DOLLAR GENERAL CORP
Form 10-Q
September 05, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT

PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended August 3, 2012

Commission File Number: 001-11421

DOLLAR GENERAL CORPORATION

(Exact name of Registrant as specified in its charter)

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

100 MISSION RIDGE
GOODLETTSVILLE, TN 37072

(Address of principal executive offices, zip code)

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

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

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

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

Large accelerated filer x	Accelerated filer o
Non-accelerated filer o	Smaller reporting company o

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

The registrant had 333,695,858 shares of common stock outstanding on August 27, 2012.

PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

DOLLAR GENERAL CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

	August 3, 2012 (Unaudited)	February 3, 2012 (see Note 1)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 134,157	$ 126,126
Merchandise inventories	2,147,837	2,009,206
Income taxes receivable	89,473	
Prepaid expenses and other current assets	142,977	139,742
Total current assets	2,514,444	2,275,074
Net property and equipment	1,972,205	1,794,960
Goodwill	4,338,589	4,338,589
Other intangible assets, net	1,227,499	1,235,954
Other assets, net	50,737	43,943
Total assets	$ 10,103,474	$ 9,688,520
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Current portion of long-term obligations	$ 344	$ 590
Accounts payable	1,143,857	1,064,087
Accrued expenses and other	366,271	397,075
Income taxes payable	665	44,428
Deferred income taxes	15,546	3,722
Total current liabilities	1,526,683	1,509,902
Long-term obligations	2,887,251	2,617,891
Deferred income taxes	651,521	656,996
Other liabilities	222,008	229,149
Commitments and contingencies		
Redeemable common stock	5,601	6,087
Shareholders equity:		
Preferred stock		
Common stock	291,983	295,828
Additional paid-in capital	2,973,160	2,960,940
Retained earnings	1,550,438	1,416,918
Accumulated other comprehensive loss	(5,171)	(5,191)
Total shareholders equity	4,810,410	4,668,495
Total liabilities and shareholders equity	$ 10,103,474	$ 9,688,520

See notes to condensed consolidated financial statements.

DOLLAR GENERAL CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(In thousands, except per share amounts)

	For the 13 weeks ended		For the 26 weeks ended	
	August 3, 2012	July 29, 2011	August 3, 2012	July 29, 2011
Net sales	$ 3,948,655	$ 3,575,194	$ 7,849,860	$ 7,026,891
Cost of goods sold	2,685,432	2,426,852	5,358,381	4,791,152
Gross profit	1,263,223	1,148,342	2,491,479	2,235,739
Selling, general and administrative expenses	876,009	798,313	1,719,941	1,564,092
Operating profit	387,214	350,029	771,538	671,647
Interest expense	35,666	60,627	72,740	126,199
Other (income) expense	26,557	58,239	28,228	60,511
Income before income taxes	324,991	231,163	670,570	484,937
Income tax expense	110,851	85,121	243,015	181,926
Net income	$ 214,140	$ 146,042	$ 427,555	$ 303,011
Earnings per share:				
Basic	$ 0.64	$ 0.43	$ 1.28	$ 0.89
Diluted	$ 0.64	$ 0.42	$ 1.27	$ 0.88
Weighted average shares outstanding:				
Basic	333,001	341,534	334,541	341,528
Diluted	335,521	345,625	337,507	345,509

See notes to condensed consolidated financial statements.

DOLLAR GENERAL CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(In thousands)

	For the 13 weeks ended		For the 26 weeks ended	
	August 3, 2012	**July 29, 2011**	**August 3, 2012**	**July 29, 2011**
Comprehensive income	$ 211,630	$ 150,656	$ 427,574	$ 312,325

See notes to condensed consolidated financial statements.

DOLLAR GENERAL CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

	For the 26 weeks ended	
	August 3, 2012	**July 29, 2011**
Cash flows from operating activities:		
Net income	$ 427,555	$ 303,011
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	146,260	135,871
Deferred income taxes	(844)	18,136
Tax benefit of stock options	(59,235)	(450)
Loss on debt retirement, net	30,620	60,303
Noncash share-based compensation	10,224	6,798
Other noncash gains and losses	3,332	17,709
Change in operating assets and liabilities:		
Merchandise inventories	(139,998)	(222,669)
Prepaid expenses and other current assets	(1,847)	(37,136)
Accounts payable	68,515	166,690
Accrued expenses and other liabilities	(35,276)	18,399
Income taxes	(74,001)	(68,155)
Other	(1,813)	(68)
Net cash provided by (used in) operating activities	373,492	398,439
Cash flows from investing activities:		
Purchases of property and equipment	(303,988)	(218,123)
Proceeds from sales of property and equipment	426	473
Net cash provided by (used in) investing activities	(303,562)	(217,650)
Cash flows from financing activities:		
Issuance of long-term obligations	500,000	
Repayments of long-term obligations	(477,846)	(911,361)
Borrowings under revolving credit facility	1,035,400	371,600
Repayments of borrowings under revolving credit facility	(815,200)	(25,600)
Debt issue costs	(15,067)	
Repurchase of common stock from principal shareholder	(300,000)	
Equity transactions with employees, net of taxes paid	(48,421)	(274)
Tax benefit of stock options	59,235	450
Net cash provided by (used in) financing activities	(61,899)	(565,185)
Net increase (decrease) in cash and cash equivalents	8,031	(384,396)
Cash and cash equivalents, beginning of period	126,126	497,446
Cash and cash equivalents, end of period	$ 134,157	$ 113,050
Supplemental schedule of non-cash investing and financing activities:		
Purchases of property and equipment awaiting processing for payment, included in Accounts payable	$ 46,917	$ 32,276

