

On July 20, 2010, a lawsuit was filed in the judicial district in which the *Richter* matter is pending in which a former store manager made allegations substantially similar to those raised in *Richter* and sought to represent a nationwide class of current and former store managers (*Lisa Beard v. Dollar General Corporation, et al.*, Case No. 7:10-cv-01956-SLB). The plaintiff in *Beard* seeks to recover overtime pay, liquidated damages, and attorneys' fees and costs. On March 4, 2011, the *Beard* plaintiff moved to amend her complaint to strike all class allegations and notified the court of her withdrawal of the consent forms previously filed by approximately 95 opt-in plaintiffs. The plaintiff's motion to amend was granted on March 7, 2011, which had the effect of rendering the *Beard* action a single-plaintiff case. If the case remains a single-plaintiff case, it is extremely unlikely that the case could have a material impact on the Company's financial statements as a whole.

The Company believes that its store managers are and have been properly classified as exempt employees under the FLSA and that the *Richter* action is not appropriate for collective action treatment. The Company has obtained summary judgment in some, although not all, of its pending individual or single-plaintiff store manager exemption cases in which it has filed such a motion.

The Company intends to vigorously defend the *Richter* and *Beard* matters. However, at this time, it is not possible to predict whether *Richter* ultimately will be permitted to proceed collectively, and no assurances can be given that the Company will be successful in the defense of either action on the merits or otherwise. Similarly, at this time the Company cannot estimate either the size of any potential class or the value of the claims asserted in *Richter*. For these reasons, the Company is unable to estimate any potential loss or range of loss in that action; however, if the Company is not successful in its defense efforts, the resolution of the *Richter* action could have a material adverse effect on the Company's financial statements as a whole.

On May 18, 2006, the Company was served with a lawsuit entitled *Tammy Brickey, Becky Norman, Rose Rochow, Sandra Cogswell and Melinda Sappington v. Dolgencorp, Inc. and Dollar General Corporation* (Western District of New York, Case No. 6:06-cv-06084-DGL, originally filed on February 9, 2006 and amended on May 12, 2006 (*Brickey*)). The Brickey plaintiffs seek to proceed collectively under the FLSA and as a class under New York, Ohio, Maryland and North Carolina wage and hour statutes on behalf of, among others, assistant store managers who claim to be owed wages (including overtime wages) under those statutes. On February 22, 2011, the court denied the plaintiffs' class certification motion in its entirety and ordered that the matter proceed only as to the named plaintiffs. To date, the plaintiffs have not appealed that order. If the case proceeds only as to the named plaintiffs, the Company does not expect the outcome to be material to its financial statements as a whole.

On March 7, 2006, a complaint was filed in the United States District Court for the Northern District of Alabama (*Janet Calvert v. Dolgencorp, Inc.*, Case No. 2:06-cv-00465-VEH

(Calvert)), in which the plaintiff, a former store manager, alleged that she was paid less than male store managers because of her sex, in violation of the Equal Pay Act and Title VII of the Civil Rights Act of 1964, as amended (Title VII). The complaint subsequently was amended to include additional plaintiffs, who also allege to have been paid less than males because of their sex, and to add allegations that the Company's compensation practices disparately impact females. Under the amended complaint, Plaintiffs seek to proceed collectively under the Equal Pay Act and as a class under Title VII, and request back wages, injunctive and declaratory relief, liquidated damages, punitive damages and attorneys' fees and costs.

On July 9, 2007, the plaintiffs filed a motion in which they asked the court to approve the issuance of notice to a class of current and former female store managers under the Equal Pay Act. The Company opposed plaintiffs' motion. On November 30, 2007, the court conditionally certified a nationwide class of females under the Equal Pay Act who worked for Dollar General as store managers between November 30, 2004 and November 30, 2007. The notice was issued on January 11, 2008, and persons to whom the notice was sent were required to opt into the suit by March 11, 2008. Approximately 2,100 individuals have opted into the lawsuit.

On April 19, 2010, the plaintiffs moved for class certification relating to their Title VII claims. The Company filed its response to the certification motion in June 2010. Briefing has closed, and the parties are awaiting a ruling. The Company's motion to decertify the Equal Pay Act class was denied as premature. The Company expects to file a similar motion in due course.

The parties have agreed to mediate this action, and the mediation is scheduled to begin on March 24, 2011. The court has stayed the action during the period in which the parties attempt to resolve the matter.

The Company has tendered the matter to its Employment Practices Liability Insurance (EPLI) carrier for coverage under its EPLI policy. At this time, the Company expects that the EPLI carrier will participate in any resolution of some or all of the plaintiffs' claims.

At this time, it is not possible to predict whether the court ultimately will permit the Calvert action to proceed collectively under the Equal Pay Act or as a class under Title VII. Although the Company intends to vigorously defend the action, no assurances can be given that it will be successful in the defense on the merits or otherwise. Similarly, at this time the Company cannot estimate either the size of any potential class or the value of the claims raised in this action. For these reasons, the Company is unable to estimate any potential loss or range of loss; however, if the Company is not successful in defending this action, its resolution could have a material adverse effect on the Company's financial statements as a whole.

On June 16, 2010, a lawsuit entitled *Shaleka Gross, et al v. Dollar General Corporation* was filed in the United States District Court for the Southern District of Mississippi (Civil Action No. 3:10CV340WHB-LR) in which three former non-exempt store employees, on behalf of themselves and certain other non-exempt Dollar General store employees, alleged that they were not paid for all hours worked in violation of the FLSA. Specifically, plaintiffs alleged that they

were not properly paid for certain breaks and sought back wages (including overtime wages), liquidated damages and attorneys' fees and costs.

Before the Company was served with the *Gross* complaint, the plaintiffs dismissed the action and re-filed it in the United States District Court for the Northern District of Mississippi, now captioned as *Cynthia Walker, et al. v. Dollar General Corporation, et al.* (Civil Action No. 4:10-CV119-P-S). The *Walker* complaint was filed on September 16, 2010, and although it adds approximately eight additional plaintiffs, it adds no substantive allegations beyond those alleged in the *Gross* complaint. The Company filed a motion to transfer the case back to the Southern District of Mississippi and a motion to dismiss for lack of personal jurisdiction over two corporate defendants and for failure to state a claim as to Dollar General Corporation, all of which are pending. The court stayed the matter pending resolution of the motion to dismiss. To date, no other individuals have opted into the *Walker* matter, and the plaintiffs have not asked the court to certify any class.

On August 26, 2010, a lawsuit containing allegations substantially similar to those raised in the *Walker* matter was filed by a single plaintiff in the United States District Court for the Eastern District of Kentucky (*Brenda McCown v. Dollar General Corporation*, Case No. 210-297 (WOB)). On December 22, 2010, the court entered an order establishing certain deadlines, including the deadline for discovery related to certification issues (June 1, 2011) and for plaintiff's certification motion, if any (June 30, 2011). No trial date has been set. To date, approximately three other individuals have opted into the *McCown* matter. The plaintiff has not asked the court to certify any class.

At this time, it is not possible to predict whether the courts will permit the *Walker* or *McCown* actions to proceed collectively. However, the Company believes that those actions are not appropriate for collective treatment and that its wage and hour policies and practices comply with both federal and state law. Although the Company plans to vigorously defend *Walker* and *McCown*, no assurances can be given that the Company will be successful in the defense on the merits or otherwise. Similarly, at this time the Company cannot estimate either the size of any potential class or the value of the claims raised in these actions. For these reasons, the Company is unable to estimate any potential loss or range of loss; however if the Company is not successful in its defense efforts, the resolution of either or both of these actions could have a material adverse effect on the Company's financial statements as a whole.

In October 2008, the Company terminated an interest rate swap as a result of the counterparty's declaration of bankruptcy. This declaration of bankruptcy constituted a default under the contract governing the swap, giving the Company the right to terminate. The Company subsequently settled the swap in November 2008 for approximately \$7.6 million, including interest accrued to the date of termination. On May 14, 2010, the Company received a demand from the counterparty for an additional payment of approximately \$19 million plus interest, claiming that the valuation used to calculate the \$7.6 million was commercially unreasonable, and seeking to invoke the alternative dispute resolution procedures established by the bankruptcy court. The Company is participating in the alternative dispute resolution procedures because it believes a reasonable settlement would be in the best interest of the Company to avoid the substantial risk and costs of litigation, but does not believe that additional payment is owed. The Company believes the methodology it used to calculate the settlement amount was commercially reasonable and appropriate; however, no assurances can be given that the Company will be successful in its defense on the merits or otherwise. If the Company is successful in its defense,

no loss will occur. If the Company is not successful or it deems it advisable to resolve the matter prior to trial through the continuing mediation, the resolution of this action could result in a loss up to the claimed \$19 million plus interest.

From time to time, the Company is a party to various other legal actions involving claims incidental to the conduct of its business, including actions by employees, consumers, suppliers, government agencies, or others through private actions, class actions, administrative proceedings, regulatory actions or other litigation, including without limitation under federal and state employment laws and wage and hour laws. The Company believes, based upon information currently available, that such other litigation and claims, both individually and in the aggregate, will be resolved without a material adverse effect on the Company's financial statements as a whole. However, litigation involves an element of uncertainty. Future developments could cause these actions or claims to have a material adverse effect on the Company's results of operations, cash flows, or financial position. In addition, certain of these lawsuits, if decided adversely to the Company or settled by the Company, may result in liability material to the Company's financial position or may negatively affect operating results if changes to the Company's business operation are required.

10.

Benefit plans

The Dollar General Corporation 401(k) Savings and Retirement Plan, which became effective on January 1, 1998, is a safe harbor defined contribution plan and is subject to the Employee Retirement and Income Security Act ("ERISA").

Participants are permitted to contribute between 1% and 25% of their pre-tax annual eligible compensation as defined in the 401(k) plan document, subject to certain limitations under the Internal Revenue Code. Employees who are over age 50 are permitted to contribute additional amounts on a pre-tax basis under the catch-up provision of the 401(k) plan subject to Internal Revenue Code limitations. The Company currently matches employee contributions, including catch-up contributions, at a rate of 100% of employee contributions up to 5% of annual eligible salary, after an employee has been employed for over one year and has completed a minimum of 1,000 hours of service.

A participant's right to claim a distribution of his or her account balance is dependent on the plan, ERISA guidelines and Internal Revenue Service regulations. All active participants are fully vested in all contributions to the 401(k) plan. During 2010, 2009 and 2008, the Company expensed approximately \$9.5 million, \$8.4 million and \$8.0 million, respectively, for matching contributions.

The Company also has a nonqualified supplemental retirement plan ("SERP") and compensation deferral plan ("CDP"), known as the Dollar General Corporation CDP/SERP Plan, for a select group of management and highly compensated employees. The SERP is a noncontributory defined contribution plan with annual Company contributions ranging from 2% to 10% of base pay plus bonus depending upon age, years of service and job grade. Under the CDP, participants may defer up to 65% of base pay and up to 100% of bonus pay. An employee may be designated for participation in one or both of the plans, according to the eligibility

requirements of the plans. The Company matches base pay deferrals at a rate of 100% of base pay deferral, up to 5% of annual salary, with annual salary offset by the amount of match-eligible salary in the 401(k) plan. All participants are 100% vested in their CDP accounts. The Company incurred compensation expense for these plans of approximately \$1.7 million, \$1.9 million and \$1.2 million in 2010, 2009 and 2008, respectively.