See notes to condensed consolidated financial statements.

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DOLLAR GENERAL CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

1. Basis of presentation

The accompanying unaudited condensed consolidated financial statements of Dollar General Corporation and its subsidiaries (the Company) have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) for interim financial information and are presented in accordance with the requirements of Form 10-Q and Rule 10-01 of Regulation S-X. Such financial statements consequently do not include all of the disclosures normally required by U.S. GAAP or those normally made in the Company s Annual Report on Form 10-K, including the condensed consolidated balance sheet as of February 3, 2012 which has been derived from the audited consolidated financial statements at that date. Accordingly, readers of this Quarterly Report on Form 10-Q should refer to the Company s Annual Report on Form 10-K for the fiscal year ended February 3, 2012 for additional information.

The Company s fiscal year ends on the Friday closest to January 31. Unless the context requires otherwise, references to years contained herein pertain to the Company s fiscal year. The Company s 2012 fiscal year will be a 52-week accounting period ending on February 1, 2013 and the 2011 fiscal year was a 53-week accounting period that ended on February 3, 2012.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the Company s customary accounting practices. In management s opinion, all adjustments (which are of a normal recurring nature) necessary for a fair presentation of the consolidated financial position as of August 3, 2012 and results of operations for the 13-week and 26-week accounting periods ended August 3, 2012 and July 29, 2011 have been made.

The preparation of financial statements and related disclosures in conformity with U.S. GAAP 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 condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

The Company uses the last-in, first-out (LIFO) method of valuing inventory. 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. The interim LIFO calculations are subject to adjustment in the final year-end LIFO inventory valuation. The Company recorded a LIFO provision (benefit) of $(0.5) million and $10.7 million in the respective 13-week periods, and $1.1 million and $14.2 million in the respective 26-week periods, ended August 3, 2012 and July 29, 2011. In addition, ongoing estimates of inventory shrinkage and initial markups and markdowns are included in the interim cost of goods sold calculation. Because the Company s

business is moderately seasonal, the results for interim periods are not necessarily indicative of the results to be expected for the entire year.

In July 2012, the Financial Accounting Standards Board issued new accounting guidance relating to impairment testing for indefinite-lived intangible assets. In accordance with this guidance, an entity has the option first to assess qualitative factors to determine whether events and circumstances indicate that it is more likely than not that an indefinite-lived intangible asset is impaired. If after such assessment an entity concludes that the indefinite-lived intangible asset is not impaired, then the entity is not required to take further action. However, if an entity concludes otherwise, then it is required to determine the fair value of the indefinite-lived intangible asset and perform the quantitative impairment test as required by existing standards. This guidance is effective for annual and interim impairment tests for fiscal years beginning after September 15, 2012 and early adoption is permitted. The Company is in the process of evaluating this guidance, which is not expected to have a material impact on its consolidated financial statements.

Certain financial statement amounts relating to prior periods have been reclassified to conform to the current period presentation.

2. Common stock transactions

On November 30, 2011, the Company s Board of Directors authorized a $500 million common stock repurchase program, of which $15 million remained available for repurchase as of August 3, 2012. The repurchase authorization has no expiration date and allows repurchases from time to time in the open market or in privately negotiated transactions, which could include repurchases from Buck Holdings, L.P. (which is controlled by affiliates of Kohlberg Kravis Roberts & Co., L.P. (KKR) and Goldman Sachs & Co.) or other related parties if appropriate. The timing and number of shares purchased depends on a variety of factors, such as price, market conditions and other factors. Repurchases under the program may be funded from available cash or borrowings under the Company s revolving credit facility. On April 2, 2012, the Company repurchased under this program 6,817,311 shares from Buck Holdings, L.P. for $300 million.