The CDP/SERP Plan assets are invested in accounts selected by the Company's Compensation Committee or its delegate. Effective August 2, 2008, the deemed fund options under the CDP/SERP Plan were changed to mirror the same fund options offered under the 401(k) plan which include a combination of registered mutual funds and a collective trust fund.

Vested amounts are payable at the time designated by the plan upon the participant's termination of employment, disability, death or retirement, except that participants may elect to receive an in-service distribution or an unforeseeable emergency hardship distribution of vested amounts credited to the CDP account. Account balances are payable in cash.

Asset balances in the fund options that mirror the registered mutual funds are stated at fair value, which is based on quoted market prices. Asset balances in the collective trust fund are stated at contract value of the underlying fund assets. These investments are classified as trading securities in the consolidated balance sheets as further discussed in Note 1. The deferred compensation liability related to the fund options is recorded at the fair value of the investment options for the registered mutual funds and at contract value for the collective trust fund. See Note 1 for additional discussion.

11.

Share-based payments

The Company accounts for share-based payments in accordance with applicable accounting standards. Under these standards, the fair value of each award is separately estimated and amortized into compensation expense over the service period. The fair value of the Company's stock option grants are estimated on the grant date using the Black-Scholes-Merton valuation model. Forfeitures are estimated at the time of valuation and reduce expense ratably over the vesting period. The application of this valuation model involves assumptions that are judgmental and highly sensitive in the determination of compensation expense.

Prior to the Merger, the Company maintained various share-based compensation programs which included options, restricted stock and restricted stock units. In connection with the Merger, the Company's outstanding stock options, restricted stock and restricted stock units became fully vested immediately prior to the closing of the Merger and were settled in cash, canceled or, in limited circumstances, certain stock options held by Company management were exchanged for new options to purchase common stock in the Company (the Rollover Options). The exercise price of the Rollover Options and the number of shares of Company common stock underlying the Rollover Options were adjusted as a result of the Merger. The Rollover Options otherwise continue under the terms of the equity plan under which the original options were issued.

On July 6, 2007, the Company's Board of Directors adopted the 2007 Stock Incentive Plan for Key Employees, which plan was subsequently amended (as so amended, the Plan).

The Plan provides for the granting of stock options, stock appreciation rights, and other stock-based awards or dividend equivalent rights to key employees, directors, consultants or other persons having a service relationship with the Company, its subsidiaries and certain of its affiliates. The number of shares of Company common stock authorized for grant under the Plan is 31,142,858. No more than 4.5 million shares may be granted to any one Plan participant in the form of stock options and stock appreciation rights in any given fiscal year of the Company, and no more than 1.5 million shares may be granted to any one Plan participant in the form of other stock-based awards in any given fiscal year of the Company. As of January 28, 2011, 17,837,497 of such shares are available for future grants.

Since the Merger, the Company has granted options under the Plan that vest solely upon the continued employment of the recipient (Time Options) as well as options that vest upon the achievement of predetermined annual or cumulative financial-based targets (Performance Options). Through November 2009, 20% of each of the Time Options and Performance Options generally vest annually over a five-year period. Beginning in December 2009, the Company began granting awards whereby 25% of each of the Time Options and Performance Options generally vest annually over a four-year period. Assuming the financial targets are met, the Performance Options vest as of the Company's fiscal year end, and as a result the initial and final tranche of each Performance Option grant is prorated based upon the date of grant. In the event the performance target is not achieved in any given annual performance period, the Performance Options for that period may still subsequently vest, provided that a cumulative performance target is achieved. Vesting of the Time Options and Performance Options is also subject to acceleration in the event of an earlier change in control or certain public offerings of the Company's common stock. Each of these options, whether Time Options or Performance Options have a contractual term of 10 years and an exercise price equal to the fair value of the underlying common stock on the date of grant.

Both the Time Options and the Performance Options are subject to various provisions set forth in a management stockholder's agreement entered into with each option holder by which the Company may require the employee, upon termination, to sell to the Company any vested options or shares received upon exercise of the Time Options or Performance Options at amounts that differ based upon the reason for the termination. In particular, in the event that the employee resigns without good reason (as defined in the management stockholder's agreement), then any options whether or not then exercisable are forfeited and any shares received upon prior exercise of such options are callable at the Company's option at an amount equal to the lesser of fair value or the amount paid for the shares (i.e., the exercise price). In such cases, because the employee would not benefit in any share appreciation over the exercise price, for accounting purposes such options are not considered vested until the expiration of the Company's call option, which is generally five years subsequent to the date of grant. Accordingly, all references to the vesting provisions or vested status of the options discussed in this note give effect to the vesting pursuant to these accounting provisions and may differ from descriptions of the vesting status of the Time Options and Performance Options located elsewhere in this report or the Company's other SEC filings. The Company records expense for Time Options on a straight-line basis over the term of the management stockholder's agreement (generally five years).

Each of the Company's management-owned shares, Rollover Options, and vested new options include certain provisions by which the holder of such shares, Rollover Options, or

vested new options may require the Company to repurchase such instruments in limited circumstances. Specifically, each such instrument is subject to a put right for a period of 365 days after termination due to the death or disability of the holder of the instrument that occurs generally within five years from the date of grant. In such circumstances, the holder of such instruments may require the Company to repurchase any shares at the fair market value of such shares and any Rollover Options or vested new options at a price equal to the intrinsic value of such Rollover or vested new options. Because the Company does not have control over the circumstances in which it may be required to repurchase the outstanding shares or Rollover Options, such shares and Rollover Options, valued at \$8.8 million and \$0.4 million, respectively, at January 28, 2011, and \$14.4 million and \$4.1 million, respectively, at January 29, 2010, have been classified as Redeemable common stock in the accompanying consolidated balance sheets as of these dates. The values of these equity instruments are based upon the fair value and intrinsic value, respectively, of the underlying stock and Rollover Options at the date of issuance. Because redemption of such shares is uncertain, such shares are not subject to re-measurement until their redemption becomes probable.

Subsequent to the Merger, the Company's Board of Directors adopted an Equity Appreciation Rights Plan, which plan was later amended and restated (as amended and restated, the Rights Plan). The Rights Plan provides for the granting of equity appreciation rights to nonexecutive managerial employees. In 2009, the Rights Plan was modified such that certain equity appreciation rights vested as a result of the Company's initial public offering discussed in Note 2 that otherwise would not have vested. At January 29, 2010, 697,762 equity appreciation rights were outstanding. During 2010, 783,322 equity appreciation rights were granted, 1,406,237 of such rights, affecting 1,028 employees, vested in conjunction with the Company stock offerings, 21,557 of such rights vested as a result of other provisions of the Rights Plan, 53,290 of such rights were cancelled and no such rights remain outstanding at January 28, 2011.

For the year ended January 28, 2011, the fair value method of accounting for share-based awards resulted in share-based compensation expense (a component of SG&A expenses) and a corresponding reduction in net income before income taxes in the amount of \$30.2 million (\$18.4 million net of tax) of which \$12.7 million (\$7.8 million net of tax) was related to stock options, \$17.4 million (\$10.6 million net of tax) was related to equity appreciation rights and less than \$0.1 million was related to restricted stock units as discussed in more detail below.

For the year ended January 29, 2010, the fair value method of accounting for share-based awards resulted in share-based compensation expense (a component of SG&A expenses) and a corresponding reduction in net income before income taxes in the amount of \$22.2 million (\$13.6 million net of tax) of which \$11.7 million (\$7.1 million net of tax) was related to stock options, \$7.2 million (\$4.4 million net of tax) was related to equity appreciation rights and \$3.3 million (\$2.0 million net of tax) was related to restricted stock as discussed in more detail below. Of these amounts, \$6.9 million of the expense for equity appreciation rights and \$2.5 million of the expense for restricted stock was attributable to the vesting of certain awards in conjunction with the Company's initial public offering.

For the year ended January 30, 2009, the Company recorded share-based compensation expense and a corresponding reduction in net income before income taxes in the amount of \$10.0

Edgar Filing: DOLLAR GENERAL CORP - Form 10-K

million (\$6.1 million net of tax) of which \$8.9 million (\$5.4 million net of tax) was related to stock options and \$1.1 million (\$0.7 million net of tax) was related to restricted stock.

The fair value of each option grant is separately estimated by applying the Black-Scholes-Merton option pricing valuation model. The weighted average for key assumptions used in determining the fair value of options granted in the years ended January 28, 2011, January 29, 2010 and January 30, 2009, and a summary of the methodology applied to develop each assumption, are as follows:

January
28, 2011

January
29, 2010

January
30, 2009

Expected
dividend
yield

0

%

0

%

0

%

Expected
s t o c k
p r i c e
volatility

39.1

%

41.2

%

40.2

%

Weighted
average
risk-free
interest
rate

2.8

%

2.8

%

2.8

%

Expected
term of
options
(years)

7.0

7.4

7.4

Expected dividend yield - This is an estimate of the expected dividend yield on the Company's stock. The Company is subject to limitations on the payment of dividends under its Credit Facilities as further discussed in Note 7. An increase in the dividend yield will decrease compensation expense.

Expected stock price volatility - This is a measure of the amount by which the price of the Company's common stock has fluctuated or is expected to fluctuate. Subsequent to the Merger the expected volatilities have been based upon the historical volatilities of a peer group of four companies, as the Company's common stock has only been publicly traded for a limited period of time relative to the expected term of the options. An increase in the expected volatility will increase compensation expense.

Weighted average risk-free interest rate - This is the U.S. Treasury rate for the week of the grant having a term approximating the expected life of the option. An increase in the risk-free interest rate will increase compensation expense.

Expected term of options - This is the period of time over which the options granted are expected to remain outstanding. Options granted have a maximum term of 10 years. Due to the relatively limited historical data for grants issued subsequent to the Merger, the Company has estimated the expected term as the mid-point between the vesting date and the contractual term of the option. An increase in the expected term will increase compensation expense.

At January 28, 2011, 53,434 Rollover Options were outstanding, all of which were exercisable. The aggregate intrinsic value of these outstanding Rollover Options was \$1.4 million with a weighted average remaining contractual term of 4.3 years, and a weighted average exercise price of \$2.1875.

A summary of Time Options activity during the period ended January 28, 2011 is as follows:

*(Intrinsic
value
amounts
reflected in
thousands)*

Options
Issued

Average
Exercise
Price

Remaining
Contractual
Term in
Years

Intrinsic
Value

Balance,
January 29,
2010

6,123,052

\$

8.68

Granted

348,784

27.39

Exercised

(342,293)

8.15

Canceled

(351,412)

10.53

Balance,
January 28,
2011

5,778,131

\$

9.73

7.3

\$

108,104

Vested or
expected to
vest at
January 28,
2011

5,491,477

\$

9.55

7.2

\$

103,695

Exercisable
at January
28, 2011

2,773,235

\$

8.31

7.0

\$

55,706

The weighted average grant date fair value of Time Options granted during 2010, 2009 and 2008 was \$12.61, \$6.73 and \$4.17, respectively.

A summary of Performance Options activity during the period ended January 28, 2011 is as follows:

*(Intrinsic
value
amounts
reflected in
thousands)*

Options
Issued

Average
Exercise
Price

Remaining
Contractual
Term in
Years

Intrinsic
Value

Balance,
January 29,
2010

6,251,623

\$

8.67

Granted

348,784

27.39

Exercised

(777,249)

8.13

Canceled

(326,134)

10.58

Balance,
January 28,
2011

5,497,024

\$

9.82

7.3

\$

102,369

Vested or
expected to
vest at
January 28,
2011

5,198,923

\$

9.62

7.3

\$

97,838

Exercisable
at January
28, 2011

3,426,809

\$

8.68

7.0

\$

67,597

The weighted average grant date fair value of Performance Options granted was \$12.61, \$6.73 and \$4.17 during 2010, 2009 and 2008, respectively.

In April 2010, the Company granted 100,000 options to its Chief Executive Officer with an exercise price of \$29.38 and a vesting period of one year from the date of grant.

The total intrinsic value of all stock options repurchased by the Company under terms of the management stockholders' agreements during 2010, 2009 and 2008 was \$0.1 million, \$0.8 million and \$2.5 million, respectively.

At January 28, 2011, the total unrecognized compensation cost related to non-vested stock options was \$30.8 million with an expected weighted average expense recognition period of 2.8 years.

The Company currently believes that the performance targets related to the unvested Performance Options will be achieved. If such goals are not met, and there is no change in control or certain public offerings of the Company's common stock which would result in the

acceleration of vesting of the Performance Options, future compensation cost relating to unvested Performance Options will not be recognized.

Through January 28, 2011, all Time Options and Performance Options have been granted to employees. During the fourth quarter of 2009, the Company granted 33,051 non-qualified stock options to members of its Board of Directors. These options vest ratably on an annual basis over a four year period from the date of grant.

In January 2008, the Company granted 508,572 nonvested restricted shares to its Chief Executive Officer. As a result of the Company's initial public offering these shares vested, at a total fair value equal to \$11.5 million. Subsequent to the offering, the Company granted a total of 9,084 restricted stock unit awards to members of its Board of Directors. For 2010, 2009 and 2008, the share-based compensation expense related to nonvested shares before income taxes was less than \$0.1 million, \$3.3 million (\$2.0 million net of tax) and \$1.1 million (\$0.7 million net of tax), respectively. At January 28, 2011, the total compensation cost related to nonvested restricted stock awards not yet recognized was approximately \$0.1 million.

All nonvested restricted stock and restricted stock unit awards granted in the periods presented had a purchase price of zero. The Company records compensation expense on a straight-line basis over the restriction period based on the market price of the underlying stock on the date of grant. The nonvested restricted stock unit awards granted under the plan to non-employee directors during 2009 vested or are scheduled to vest in one-third increments at each of the Company's three subsequent annual shareholder meetings.

12.

Related party transactions

Affiliates of certain of the Investors participated as (i) lenders in the Company's Credit Facilities discussed in Note 7; (ii) initial purchasers of the Company's Notes discussed in Note 7; (iii) counterparties to certain interest rate swaps discussed in Note 8 and (iv) as advisors in the Merger.

The Company believes affiliates of KKR and Goldman, Sachs & Co. (among other entities) are lenders under the Term Loan Facility. The amount of principal outstanding under the Term Loan Facility from the date of the Merger to September 30, 2009, was \$2.3 billion. The Company paid principal of \$336.5 million during the remainder of 2009 and approximately \$53.4 million, \$74.8 million and \$133.4 million of interest on the Term Loan Facility during 2010, 2009 and 2008, respectively.

Goldman, Sachs & Co. is a counterparty to an amortizing interest rate swap with a notional amount of \$323.3 million and \$396.7 million as of January 28, 2011 and January 29, 2010, respectively, entered into in connection with the Term Loan Facility. The Company paid Goldman, Sachs & Co. approximately \$12.9 million, \$17.9 million and \$9.5 million in 2010, 2009 and 2008, respectively, pursuant to the interest rate swap as further discussed in Note 8.

The Company entered into a sponsor advisory agreement, dated July 6, 2007, with KKR and Goldman, Sachs & Co. pursuant to which those entities provided management and advisory services to the Company. Under the terms of the sponsor advisory agreement, among other things, the Company was obliged to pay to those entities an aggregate, initial management fee of

\$5.0 million annually. Upon the completion of the Company's initial public offering discussed in Note 2, pursuant to the advisory agreement, the Company paid a fee of \$63.6 million from cash generated from operations to KKR and Goldman, Sachs & Co., which amount included a transaction fee equal to 1%, or \$4.8 million, of the gross primary proceeds from the offering accounted for as a cost of raising equity and a corresponding reduction to Additional paid-in capital; and approximately \$58.8 million in connection with its termination, which is included in SG&A expenses for 2009. Including the transaction and termination fees discussed above, the total management fees and other expenses incurred for the years ended January 28, 2011, January 29, 2010 and January 30, 2009 totaled \$0.2 million, \$68.0 million and \$6.6 million, respectively. In addition, on July 6, 2007, the Company entered into a separate indemnification agreement with the parties to the sponsor advisory agreement, pursuant to which the Company agreed to provide customary indemnification to such parties and their affiliates.

From time to time, the Company uses Capstone Consulting, LLC, a team of executives who work exclusively with KKR portfolio companies providing certain consulting services. The Chief Executive Officer of Capstone served on the Company's Board of Directors until March 2009. Although neither KKR nor any entity affiliated with KKR owns any of the equity of Capstone, prior to January 1, 2007 KKR had provided financing to Capstone. The aggregate fees incurred for Capstone services for the periods ended January 28, 2011, January 29, 2010 and January 30, 2009 totaled zero, \$0.2 million and \$3.0 million, respectively.

The Company entered into an underwriting agreement with KKR Capital Markets (an affiliate of KKR), Goldman, Sachs & Co., Citigroup Global Markets Inc., and several other entities to serve as underwriters in connection with its initial public offering. The Company provided underwriting discounts of approximately \$27.4 million pursuant to the underwriting agreement, approximately \$6.0 million of which was provided to each of (a) KKR Capital Markets; (b) Goldman, Sachs & Co.; and (c) Citigroup Global Markets Inc. The Company paid approximately \$3.3 million in expenses related to the initial public offering (excluding underwriting discounts and commissions), including the offering-related expenses of the selling shareholder which the Company was required to pay under the terms of an existing registration rights agreement.

Affiliates of KKR and of Goldman, Sachs & Co. served as underwriters in connection with the secondary offerings of the Company's common stock held by certain existing shareholders that were completed in April 2010 and December 2010. The Company did not sell shares of common stock, receive proceeds from the secondary sales, or pay any underwriting fees in connection with either secondary offering. Certain members of our management, including certain of our executive officers, exercised registration rights in connection with such offerings.

13.

Segment reporting

The Company manages its business on the basis of one reportable segment. See Note 1 for a brief description of the Company's business. As of January 28, 2011, all of the Company's operations were located within the United States with the exception of a Hong Kong subsidiary, and a liaison office in India, the collective assets and revenues of which are not material. The following net sales data is presented in accordance with accounting standards related to disclosures about segments of an enterprise.

*(In
thousands)*

2010

2009

2008

Classes of
similar
products:

Consumables

\$

9,332,119

\$

8,356,381

\$

7,248,418

Seasonal

1,887,917

1,711,471

1,521,450

Home
products

917,638

869,772

862,226

Apparel

897,326

858,756

825,574

Net sales

\$

13,035,000

\$

11,796,380

\$

10,457,668

14.

Quarterly financial data (unaudited)

The following is selected unaudited quarterly financial data for the fiscal years ended January 28, 2011 and January 29, 2010. Each quarterly period listed below was a 13-week accounting period. The sum of the four quarters for any given year may not equal annual totals due to rounding.

*(In
thousands)*

First
Quarter

Second
Quarter

Third
Quarter

Fourth
Quarter

2010:

Net sales

\$

3,111,314

\$

3,214,155

\$

3,223,427

\$

3,486,104

Gross
profit

999,756

1,035,979

1,010,668

1,130,153

Operating
profit

290,723

300,757

274,334

408,251

Net income

135,996

141,195

128,120

376

222,546

Basic
earnings
per share

0.40

0.41

0.38

0.65

Diluted
earnings
per share

0.39

0.41

377

0.37

0.64

*(In
thousands)*

First
Quarter

Second
Quarter

Third
Quarter

Fourth
Quarter

2009:

Net sales

\$

2,779,937

\$

2,901,907

\$

2,928,751

\$

3,185,785

Gross
profit

855,358

906,042

903,082

1,025,389

Operating
profit

224,869

233,217

216,239

278,933

Net income

380

83,006

93,590

75,649

87,197

Basic
earnings
per share

0.26

0.29

0.24

0.26

381

Diluted
earnings
per share

0.26

0.29

0.24

0.26

As discussed in Note 11, in the first quarter of 2010 the Company incurred share-based compensation expenses of \$13.3 million (\$8.1 million net of tax, or \$0.02 per diluted share) for the accelerated vesting of certain share-based awards in conjunction with a secondary offering of the Company's common stock which is included in SG&A expenses.

As discussed in Note 7, in the second quarter of 2010, the Company repurchased \$50.0 million principal amount of its outstanding Senior Notes, resulting in a pretax loss of \$6.5 million (\$4.0 million net of tax, or \$0.01 per diluted share) which is recognized as Other (income) expense.

As discussed in Note 7, in the third quarter of 2010, the Company repurchased \$65.0 million principal amount of its outstanding Senior Notes, resulting in a pretax loss of \$8.2 million (\$5.0 million net of tax, or \$0.01 per diluted share) which is recognized as Other (income) expense.

As discussed in Note 11, in the fourth quarter of 2010 the Company incurred share-based compensation expenses of \$3.8 million (\$2.3 million net of tax, or \$0.01 per diluted share) for the accelerated vesting of certain share-based awards in conjunction with a secondary offering of the Company's common stock which is included in SG&A expenses.

As discussed in Note 12, in the fourth quarter of 2009, the Company terminated an advisory agreement with KKR and Goldman, Sachs & Co. pursuant to which those entities provided management and advisory services to the Company, which resulted in a pretax charge of approximately \$58.8 million (\$46.2 million net of tax, or \$0.14 per diluted share), which is included in SG&A expenses.

As discussed in Note 7, in the fourth quarter of 2009, the Company repurchased \$195.7 million principal amount of its outstanding Senior Notes, \$205.2 million principal amount of its outstanding Senior Subordinated Notes, and repaid \$325.0 million principal amount on the Term Loan Facility, resulting in a pretax loss of \$55.3 million (\$33.8 million net of tax, or \$0.10 per diluted share) which is recognized as Other (income) expense.

As discussed in Note 11, in the fourth quarter of 2009 the Company incurred share-based compensation expenses of \$9.4 million (\$5.8 million net of tax, or \$0.02 per diluted share) for the accelerated vesting of certain share-based awards in conjunction with the Company's initial public offering, which is included in SG&A expenses.

15.

Guarantor subsidiaries

Certain of the Company's subsidiaries (the Guarantors) have fully and unconditionally guaranteed on a joint and several basis the Company's obligations under certain outstanding debt obligations. Each of the Guarantors is a direct or indirect wholly-owned subsidiary of the Company. The following consolidating schedules present condensed financial information on a combined basis, in thousands.