3. Earnings per share

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

	13 Weeks Ended August 3, 2012			13 Weeks Ended July 29, 2011		
	Net Income	Shares	Per Share Amount	Net Income	Shares	Per Share Amount
Basic earnings per share	$ 214,140	333,001	$ 0.64	$ 146,042	341,534	$ 0.43
Effect of dilutive share-based awards		2,520			4,091	
Diluted earnings per share	$ 214,140	335,521	$ 0.64	$ 146,042	345,625	$ 0.42

	26 Weeks Ended August 3, 2012			26 Weeks Ended July 29, 2011		
	Net Income	Shares	Per Share Amount	Net Income	Shares	Per Share Amount
Basic earnings per share	$ 427,555	334,541	$ 1.28	$ 303,011	341,528	$ 0.89
Effect of dilutive share-based awards		2,966			3,981	
Diluted earnings per share	$ 427,555	337,507	$ 1.27	$ 303,011	345,509	$ 0.88

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

Options to purchase shares of common stock that were outstanding at the end of the respective periods, but were not included in the computation of diluted earnings per share because the effect of exercising such options would be antidilutive, were 1.0 million and 0.3 million in the 2012 and 2011 periods, respectively.

4. 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.

Income tax reserves are determined using the methodology established by accounting standards for income taxes which require companies to assess each income tax position taken using a two-step approach. 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.

The Internal Revenue Service (IRS) has completed its examination of the Company s federal income tax returns for fiscal years 2006, 2007, and 2008. As a result, the 2008 and earlier years are not open for examination by the IRS. The IRS has not indicated whether they intend to examine the Company s 2009, 2010, or 2011 fiscal year income tax filings. The Company has various state income tax examinations that are currently in progress. Generally, the Company s 2009 and later tax years remain open for examination by the various state taxing authorities.

As of August 3, 2012, the total reserves for uncertain tax benefits, interest expense related to income taxes and potential income tax penalties were $21.3 million, $1.8 million and $0.4 million, respectively, for a total of $23.5 million. Of this amount, $0.3 million and $22.9 million are reflected in current liabilities as Accrued expenses and other and in noncurrent Other liabilities, respectively, in the condensed consolidated balance sheet with the remaining $0.3 million reducing deferred tax assets related to net operating loss carry forwards. The reserve for uncertain tax benefits decreased during the 26-week period ended August 3, 2012 by $20.7 million due principally to the favorable resolution of matters associated with examination activity.

The Company believes it is reasonably possible that the reserve for uncertain tax positions may be reduced by approximately $1.0 million in the coming twelve months. As of August 3, 2012, approximately $21.3 million of the reserve for 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 effective income tax rates for the 13-week and 26-week periods ended August 3, 2012 were 34.1% and 36.2%, compared to rates of 36.8% and 37.5% for the respective 13-week and 26-week periods ended July 29, 2011. Increases in the effective tax rate associated with the expiration of various federal jobs credits for workers hired after December 31, 2011 (primarily the Work Opportunity Tax Credit) as well as the expiration of the Hire Act s Retention Credit were more than offset by decreases associated with the adjustment of accruals due to the favorable resolution of income tax examinations.

5. Current and long-term obligations

On July 12, 2012, the Company issued $500.0 million aggregate principal amount of 4.125% senior notes due 2017 (the Senior Notes) which mature on July 15, 2017, pursuant to an indenture dated as of July 12, 2012 (the Senior Indenture). The Company capitalized $7.1 million of debt issue costs associated with the Senior Notes.

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

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

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

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

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

On July 15, 2012, the Company redeemed the entire $450.7 million outstanding aggregate principal amount of its 11.875%/12.625% Senior Subordinated Notes due 2017 (the Senior Subordinated Notes) at a redemption price of 105.938% of the principal amount, plus accrued and unpaid interest. The redemption was effected in accordance with the indenture governing the Senior Subordinated Notes. The pretax loss on this transaction of $29.0 million is reflected in Other (income) expense in the Company s condensed consolidated statements of income for the 13-week and 26-week periods ended August 3, 2012. The Company funded the redemption price for the Senior Subordinated Notes with proceeds from the issuance of the Senior Notes.

On March 15, 2012, the Company s senior secured asset based revolving credit facility was amended and restated (the ABL Facility). The maturity date was extended to July 6, 2014 and the total commitment was increased to $1.2 billion (of which up to $350.0 million is available for letters of credit), subject to borrowing base availability. At August 3, 2012, the applicable margin for borrowings under the ABL Facility was 1.75% for LIBOR borrowings and 0.75% for base-rate borrowings, and the commitment fee for any unutilized commitments was 0.375%. The applicable margins for borrowings and the commitment fees under the ABL Facility are subject to adjustment each quarter, based on average daily excess availability under the ABL Facility. The Company also must pay customary letter of credit fees. The Company capitalized $2.7 million of debt issue costs, and incurred a pretax loss of $1.6 million for the write off of a portion of existing debt issue costs associated with the amendment, which is reflected in Other (income) expense in the Company s condensed consolidated statement of income for the 26-week period ended August 3, 2012. The balance of the ABL Facility was $404.9 million at August 3, 2012 compared to $184.7 million at February 3, 2012.