January 28, 2011

**DOLLAR
GENERAL
CORPORATION**

**GUARANTOR
SUBSIDIARIES**

**OTHER
SUBSIDIARIES**

ELIMINATIONS

CONSOLIDATED

TOTAL

**BALANCE
SHEET:**

ASSETS

Current assets:

Cash and cash
equivalents

\$

111,545

\$

364,404

\$

21,497

\$

-

\$

497,446

386

Merchandise
inventories

-

1,765,433

-

-

1,765,433

Income taxes
receivable

13,529

-

-

(13,529

)

-

Deferred income
taxes receivable

8,877

-

6,825

(15,702

)

-

Prepaid expenses
and other current

388

assets

741,352

3,698,117

4,454

(4,338,977

)

104,946

Total current assets

875,303

5,827,954

32,776

389

(4,368,208

)

2,367,825

Net property and
equipment

105,155

1,419,133

287

-

1,524,575

Goodwill

4,338,589

390

-

-

-

4,338,589

Intangible assets,
net

1,199,200

57,722

-

-

1,256,922

Deferred income
taxes receivable

-

-

47,690

(47,690

)

-

Other assets, net

5,337,522

12,675

304,285

(5,596,171

)

58,311

Total assets

\$

11,855,769

\$

7,317,484

\$

385,038

\$

(10,012,069

)

\$

9,546,222

LIABILITIES AND
SHAREHOLDERS
EQUITY

Current liabilities:

Current portion of
long-term
obligations

\$

-

\$

1,157

\$

-

\$

396

-

\$

1,157

Accounts payable

3,691,564

1,541,593

50,824

(4,330,340

)

953,641

Accrued expenses
and other

68,398

397

226,225

61,755

(8,637

)

347,741

Income taxes
payable

11,922

13,246

14,341

(13,529

)

398

25,980

Deferred income
taxes payable

-

52,556

-

(15,702

)

36,854

Total current
liabilities

3,771,884

1,834,777

399

126,920

(4,368,208

)

1,365,373

Long-term
obligations

3,534,447

3,000,877

-

(3,248,254

)

3,287,070

400

Deferred income
taxes payable

417,874

228,381

-

(47,690

)

598,565

Other liabilities

67,932

27,250

401

136,400

-

231,582

Redeemable
common stock

9,153

-

-

-

9,153

Shareholders
equity:

Preferred stock

-

-

-

-

-

Common stock

298,819

23,855

100

(23,955

)

405

298,819

Additional paid-in
capital

2,945,024

431,253

19,900

(451,153

)

2,945,024

Retained earnings

830,932

1,771,091

101,718

(1,872,809

)

830,932

Accumulated other
comprehensive loss

(20,296

)

-

-

-

(20,296

)

407

Total shareholders
equity

4,054,479

2,226,199

121,718

(2,347,917

)

4,054,479

Total liabilities and
shareholders' equity

\$

11,855,769

\$

7,317,484

\$

385,038

\$

(10,012,069

)

\$

9,546,222

January 29, 2010

**DOLLAR
GENERAL
CORPORATION**

**GUARANTOR
SUBSIDIARIES**

**OTHER
SUBSIDIARIES**

ELIMINATIONS

CONSOLIDATED

TOTAL

**BALANCE
SHEET:**

ASSETS

Current assets:

Cash and cash
equivalents

\$

97,620

\$

103,001

\$

21,455

\$

-

\$

222,076

413

Merchandise
inventories

-

1,519,578

-

-

1,519,578

Income taxes
receivable

9,924

1,645

414

-

(4,026

)

7,543

Deferred income
taxes receivable

16,066

-

3,559

(19,625

)

-

Prepaid expenses
and other current

415

assets

625,157

3,040,792

704

(3,570,401

)

96,252

Total current assets

748,767

4,665,016

25,718

416

(3,594,052

)

1,845,449

Net property and
equipment

99,452

1,228,829

105

-

1,328,386

Goodwill

4,338,589

417

-

-

-

4,338,589

Intangible assets,
net

1,201,223

83,060

-

-

418

1,284,283

Deferred income
taxes receivable

-

-

36,405

(36,405

)

-

Other assets, net

4,288,270

8,920

297,757

(4,528,135

)

66,812

Total assets

\$

10,676,301

\$

5,985,825

\$

359,985

\$

(8,158,592

)

\$

8,863,519

LIABILITIES AND
SHAREHOLDERS
EQUITY

Current liabilities:

Current portion of
long-term
obligations

\$

1,822

\$

1,849

\$

-

\$

423

-

\$

3,671

Accounts payable

3,033,723

1,311,063

46,818

(3,560,651

)

830,953

Accrued expenses
and other

72,320

424

226,571

53,149

(9,750

)

342,290

Income taxes
payable

4,086

-

4,465

(4,026

)

425

4,525

Deferred income
taxes payable

-

44,686

-

(19,625

)

25,061

Total current
liabilities

3,111,951

1,584,169

426

104,432

(3,594,052

)

1,206,500

Long-term
obligations

3,645,820

2,689,492

13,178

(2,948,775

)

3,399,715

427

Deferred income
taxes payable

394,045

188,532

-

(36,405

)

546,172

Other liabilities

115,701

40,065

146,582

-

302,348

Redeemable
common stock

18,486

-

-

-

18,486

Shareholders
equity:

Preferred stock

-

-

-

-

-

Common stock

298,013

23,855

100

(23,955

)

432

298,013

Additional paid-in
capital

2,923,377

431,253

19,900

(451,153

)

2,923,377

Retained earnings

203,075

1,028,459

75,793

(1,104,252

)

203,075

Accumulated other
comprehensive loss

(34,167

)

-

-

-

(34,167

)

434

Total shareholders
equity

3,390,298

1,483,567

95,793

(1,579,360

)

3,390,298

Total liabilities and
shareholders' equity

\$

10,676,301

\$

5,985,825

\$

359,985

\$

(8,158,592

)

\$

8,863,519

**For the year ended
January 28, 2011**

**DOLLAR
GENERAL
CORPORATION**

**GUARANTOR
SUBSIDIARIES**

**OTHER
SUBSIDIARIES**

ELIMINATIONS

CONSOLIDATED

TOTAL

**STATEMENTS
OF INCOME:**

Net sales

\$

311,280

\$

13,035,000

\$

84,878

\$

(396,158

)

\$

13,035,000

Cost of goods sold

-

8,858,444

439

-

-

8,858,444

Gross profit

311,280

4,176,556

84,878

(396,158

)

4,176,556

440

Selling, general and
administrative
expenses

283,069

2,948,346

67,234

(396,158

)

2,902,491

Operating profit

28,211

1,228,210

17,644

441

-

1,274,065

Interest income

(44,677

)

(7,025

)

(19,986

)

71,468

(220

)

Interest expense

300,934

442

44,723

23

(71,468

)

274,212

Other (income)
expense

15,101

-

-

-

443

15,101

Income (loss)
before income taxes

(243,147

)

1,190,512

37,607

-

984,972

Income tax expense
(benefit)

(102,448

)

444

447,881

11,682

-

357,115

Equity in
subsidiaries
earnings, net of
taxes

768,556

-

-

(768,556

)

445

-

Net income

\$

627,857

\$

742,631

\$

25,925

\$

(768,556

)

\$

627,857

**For the year ended
January 29, 2010**

**DOLLAR
GENERAL
CORPORATION**

**GUARANTOR
SUBSIDIARIES**

**OTHER
SUBSIDIARIES**

ELIMINATIONS

CONSOLIDATED

TOTAL

**STATEMENTS
OF INCOME:**

Net sales

\$

306,036

\$
11,796,380

\$
91,265

\$
(397,301

)
\$
11,796,380

Cost of goods sold

-

8,106,509

-

-

8,106,509

Gross profit

306,036

3,689,871

91,265

(397,301

)

3,689,871

Selling, general and
administrative
expenses

337,224

2,734,793

449

61,897

(397,301

)

2,736,613

Operating profit
(loss)

(31,188

)

955,078

29,368

-

953,258

450

Interest income

(52,047

)

(10,968

)

(19,674

)

82,545

(144

)

Interest expense

375,280

52,980

29

451

(82,545

)

345,744

Other (income)
expense

55,542

-

-

-

55,542

Income (loss)
before income taxes

452

(409,963

)

913,066

49,013

-

552,116

Income tax expense
(benefit)

(149,478

)

346,117

16,035

453

-

212,674

Equity in
subsidiaries
earnings, net of
taxes

599,927

-

-

(599,927

)

-

Net income

\$

339,442

454

\$
566,949

\$
32,978

\$
(599,927

)

\$
339,442

**For the year ended
January 30, 2009**

**DOLLAR
GENERAL
CORPORATION**

**GUARANTOR
SUBSIDIARIES**

**OTHER
SUBSIDIARIES**

ELIMINATIONS

CONSOLIDATED

TOTAL

**STATEMENTS
OF INCOME:**

Net sales

\$

236,682

\$

10,457,668

\$

97,917

\$

(334,599

)

\$

10,457,668

Cost of goods sold

-

7,396,571

457

-

-

7,396,571

Gross profit

236,682

3,061,097

97,917

(334,599

)

3,061,097

458

Selling, general and
administrative
expenses

210,665

2,499,331

73,214

(334,599

)

2,448,611

Litigation
settlement and
related costs, net

32,000

-

-

-

32,000

Operating profit
(loss)

(5,983)

561,766

24,703

-

580,486

Interest income

460

(62,722

)

(36,844

)

(13,532

)

110,037

(3,061

)

Interest expense

427,365

74,586

18

461

(110,037

)

391,932

Other (income)
expense

(2,788

)

-

-

-

(2,788

)

Income (loss)
before income taxes

(367,838

)

462

524,024

38,217

-

194,403

Income tax expense
(benefit)

(115,924

)

190,146

11,999

-

463

86,221

Equity in
subsidiaries
earnings, net of
taxes

360,096

-

-

(360,096

)

-

Net income

\$

108,182

\$

464

333,878

\$

26,218

\$

(360,096

)

\$

108,182

**For the year ended
January 28, 2011**

**DOLLAR
GENERAL
CORPORATION**

**GUARANTOR
SUBSIDIARIES**

**OTHER
SUBSIDIARIES**

ELIMINATIONS

CONSOLIDATED

TOTAL

**STATEMENTS
OF CASH
FLOWS:**

*Cash flows from
operating activities:*

Net income

\$

627,857

\$
742,631

\$
25,925

\$
(768,556

)

\$
627,857

Adjustments to
reconcile net
income to net cash
provided by (used
in) operating
activities:

Depreciation and
amortization

33,015

221,851

61

-

254,927

Deferred income
taxes

17,817

469

47,719

(14,551

)

-

50,985

Tax benefit of stock
options

(13,905

)

-

-

-

470

(13,905

)

Loss on debt
retirement, net

14,576

-

-

-

14,576

Non-cash
share-based
compensation

15,956

-

-

-

15,956

Noncash inventory
adjustments and
asset impairments

-

7,607

-

-

472

7,607

Other non-cash
gains and losses

1,395

4,547

-

-

5,942

Equity in
subsidiaries
earnings, net

(768,556

)

-

473

-

768,556

-

Change in operating
assets and
liabilities:

Merchandise
inventories

-

(251,809

)

-

-

(251,809

)

Prepaid expenses
and other current
assets

(1,646

)

(3,642

)

475

(4,869

)

-

(10,157

)

Accounts payable

(5,446

)

124,120

4,750

-

123,424

Accrued expenses
and other

(28,442

)

(12,410

)

(1,576

)

-

(42,428

)

Income taxes

18,136

14,891

9,876

477

	-
	42,903
Other	
	816
	(2,008
)	
	(2
)	
	-
	(1,194
)	
Net cash provided by (used in) operating activities	

(88,427

)

893,497

19,614

-

824,684

*Cash flows from
investing activities:*

Purchases of
property and
equipment

(22,830

)

(397,322

)

(243

)

-

(420,395

)

Sales of property
and equipment

-

1,448

-

-

1,448

Net cash used in
investing activities

(22,830

)

(395,874

)

(243

)

-

481

(418,947

)

*Cash flows from
financing activities:*

Issuance of
common stock

631

482

-

-

-

631

Repayments of
long-term
obligations

(129,217

)

(1,963

)

-

-

(131,180

)

Repurchases of
common stock and
settlement of equity
awards, net of
employee taxes paid

(13,723

)

-

-

-

(13,723

)

Tax benefit of stock
options

13,905

-

-

-

13,905

Changes in
intercompany note
balances, net

253,586

(234,257

)

(19,329

)

-

Net cash provided
by (used in)
financing activities

125,182

(236,220

)

(19,329

)

-

(130,367

)

Net increase in cash
and cash
equivalents

13,925

261,403

486

42

-

275,370

Cash and cash
equivalents,
beginning of year

97,620

103,001

21,455

-

222,076

487

Cash and cash
equivalents, end of
year

\$

111,545

\$

364,404

\$

21,497

\$

-

\$

497,446

**For the year ended
January 29, 2010**

**DOLLAR
GENERAL
CORPORATION**

**GUARANTOR
SUBSIDIARIES**

**OTHER
SUBSIDIARIES**

ELIMINATIONS

CONSOLIDATED

TOTAL

**STATEMENTS
OF CASH
FLOWS:**

*Cash flows from
operating activities:*

Net income

\$

339,442

\$
566,949

\$
32,978

\$
(599,927

)

\$
339,442

Adjustments to
reconcile net
income to net cash
provided by (used
in) operating
activities:

Depreciation and
amortization

36,541

220,048

182

-

256,771

Deferred income
taxes

(18,571

)

492

67,317

(33,886

)

-

14,860

Tax benefit of stock
options

(5,390

)

-

-

-

(5,390

)

Loss on debt
retirement, net

55,265

-

-

-

55,265

Non-cash
share-based
compensation

17,295

-

-

-

17,295

Noncash inventory
adjustments and
asset impairments

-

647

-

-

495

647

Other non-cash
gains and losses

3,221

4,699

-

-

7,920

Equity in
subsidiaries
earnings, net

(599,927

)

-

496

-

599,927

-

Change in operating
assets and
liabilities:

Merchandise
inventories

-

(100,248

)

-

-

(100,248

)

Prepaid expenses
and other current
assets

2,582

(10,252

)

498

372

-

(7,298

)

Accounts payable

26,535

79,515

(1

)

-

106,049

499

Accrued expenses
and other

(20,672

)

10,494

(2,465

)

-

(12,643

)

Income taxes

48,494

(50,112

)

2,771

500

	-
	1,153
Other	
	(3,203
)	
	2,171
	32
	-
	(1,000
)	
Net cash provided by (used in) operating activities	

(118,388

)

791,228

(17

)

-

672,823

*Cash flows from
investing activities:*

Purchases of
property and
equipment

(34,647

)

(216,032)

(68

)

-

(250,747

)

Sales of property
and equipment

-

2,701

-

-

2,701

Net cash used in
investing activities

(34,647

)

(213,331

)

(68

)

-

504

(248,046

)

*Cash flows from
financing activities:*

Issuance of
common stock

443,753

-

-

-

443,753

Issuance of
long-term
obligations

-

1,080

-

-

1,080

Repayments of
long-term
obligations

(782,518

)

(2,742

)

-

-

(785,260

)

Payment of cash
dividends and
related amounts

(239,731

)

-

507

-

-

(239,731

)

Repurchases of
common stock and
settlement of equity
awards, net of
employee taxes paid

(5,928

)

-

-

-

(5,928

)

Tax benefit of stock
options

5,390

-

-

-

5,390

Changes in
intercompany note
balances, net

537,052

(537,638

509

)

586

-

-

Net cash provided
by (used in)
financing activities

(41,982

)

(539,300

)

586

-

(580,696

510

)

Net increase
(decrease) in cash
and cash
equivalents

(195,017

)

38,597

501

-

(155,919

)

Cash and cash
equivalents,
beginning of year

292,637

64,404

511

20,954

-

377,995

Cash and cash
equivalents, end of
year

\$

97,620

\$

103,001

\$

21,455

\$

-

\$

222,076

512

**For the year ended
January 30, 2009**

**DOLLAR
GENERAL
CORPORATION**

**GUARANTOR
SUBSIDIARIES**

**OTHER
SUBSIDIARIES**

ELIMINATIONS

CONSOLIDATED

TOTAL

**STATEMENTS
OF CASH
FLOWS:**

*Cash flows from
operating activities:*

Net income

\$

108,182

\$
333,878

\$
26,218

\$
(360,096

)

\$
108,182

Adjustments to
reconcile net
income to net cash
provided by (used
in) operating
activities:

Depreciation and
amortization

34,638

213,003

258

-

247,899

Deferred income
taxes

(4,681

)

517

16,500

61,615

-

73,434

Tax benefit of stock
options

(950

)

-

-

-

518

(950

)

Gain on debt
retirement, net

(3,818

)

-

-

-

(3,818

)

Non-cash
share-based
compensation

9,958

-

-

-

9,958

Noncash inventory
adjustments and
asset impairments

-

50,671

-

-

520

50,671

Other non-cash
gains and losses

714

5,538

-

-

6,252

Equity in
subsidiaries
earnings, net

(360,096

)

-

521

-

360,096

-

Change in operating
assets and
liabilities:

Merchandise
inventories

-

(173,014

)

-

-

(173,014

)

Prepaid expenses
and other current
assets

(2,310

)

3,765

523

(2,053

)

-

(598

)

Accounts payable

18,717

121,546

93

-

140,356

524

Accrued expenses
and other

11,427

46,177

11,132

-

68,736

Income taxes

56,596

(10,797

)

(11,813

525

)

-

33,986

Other

2,529

11,643

(88

)

-

14,084

Net cash provided
by (used in)
operating activities

(129,094

)

618,910

85,362

-

575,178

*Cash flows from
investing activities:*

Purchases of
property and
equipment

(16,467

)

(189,058

)

(21

)

-

(205,546

)

Purchases of
short-term
investments

-

-

(9,903

)

-

(9,903

)

Sales of short-term
investments

-

-

61,547

-

61,547

Sales of property
and equipment

-

1,266

-

-

1,266

Net cash provided
by (used in)
investing activities

(16,467

)

530

(187,792

)

51,623

-

(152,636

)

*Cash flows from
financing activities:*

Issuance of
common stock

4,228

-

-

-

4,228

Repayments under
revolving credit
facility

(102,500

)

-

-

-

(102,500

)

Repayments of
long-term
obligations

(40,780

)

(3,645

)

-

-

(44,425

)

Repurchases of
common stock and
settlement of equity
awards, net of
employee taxes paid

(3,009

)

-

-

-

(3,009

)

Tax benefit of stock
options

950

-

-

-

950

Changes in
intercompany note
balances, net

570,989

(422,448

)

(148,541

)

-

535

Net cash provided
by (used in)
financing activities

429,878

(426,093

)

(148,541

)

-

(144,756

)

Net increase
(decrease) in cash
and cash
equivalents

284,317

5,025

(11,556

)

-

277,786

Cash and cash
equivalents,
beginning of year

8,320

59,379

32,510

-

537

100,209

Cash and cash
equivalents, end of
year

\$

292,637

\$

64,404

\$

20,954

\$

-

\$

377,995

ITEM 9.

CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

ITEM 9A.

CONTROLS AND PROCEDURES

(a)

Disclosure Controls and Procedures. Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) or 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the Exchange Act). Based on this evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

(b)

Management's Annual Report on Internal Control Over Financial Reporting. Our management prepared and is responsible for the consolidated financial statements and all related financial information contained in this report. This responsibility includes establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) or 15d-15(f) under the Exchange Act. Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with United States generally accepted accounting principles.

To comply with the requirements of Section 404 of the Sarbanes Oxley Act of 2002, management designed and implemented a structured and comprehensive assessment process to evaluate the effectiveness of its internal control over financial reporting. Such assessment was based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Because of its inherent limitations, a system of internal control over financial reporting can provide only reasonable assurance and may not prevent or detect misstatements. Management regularly monitors our internal control over financial reporting, and actions are taken to correct any deficiencies as they are identified. Based on its assessment, management has concluded that our internal control over financial reporting is effective as of January 28, 2011.

Ernst & Young LLP, the independent registered public accounting firm that audited our consolidated financial statements, has issued an attestation report on management's assessment of our internal control over financial reporting. Such attestation report is contained below.

(c) Attestation Report of Independent Registered Public Accounting Firm.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of

Dollar General Corporation

We have audited Dollar General Corporation and subsidiaries' internal control over financial reporting as of January 28, 2011, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Dollar General Corporation and subsidiaries' management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Dollar General Corporation and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of January 28, 2011, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the accompanying consolidated balance sheets of Dollar General Corporation and subsidiaries as of January 28, 2011 and January 29, 2010, and the related consolidated statements of income, shareholders' equity, and cash flows for the years ended January 28, 2011, January 29, 2010, and January 30, 2009 of Dollar General Corporation and subsidiaries and our report dated March 22, 2011 expressed an unqualified opinion thereon.

/s/
Ernst
&
Young
LLP

Nashville, Tennessee

March 22, 2011

(d)

Changes in Internal Control Over Financial Reporting. There have been no changes during the quarter ended January 28, 2011 in our internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f)) that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B.

OTHER INFORMATION

Not applicable.

PART III

ITEM 10.

DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

(a)

Information Regarding Directors and Executive Officers. The information required by this Item 10 regarding our directors and director nominees is contained under the captions Who are the nominees this year, What are the backgrounds of this year's nominees, Are there any familial relationships between any of the nominees and How are directors identified and nominated, all under Proposal 1: Election of Directors, as well as Corporate Governance Does the Board have standing Audit, Compensation, and Nominating Committees, all in our definitive Proxy Statement to be filed for our 2011 Annual Meeting of Shareholders to be held on May 25, 2011 (the 2011 Proxy Statement), which information under such captions is incorporated herein by reference. Information required by this Item 10 regarding our executive officers is contained in Part I of this Form 10-K under the caption Executive Officers of the Registrant, which information under such caption is incorporated herein by reference.

(b)

Compliance with Section 16(a) of the Exchange Act. Information required by this Item 10 regarding compliance with Section 16(a) of the Exchange Act is contained under the caption Section 16(a) Beneficial Ownership Reporting Compliance in the 2011 Proxy Statement, which information under such caption is incorporated herein by reference.

(c)

Code of Business Conduct and Ethics. We have adopted a Code of Business Conduct and Ethics that applies to all of our employees, officers and Board members. This Code is posted on our Internet website at www.dollargeneral.com. If we choose to no longer post such Code, we will provide a free copy to any person upon written request to Dollar General Corporation, c/o Investor Relations Department, 100 Mission Ridge, Goodlettsville, TN 37072. We intend to provide any required disclosure of an amendment to or waiver from the Code of Business Conduct and Ethics that applies to our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions, on our Internet website located at www.dollargeneral.com promptly following the amendment or waiver. We may elect to disclose any such amendment or waiver in a report on Form 8-K filed with the SEC either in addition to or in lieu of the website disclosure. The information contained on or connected to our Internet website is not incorporated by reference into this Form 10-K and should not be considered part of this or any other report that we file with or furnish to the SEC.

(d)

Procedures for Shareholders to Nominate Directors. Information required by this Item 10 regarding material changes to the procedures by which shareholders may recommend nominees to our Board of Directors is contained under the captions How are directors identified and nominated, How are nominees evaluated; what are the minimum qualifications and Can shareholders nominate directors, all under Proposal 1: Election of Directors in the 2011 Proxy Statement, which information under such captions is incorporated herein by reference.

(e)

Audit Committee Information. Information required by this Item 10 regarding our audit committee and our audit committee financial expert is contained under the captions **Corporate Governance** **Does the Board have standing Audit, Compensation and Nominating Committees** and **Does Dollar General have an audit committee financial expert serving on its Audit Committee** in the 2011 Proxy Statement, which information under such captions is incorporated herein by reference.

ITEM 11.

EXECUTIVE COMPENSATION

The information required by this Item 11 regarding director and executive officer compensation, including the Compensation Committee Report, the risks arising from our compensation policies and practices for employees, and compensation committee interlocks and insider participation is contained under the captions **Director Compensation** and **Executive Compensation** in the 2011 Proxy Statement, which information under such captions is incorporated herein by reference.

ITEM 12.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

(a)

Equity Compensation Plan Information. The following table sets forth information about securities authorized for issuance under our compensation plans (including individual compensation arrangements) as of January 28, 2011:

Plan category

**Number of securities
to be issued upon
exercise of
outstanding options,
warrants and rights
(a)**

**Weighted-average
exercise price of
outstanding options,
warrants and rights
(b)**

**Number of
securities remaining
available for future
issuance under
equity compensation
plans (excluding
securities reflected
in column (a))
(c)**

Equity compensation
plans approved by
security holders⁽¹⁾

11,469,706

\$9.95

17,837,497

Equity compensation
plans not approved by
security holders

--

--

--

Total⁽¹⁾

11,469,706

\$9.95

17,837,497

(1)

Column (a) consists of
shares of common
stock issuable upon
exercise of
outstanding options
and upon vesting and
payment of restricted
stock units under the
2007 Stock Incentive
Plan and shares of
common stock

issuable upon exercise of outstanding options under the 1998 Stock Incentive Plan.

Restricted stock units are settled for shares of common stock on a one-for-one basis and have no exercise price. Accordingly, those units have been excluded for purposes of computing the weighted-average exercise price in column (b). Column (c) consists of shares reserved for issuance pursuant to the 2007 Stock Incentive Plan, whether in the form of stock, restricted stock, restricted stock units, or other stock-based awards or upon the exercise of an option or right. Although certain options remain outstanding under the 1998 Stock Incentive Plan, no future awards may be granted thereunder.

(b) Other Information. The information required by this Item 12 regarding security ownership of certain beneficial owners and our management is contained under the caption Security Ownership in the 2011 Proxy Statement, which information under such caption is incorporated herein by reference.

ITEM 13.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this Item 13 regarding certain relationships and related transactions is contained under the caption "Transactions with Management and Others" in the 2011 Proxy Statement, which information under such caption is incorporated herein by reference.

The information required by this Item 13 regarding director independence is contained under the caption "Director Independence" in the 2011 Proxy Statement, which information under such caption is incorporated herein by reference.

ITEM 14.

PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this Item 14 regarding fees we paid to our principal accountant and the pre-approval policies and procedures established by the Audit Committee of our Board of Directors is contained under the caption Fees Paid to Auditors in the 2011 Proxy Statement, which information under such caption is incorporated herein by reference.

PART IV

ITEM 15.

EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a)

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets

Consolidated Statements of Income

Consolidated Statements of Shareholders' Equity

Consolidated Statements of Cash Flows

Notes to Consolidated Financial Statements

(b)

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

(c)

Exhibits: See Exhibit Index immediately following the signature pages hereto, which Exhibit Index is incorporated by reference as if fully set forth herein.

120

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

DOLLAR GENERAL CORPORATION

Date: March 22, 2011

By:

/s/ Richard W. Dreiling

Richard W. Dreiling, Chairman and Chief Executive
Officer

We, the undersigned directors and officers of the registrant, hereby severally constitute Richard W. Dreiling and David M. Tehle, and each of them singly, our true and lawful attorneys with full power to them and each of them to sign for us, and in our names in the capacities indicated below, any and all amendments to this Annual Report on Form 10-K filed with the Securities and Exchange Commission.

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

Name

Title

Date

/s/ Richard W.
Dreiling

Chairman & Chief
Executive Officer
(Principal Executive
Officer)

March 22, 2011

RICHARD W.
DREILING

/s/ David M. Tehle

Executive Vice
President & Chief
Financial Officer
(Principal
Financial and
Accounting Officer)

March 22, 2011

DAVID M. TEHLE

/s/ Raj Agrawal

Director

March 22, 2011

RAJ AGRAWAL

/s/ Warren F. Bryant

Director

March 16, 2011

WARREN F.
BRYANT

/s/ Michael M.
Calbert

Director

March 22, 2011

MICHAEL M.
CALBERT

/s/ Adrian Jones

Director

March 22, 2011

ADRIAN JONES

/s/ William C.
Rhodes, III

Director

March 22, 2011

WILLIAM C.
RHODES, III

/s/ David B. Rickard

Director

March 15, 2011

DAVID B.
RICKARD

EXHIBIT INDEX

3.1

Amended and Restated Charter of Dollar General Corporation (incorporated by reference to Exhibit 3.1 to Dollar General Corporation's Current Report on Form 8-K dated November 18, 2009, filed with the SEC on November 18, 2009 (file no. 001-11421))

3.2

Amended and Restated Bylaws of Dollar General Corporation (incorporated by reference to Exhibit 3.2 to Dollar General Corporation's Current Report on Form 8-K dated November 18, 2009, filed with the SEC on November 18, 2009 (file no. 001-11421))

4.1

Form of Stock Certificate for Common Stock (incorporated by reference to Exhibit 4.1 to Dollar General Corporation's Registration Statement on Form S-1 (file no. 333-161464))

4.2

Shareholders' Agreement of Dollar General Corporation, dated as of November 9, 2009 (incorporated by reference to Exhibit 4.1 to Dollar General Corporation's Current Report on Form 8-K dated November 18, 2009, filed with the SEC on November 18, 2009 (file no. 001-11421))

4.3

Senior Indenture, dated July 6, 2007, among Buck Acquisition Corp., Dollar General Corporation, the guarantors named therein and U.S. Bank National Association (the successor trustee), as trustee (incorporated by reference to Exhibit 4.8 to Dollar General Corporation's Current Report on Form 8-K dated July 6, 2007, filed with the SEC on July 12, 2007 (file no. 001-11421))

4.4

Form of 10.625% Senior Notes due 2015 (included in Exhibit 4.3)

4.5

First Supplemental Indenture to the Senior Indenture, dated as of September 25, 2007, between DC Financial, LLC, the Guaranteeing Subsidiary, and U.S. Bank National Association (the successor trustee), as trustee (incorporated by reference to Exhibit 4.14 to Dollar General Corporation's Registration Statement on Form S-4 (file no. 333-148320))

4.6

Second Supplemental Indenture to the Senior Indenture, dated as of December 31, 2007, between Retail Risk Solutions, LLC, the Guaranteeing Subsidiary, and U.S. Bank National Association (the successor trustee), as trustee (incorporated by reference to Exhibit 4.32 to Dollar General Corporation's Registration Statement on Form S-4 (file no. 333-148320))

4.7

Third Supplemental Indenture to the Senior Indenture, dated as of March 23, 2009, between the Guaranteeing Subsidiaries referenced therein and U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 4.17 to Dollar General Corporation's Registration Statement on Form S-1 (file no. 333-158281))

4.8

Fourth Supplemental Indenture to the Senior Indenture, dated as of March 25, 2010, between the Guaranteeing Subsidiaries referenced therein and U.S. Bank National

Edgar Filing: DOLLAR GENERAL CORP - Form 10-K

Association, as trustee (incorporated by reference to Exhibit 4.18 to Dollar General Corporation's Registration Statement on Form S-3 (file no. 333-165799))

4.9

Fifth Supplemental Indenture to the Senior Indenture, dated as of August 30, 2010, among Retail Property Investments, LLC and U.S. Bank National Association, as successor trustee (incorporated by reference to Exhibit 4.55 to Dollar General Corporation's Registration Statement on Form S-3 (file no. 333-165799))

4.10

Instrument of Resignation, Appointment and Acceptance, effective as of February 25, 2009, by and among Dollar General Corporation, Wells Fargo Bank, National Association, and U.S. Bank National Association (incorporated by reference to Exhibit 99 to Dollar General Corporation's Current Report on Form 8-K dated February 25, 2009, filed with the SEC on February 25, 2009 (file no. 001-11421))

4.11

Senior Subordinated Indenture, dated July 6, 2007, among Buck Acquisition Corp., Dollar General Corporation, the guarantors named therein and U.S. Bank National Association (the successor trustee), as trustee (incorporated by reference to Exhibit 4.9 to Dollar General Corporation's Current Report on Form 8-K dated July 6, 2007, filed with the SEC on July 12, 2007 (file no. 001-11421))

4.12

Form of 11.875% / 12.625% Senior Subordinated Toggle Notes due 2017 (included in Exhibit 4.11)

4.13

First Supplemental Indenture to the Senior Subordinated Indenture, dated as of September 25, 2007, between DC Financial, LLC, the Guaranteeing Subsidiary, and U.S. Bank National Association (the successor trustee), as trustee (incorporated by reference to Exhibit 4.16 to Dollar General Corporation's Registration Statement on Form S-4 (file no. 333-148320))

4.14

Second Supplemental Indenture to the Senior Subordinated Indenture, dated as of December 31, 2007, between Retail Risk Solutions, LLC, the Guaranteeing Subsidiary, and U.S. Bank National Association (the successor trustee), as trustee (incorporated by reference to Exhibit 4.33 to Dollar General Corporation's Registration Statement on Form S-4

(file no. 333-148320))

4.15

Third Supplemental Indenture to the Senior Subordinated Indenture, dated as of March 23, 2009, between the Guaranteeing Subsidiaries referenced therein and U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 4.23 to Dollar General Corporation's Registration Statement on Form S-1 (file no. 333-158281))

4.16

Fourth Supplemental Indenture to the Senior Subordinated Indenture, dated as of March 25, 2010, between the Guaranteeing Subsidiaries referenced therein and U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 4.25 to Dollar General Corporation's Registration Statement on Form S-3 (file no. 333-165799))

4.17

Fifth Supplemental Indenture to the Senior Subordinated Indenture, dated as of August 30, 2010, among Retail Property Investments, LLC and U.S. Bank National Association, as successor trustee (incorporated by reference to Exhibit 4.56 to Dollar General Corporation's Registration Statement on Form S-3 (file no. 333-165799))

4.18

Registration Rights Agreement, dated July 6, 2007, among Buck Acquisition Corp., Dollar General Corporation, the guarantors named therein and the initial purchasers named therein (incorporated by reference to Exhibit 4.10 to Dollar General Corporation's Current Report on Form 8-K dated July 6, 2007, filed with the SEC on July 12, 2007 (file no. 001-11421))

4.19

Registration Rights Agreement, dated July 6, 2007, among Buck Holdings, L.P., Buck Holdings, LLC, Dollar General Corporation and Shareholders named therein (incorporated by reference to Exhibit 4.18 to Dollar General Corporation's Registration Statement on Form S-4 (file no. 333-148320))

4.20

Credit Agreement, dated as of July 6, 2007, among Dollar General Corporation, as Borrower, Citicorp North America, Inc., as Administrative Agent, and the other lending institutions from time to time party thereto (incorporated by reference to Exhibit 4.2 to Dollar General Corporation's Current Report on Form 8-K dated July 6, 2007, filed with the SEC on July 12, 2007 (file no. 001-11421))

4.21

Guarantee to the Credit Agreement, dated as of July 6, 2007, among certain domestic subsidiaries of Dollar General Corporation, as Guarantors and Citicorp North America, Inc., as Collateral Agent (incorporated by reference to Exhibit 4.3 to Dollar General Corporation's Current Report on Form 8-K dated July 6, 2007, filed with the SEC on July 12, 2007 (file no. 001-11421))

4.22

Supplement No.1, dated as of September 11, 2007, to the Guarantee to the Credit Agreement, between DC Financial, LLC, as New Guarantor, and Citicorp North America, Inc., as Collateral Agent (incorporated by reference to Exhibit 4.23 to Dollar General Corporation's Registration Statement on Form S-4 (file no. 333-148320))

4.23

Supplement No. 2, dated as of December 31, 2007, to the Guarantee to the Credit Agreement, between Retail Risk Solutions, LLC, as New Guarantor, and Citicorp North America, Inc., as Collateral Agent (incorporated by reference to Exhibit 4.34 to Dollar General Corporation's Registration Statement on Form S-4 (file no. 333-148320))

4.24

Supplement No. 3, dated as of March 23, 2009, to the Guarantee to the Credit Agreement, between the New Guarantors referenced therein and Citicorp North America, Inc., as Collateral Agent (incorporated by reference to Exhibit 4.30 to Dollar General Corporation's Registration Statement on Form S-1 (file no. 333-158281))

4.25

Supplement No. 4, dated as of March 25, 2010, to the Guarantee to the Credit Agreement, between the New Guarantors referenced therein and Citicorp North America, Inc., as

Edgar Filing: DOLLAR GENERAL CORP - Form 10-K

Collateral Agent (incorporated by reference to Exhibit 4.33 to Dollar General Corporation's Registration Statement on Form S-3 (file no. 333-165799))

4.26

Supplement No. 5 to the Guarantee to the Credit Agreement, dated as of August 30, 2010, by and between Retail Property Investments, LLC and Citicorp North America, Inc., as Collateral Agent (incorporated by reference to Exhibit 4.57 to Dollar General Corporation's Registration Statement on Form S-3 (file no. 333-165799))

4.27

Security Agreement, dated as of July 6, 2007, among Dollar General Corporation and certain domestic subsidiaries of Dollar General Corporation, as Grantors, and Citicorp North America, Inc., as Collateral Agent (incorporated by reference to Exhibit 4.4 to Dollar General Corporation's Current Report on Form 8-K dated July 6, 2007, filed with the SEC on July 12, 2007 (file no. 001-11421))

4.28

Supplement No.1, dated as of September 11, 2007, to the Security Agreement, between DC Financial, LLC, as New Grantor, and Citicorp North America, Inc., as Collateral Agent (incorporated by reference to Exhibit 4.25 to Dollar General Corporation's Registration Statement on Form S-4 (file no. 333-148320))

4.29

Supplement No. 2, dated as of December 31, 2007, to the Security Agreement, between Retail Risk Solutions, LLC, as New Grantor, and Citicorp North America, Inc., as Collateral Agent (incorporated by reference to Exhibit 4.35 to Dollar General Corporation's Registration Statement on Form S-4 (file no. 333-148320))

4.30

Supplement No. 3, dated as of March 23, 2009, to the Security Agreement, between the New Grantors referenced therein and Citicorp North America, Inc., as Collateral Agent (incorporated by reference to Exhibit 4.34 to Dollar General Corporation's Registration Statement on Form S-1 (file no. 333-158281))

4.31

Supplement No. 4, dated as of March 25, 2010, to the Security Agreement, between the New Grantors referenced therein and Citicorp North America, Inc., as Collateral Agent (incorporated by reference to Exhibit 4.38 to Dollar General Corporation's Registration Statement on Form S-3 (file no. 333-165799))

4.32

Supplement No. 5 to the Security Agreement, dated as of August 30, 2010, between Retail Property Investments, LLC and Citicorp North America, Inc., as Collateral Agent (incorporated by reference to Exhibit 4.58 to Dollar General Corporation's Registration Statement on Form S-3 (file no. 333-165799))

4.33

Pledge Agreement, dated as of July 6, 2007, among Dollar General Corporation and certain domestic subsidiaries of Dollar General Corporation, as Pledgors, and Citicorp North America, Inc., as Collateral Agent (incorporated by reference to Exhibit 4.5 to Dollar General Corporation's Current Report on Form 8-K dated July 6, 2007, filed with the SEC on July 12, 2007 (file no. 001-11421))

4.34

Supplement No.1, dated as of September 11, 2007, to the Pledge Agreement, between DC Financial, LLC, as Additional Pledgor, and Citicorp North America, Inc., as Collateral Agent (incorporated by reference to Exhibit 4.27 to Dollar General Corporation's Registration Statement on Form S-4 (file no. 333-148320))

4.35

Supplement No. 2, dated as of December 31, 2007, to the Pledge Agreement, between Retail Risk Solutions, LLC, as Additional Pledgor, and Citicorp North America, Inc., as Collateral Agent (incorporated by reference to Exhibit 4.36 to Dollar General Corporation's Registration Statement on Form S-4 (file no. 333-148320))

4.36

Supplement No. 3, dated as of March 23, 2009, to the Pledge Agreement, between the Additional Pledgors referenced therein and Citicorp North America, Inc., as Collateral Agent (incorporated by reference to Exhibit 4.38 to Dollar General Corporation's Registration Statement on Form S-1 (file no. 333-158281))

4.37

Supplement No. 4, dated as of March 25, 2010, to the Pledge Agreement, between the Additional Pledgors referenced therein and Citicorp North America, Inc., as Collateral Agent (incorporated by reference to Exhibit 4.43 to Dollar General Corporation's Registration Statement on Form S-3 (file no. 333-165799))

4.38

Supplement No. 5 to the Pledge Agreement, dated as of August 30, 2010, between Retail Property Investments, LLC and Citicorp North America, inc., as Collateral Agent (incorporated by reference to Exhibit 4.59 to Dollar General Corporation's Registration Statement on Form S-3 (file no. 333-165799))

4.39

ABL Credit Agreement, dated as of July 6, 2007, among Dollar General Corporation, as Parent Borrower, certain domestic subsidiaries of Dollar General Corporation, as Subsidiary Borrowers, The CIT Group/Business Credit Inc., as ABL Administrative Agent, and the other lending institutions from time to time party thereto (incorporated by reference to Exhibit 4.6 to Dollar General Corporation's Current Report on Form 8-K dated July 6, 2007, filed with the SEC on July 12, 2007 (file no. 001-11421))

4.40

Appointment of Successor Agent and Amendment No. 1 to the ABL Credit Agreement entered into as of July 31, 2009, by and among The CIT Group/Business Credit, Inc., Wells Fargo Retail Finance, LLC, Dollar General Corporation and the Subsidiary Borrowers and the Lenders signatory thereto (incorporated by reference to Exhibit 99 to Dollar General Corporation's Current Report on Form 8-K dated July 31, 2009, filed with the SEC on August 4, 2009 (file no. 001-11421))

4.41

Guarantee, dated as of September 11, 2007, to the ABL Credit Agreement, between DC Financial, LLC and The CIT Group/Business Credit Inc., as ABL Collateral Agent (incorporated by reference to Exhibit 4.29 to Dollar General Corporation's Registration Statement on Form S-4 (file no. 333-148320))

4.42

Supplement No. 1, dated as of December 31, 2007, to the Guarantee to the ABL Credit Agreement, between Retail Risk Solutions, LLC, as New Guarantor, and The CIT

Group/Business Credit Inc., as ABL Collateral Agent (incorporated by reference to Exhibit 4.37 to Dollar General Corporation's Registration Statement on Form S-4 (file no. 333-148320))

4.43

Supplement No. 2, dated as of March 23, 2009, to the Guarantee to the ABL Credit Agreement, between the New Guarantors referenced therein and The CIT Group/Business Credit Inc., as ABL Collateral Agent (incorporated by reference to Exhibit 4.42 to Dollar General Corporation's Registration Statement on Form S-1 (file no. 333-158281))

4.44

Supplement No. 3, dated as of March 30, 2010, to the Guarantee to the ABL Credit Agreement, between the New Guarantors referenced therein and Wells Fargo Retail Finance, LLC, as ABL Collateral Agent (incorporated by reference to Exhibit 4.49 to Dollar General Corporation's Registration Statement on Form S-3 (file no. 333-165799))

4.45

Supplement No. 4 to the Guarantee to the ABL Credit Agreement, dated as of August 30, 2010, between Retail Property Investments, LLC and Wells Fargo Retail Finance, LLC, as Collateral Agent (incorporated by reference to Exhibit 4.60 to Dollar General Corporation's Registration Statement on Form S-3 (file no. 333-165799))

4.46

ABL Security Agreement, dated as of July 6, 2007, among Dollar General Corporation, as Parent Borrower, certain domestic subsidiaries of Dollar General Corporation, as Subsidiary Borrowers, collectively the Grantors, and The CIT Group/Business Credit Inc., as ABL Collateral Agent (incorporated by reference to Exhibit 4.7 to Dollar General Corporation's Current Report on Form 8-K dated July 6, 2007, filed with the SEC on July 12, 2007 (file no. 001-11421))

4.47

Supplement No. 1, dated as of September 11, 2007, to the ABL Security Agreement, between DC Financial, LLC, as New Grantor, and The CIT Group/Business Credit Inc., as ABL Collateral Agent (incorporated by reference to Exhibit 4.31 to Dollar General Corporation's Registration Statement on Form S-4 (file no. 333-148320))

4.48

Supplement No. 2, dated as of December 31, 2007, to the ABL Security Agreement, between Retail Risk Solutions, LLC, as New Grantor, and The CIT Group/Business Credit Inc., as ABL Collateral Agent (incorporated by reference

to Exhibit 4.38 to Dollar General Corporation's Registration Statement on Form S-4 (file no. 333-148320))

4.49

Supplement No. 3, dated as of March 23, 2009, to the ABL Security Agreement, between the New Grantors referenced therein and The CIT Group/Business Credit Inc., as ABL Collateral Agent (incorporated by reference to Exhibit 4.46 to Dollar General Corporation's Registration Statement on Form S-1 (file no. 333-158281))

4.50

Supplement No. 4, dated as of March 30, 2010, to the ABL Security Agreement, between the New Grantors referenced therein and Wells Fargo Retail Finance, LLC, as ABL Collateral Agent (incorporated by reference to Exhibit 4.54 to Dollar General Corporation's Registration Statement on Form S-3 (file no. 333-165799))

4.51

Supplement No. 5 to the Security Agreement to the ABL Credit Agreement, dated as of August 30, 2010, between Retail Property Investments, LLC and Wells Fargo Retail Finance, LLC, as Collateral Agent (incorporated by reference to Exhibit 4.61 to Dollar General Corporation's Registration Statement on Form S-3 (file no. 333-165799))

10.1

Amended and Restated 2007 Stock Incentive Plan for Key Employees of Dollar General Corporation and its affiliates (as approved by shareholders on October 23, 2009) ((incorporated by reference to Exhibit 10.1 to Dollar General Corporation's Registration Statement on Form S-1 (file no. 333-161464))*

10.2

Form of Stock Option Agreement between Dollar General Corporation and certain officers of Dollar General Corporation granting stock options pursuant to the 2007 Stock Incentive Plan (incorporated by reference to Exhibit 10.2 to Dollar General Corporation's Registration Statement on Form S-4 (file no. 333-148320))*

10.3

Form of Option Rollover Agreement between Dollar General Corporation and certain officers of Dollar General Corporation (incorporated by reference to Exhibit 10.3 to Dollar General Corporation's Registration Statement on Form S-4 (file no. 333-148320))*

10.4

Waiver of Certain Limitations Pertaining to Options Previously Granted under the Amended and Restated 2007 Stock Incentive Plan, effective August 26, 2010 (incorporated by reference to Exhibit 10.2 to Dollar General Corporation's Quarterly Report on Form 10-Q for the fiscal quarter ended July 30, 2010, filed with the SEC on August 31, 2010 (file no. 001-11421))*

10.5

Form of Management Stockholder's Agreement among Dollar General Corporation, Buck Holdings, L.P. and certain officers of Dollar General Corporation (incorporated by reference to Exhibit 10.4 to Dollar General Corporation's Registration Statement on Form S-4 (file no. 333-148320))*

10.6

Amendment to Management Stockholder's Agreement among Dollar General Corporation, Buck Holdings, L.P. and key employees of Dollar General Corporation (July 2007 grant group) (incorporated by reference to Exhibit 10.2 to Dollar General Corporation's Quarterly Report on Form 10-Q for the fiscal quarter ended October 30, 2009, filed with the SEC on December 12, 2009 (file no. 001-11421))*

10.7

Amendment to Management Stockholder's Agreement among Dollar General Corporation, Buck Holdings, L.P. and key employees of Dollar General Corporation (post-July 2007 grant group) (incorporated by reference to Exhibit 10.3 to Dollar General Corporation's Quarterly Report on Form 10-Q for the fiscal quarter ended October 30, 2009, filed with the SEC on December 12, 2009 (file no. 001-11421))*

10.8

Second Amendment to Management Stockholder's Agreements, effective June 3, 2010 (incorporated by reference to Exhibit 10.4 to Dollar General Corporation's Quarterly

Edgar Filing: DOLLAR GENERAL CORP - Form 10-K

Report on Form 10-Q for the fiscal quarter ended April 30, 2010, filed with the SEC on June 8, 2010 (file no. 001-11421))*

10.9

Form of Director Restricted Stock Unit Award Agreement in connection with restricted stock unit grants made to outside directors pursuant to the Company's Amended and Restated 2007 Stock Incentive Plan (incorporated by reference to Exhibit 10.15 to Dollar General Corporation's Registration Statement on Form S-1 (file no. 333-161464))

10.10

Form of Director Stock Option Agreement in connection with option grants made to outside directors pursuant to the Company's Amended and Restated 2007 Stock Incentive Plan (incorporated by reference to Exhibit 10.16 to Dollar General Corporation's Registration Statement on Form S-1 (file no. 333-161464))

10.11

1998 Stock Incentive Plan (As Amended and Restated effective as of May 31, 2006) (incorporated by reference to Exhibit 99 to Dollar General Corporation's Current Report on Form 8-K dated May 31, 2006, filed with the SEC on June 2, 2006 (file no. 001-11421))*

10.12

Amendment to Dollar General Corporation 1998 Stock Incentive Plan, effective November 28, 2006 (incorporated by reference to Exhibit 10.8 to Dollar General Corporation's Annual Report on Form 10-K for the fiscal year ended February 2, 2007, filed with the SEC on March 29, 2007 (file no. 001-11421))*

10.13

Amendment to Dollar General Corporation 1998 Stock Incentive Plan, effective August 26, 2010 (incorporated by reference to Exhibit 10.1 to Dollar General Corporation's Quarterly Report on Form 10-Q for the fiscal quarter ended July 30, 2010, filed with the SEC on August 31, 2010 (file no. 001-11421))*

10.14

Form of Stock Option Grant Notice in connection with option grants made pursuant to the 1998 Stock Incentive Plan (incorporated by reference to Dollar General Corporation's Quarterly Report on Form 10-Q for the quarter ended July 29, 2005, filed with the SEC on August 25, 2005 (file no. 001-11421))*

10.15

Dollar General Corporation CDP/SERP Plan (as amended and restated effective December 31, 2007) (incorporated by reference to Exhibit 10.10 to Dollar General Corporation's Registration Statement on Form S-4 (file no. 333-148320))*

10.16

First Amendment to the Dollar General Corporation CDP/SERP Plan (as amended and restated effective December 31, 2007) (incorporated by reference to Exhibit 10.11 to Dollar General Corporation's Registration Statement on Form S-4 (file no. 333-148320))*

10.17

Second Amendment to the Dollar General Corporation CDP/SERP Plan (as amended and restated effective December 31, 2007), dated as of June 3, 2008 (incorporated by reference to Exhibit 10.6 to Dollar General Corporation's Quarterly Report on Form 10-

Edgar Filing: DOLLAR GENERAL CORP - Form 10-K

Q for the quarter ended August 1, 2008, filed with the SEC on September 3, 2008 (file no. 001-11421))*

10.18

Amended and Restated Dollar General Corporation Annual Incentive Plan (incorporated by reference to Exhibit 10.14 to Dollar General Corporation's Registration Statement on Form S-1 (file no. 333-161464))*

10.19

Dollar General Corporation 2010 Teamshare Bonus Program for Named Executive Officers (incorporated by reference to Exhibit 10.3 to Dollar General Corporation's Quarterly Report on Form 10-Q for the fiscal quarter ended April 30, 2010, filed with the SEC on June 8, 2010 (file no. 001-11421))*

10.20

Summary of Dollar General Corporation Life Insurance Program as Applicable to Executive Officers (incorporated by reference to Exhibit 10.19 to Dollar General Corporation's Annual Report on Form 10-K for the fiscal year ended February 2, 2007, filed with the SEC on March 29, 2007) (file no. 001-11421))*

10.21

Dollar General Corporation Domestic Relocation Policy for Officers *

10.22

Summary of Director Compensation

10.23

Amended and Restated Employment Agreement effective April 23, 2010, by and between Dollar General Corporation and Richard Dreiling (incorporated by reference to Exhibit 99.1 to Dollar General Corporation's Current Report on Form 8-K dated April 23, 2010, filed with the SEC on April 27, 2010 (file no. 001-11421))*

10.24

Stock Option Agreement, dated as of January 21, 2008, between Dollar General Corporation and Richard Dreiling (incorporated by reference to Exhibit 10.29 to Dollar General Corporation's Registration Statement on Form S-4 (file no. 333-148320))*

10.25

Stock Option Agreement dated April 23, 2010, by and between Dollar General Corporation and Richard Dreiling (incorporated by reference to Exhibit 99.2 to Dollar General Corporation's Current Report on Form 8-K dated April 23, 2010, filed with the SEC on April 27, 2010 (file no. 001-11421))*

10.26

Restricted Stock Award Agreement, effective as of January 21, 2008, between Dollar General Corporation and Richard Dreiling (incorporated by reference to Exhibit 10.32 to Dollar General Corporation's Registration Statement on Form S-4 (file no. 333-148320))*

10.27

Management Stockholder's Agreement, dated as of January 21, 2008, among Dollar General Corporation, Buck Holdings, L.P. and Richard Dreiling (incorporated by reference to Exhibit 10.30 to Dollar General Corporation's Registration Statement on Form S-4 (file no. 333-148320))*

10.28

Employment Agreement effective April 1, 2009, by and between Dollar General Corporation and David M. Tehle (incorporated by reference to Exhibit 99.1 to Dollar

Edgar Filing: DOLLAR GENERAL CORP - Form 10-K

General Corporation's Current Report on Form 8-K dated March 30, 2009, filed with the SEC on April 3, 2009 (file no. 001-11421))*

10.29

Employment Agreement effective April 1, 2009, by and between Dollar General Corporation and Kathleen R. Guion (incorporated by reference to Exhibit 99.2 to Dollar General Corporation's Current Report on Form 8-K dated March 30, 2009, filed with the SEC on April 3, 2009 (file no. 001-11421))*

10.30

Employment Agreement, dated December 1, 2008, between Dollar General Corporation and Todd Vasos (incorporated by reference to Exhibit 10.35 to Dollar General Corporation's Annual Report on Form 10-K for the fiscal year ended January 29, 2010, filed with the SEC on March 24, 2009 (file no. 001-11421))*

10.31

Stock Option Agreement, dated December 19, 2008, between Dollar General Corporation and Todd Vasos (incorporated by reference to Exhibit 10.36 to Dollar General Corporation's Annual Report on Form 10-K for the fiscal year ended January 29, 2010, filed with the SEC on March 24, 2009 (file no. 001-11421))*

10.32

Management Stockholder's Agreement, dated December 19, 2008, among Dollar General Corporation, Buck Holdings, L.P., and Todd Vasos (incorporated by reference to Exhibit 10.37 to Dollar General Corporation's Annual Report on Form 10-K for the fiscal year ended January 29, 2010, filed with the SEC on March 24, 2009 (file no. 001-11421))*

10.33

Employment Agreement, effective March 24, 2010, by and between Dollar General Corporation and John Flanigan*

10.34

Stock Option Agreement, dated as of August 28, 2008, by and between Dollar General Corporation and John Flanigan*

10.35

Stock Option Agreement, dated as of May 28, 2009, by and between Dollar General Corporation and John Flanigan*

10.36

Stock Option Agreement, dated as of March 24, 2010, by and between Dollar General Corporation and John Flanigan*

10.37

Subscription Agreement entered into as of March 24, 2010, by and between Dollar General Corporation and John Flanigan*

10.38

Management Stockholder s Agreement, dated as of August 28, 2008, by and between Dollar General Corporation, Buck Holdings, L.P., and John Flanigan*

10.39

Employment Agreement, effective March 24, 2010, by and between Dollar General Corporation and Robert Ravener*

10.40

Stock Option Agreement, dated as of August 28, 2008, by and between Dollar General Corporation and Robert Ravener*

10.41

Stock Option Agreement, dated as of December 19, 2008, by and between Dollar General Corporation and Robert Ravener*

10.42

Stock Option Agreement, dated as of March 24, 2010, by and between Dollar General Corporation and Robert Ravener*

10.43

Subscription Agreement entered into as of December 19, 2008 by and between Dollar General Corporation and Robert Ravener*

10.44

Management Stockholder's Agreement entered into as of August 28, 2008 among Dollar General Corporation, Buck Holdings, L.P., and Robert Ravener*

10.45

Indemnification Agreement, dated July 6, 2007, among Buck Holdings, L.P., Dollar General Corporation, Kohlberg Kravis Roberts & Co L.P., and Goldman, Sachs & Co. (incorporated by reference to Exhibit 10.26 to Dollar General Corporation's Registration Statement on Form S-4 (file no. 333-148320))

10.46

Indemnification Priority and Information Sharing Agreement, dated as of June 30, 2009, among Kohlberg Kravis Roberts & Co. L.P., the funds named therein and Dollar General Corporation (incorporated by reference to Exhibit 10.42 to Dollar General Corporation's Registration Statement on Form S-1 (file no. 333-161464))

21

List of Subsidiaries of Dollar General Corporation

23

Consent of Independent Registered Public Accounting Firm

24

Powers of Attorney (included as part of the signature pages hereto)

31

Certifications of CEO and CFO under Exchange Act Rule 13a-14(a)

32

Certifications of CEO and CFO under 18 U.S.C. 1350

*

Management Contract or Compensatory Plan