On March 30, 2012, the Company s $1.964 billion senior secured term loan facility was amended and restated (the Term Loan Facility which, together with the ABL Facility, comprise the Credit Facilities). Pursuant to the amendment, the maturity date for $879.7 million of the Term Loan Facility was extended from July 6, 2014 to July 6, 2017. The applicable margin for borrowings under the Term Loan Facility remains unchanged. The Company capitalized $5.2 million of debt issue costs associated with the amendment.

On July 15, 2011, the Company redeemed all $839.3 million outstanding aggregate principal amount of its 10.625% Senior Notes due 2015 (Senior Notes due 2015) at a redemption price of 105.313% of the principal amount, plus accrued and unpaid interest. The redemption was effected in accordance with the indenture governing such notes. The pretax loss on this transaction of $58.1 million is reflected in Other (income) expense in the Company s condensed consolidated statements of income for the 13-week and 26-week periods ended July 29, 2011. The Company funded the redemption price with cash on hand and borrowings under the ABL Facility.

On April 29, 2011, the Company repurchased in the open market $25.0 million aggregate principal amount of Senior Notes due 2015 at a price of 107.0% plus accrued and unpaid interest, funded with cash on hand. The pretax loss on this transaction of $2.2 million is reflected in Other (income) expense in the Company s condensed consolidated statement of income for the 26-week period ended July 29, 2011.

Approximately $1.5 billion of the Company s outstanding long-term debt balances as of August 3, 2012 will mature in 2014 and approximately $1.4 billion of such debt will mature after 2016.

6. Assets and liabilities measured at fair value

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).

In connection with accounting standards for fair value measurement, the Company has made an accounting policy election to measure the credit risk of its derivative financial instruments that are subject to master netting agreements on a net basis by counterparty portfolio. The Company has determined that the majority of the inputs used to value its derivative financial instruments using the income approach fall within Level 2 of the fair value hierarchy. However, the credit valuation adjustments associated with the Company s 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 August 3, 2012, the Company has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and has determined that such adjustments are not significant to the derivatives valuation. As a result, the Company has classified its derivative valuations, as discussed in detail in Note 7, in Level 2 of the fair value hierarchy. The Company s long-term obligations that are classified in Level 2 of the fair value hierarchy are valued at cost. The Company does not have any fair value measurements categorized within Level 3 as of August 3, 2012.

(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 August 3, 2012
Assets:								
Trading securities (a)	$	6,308	$		$		$	6,308
Liabilities:								
Long-term obligations (b)		2,893,651		19,195				2,912,846
Derivative financial instruments (c)				8,493				8,493
Deferred compensation (d)		20,400						20,400

(a) Reflected at fair value in the condensed consolidated balance sheet as Prepaid expenses and other current assets of $2,676 and Other assets, net of $3,632.

(b) Reflected at book value in the condensed consolidated balance sheet as Current portion of long-term obligations of $344 and Long-term obligations of $2,887,251.

(c) Reflected in the condensed consolidated balance sheet as Accrued expenses and other current liabilities of $3,117 and non-current Other liabilities of $5,376.

(d) Reflected at fair value in the condensed consolidated balance sheet as Accrued expenses and other current liabilities of $3,667 and non-current Other liabilities of $16,733.

7. Derivatives and hedging activities

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.

Risk management objective of using derivatives

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 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.

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 may enter into derivative financial instruments to protect against future price changes related to these commodity prices.

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 movements. 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. During the 13-week and 26-week periods ended August 3, 2012 and July 29, 2011, such derivatives were used to hedge the variable cash flows associated with existing variable-rate debt. Any ineffective portion of the change in fair value of the derivatives is recognized directly in earnings.

In May 2012, the Company entered into interest rate swaps with a total notional amount of $875.0 million in order to mitigate a portion of the variable rate interest exposure under the Term Loan Facility. These swaps have an effective date of May 31, 2012 and are scheduled to mature on May 29, 2015. The terms of the agreements resulted in the swap of one month LIBOR rates for a fixed interest rate, which will result in the payment of an all-in fixed rate of 3.34% on the notional amount through the date of maturity.

As of August 3, 2012, the Company had four interest rate swaps with a combined notional value of $1.175 billion that were designated as cash flow hedges of interest rate risk. Amounts reported in Accumulated other comprehensive loss related to derivatives will be reclassified to interest expense as interest payments are made on the Company s variable-rate debt. During the next 52-week period, the Company estimates that an additional $6.2 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. Changes in the fair value of derivatives not designated in hedging relationships are recorded directly in earnings. As of August 3, 2012, and July 29, 2011, the Company had no such non-designated hedges.

The tables below present the fair value of the Company s derivative financial instruments as well as their classification on the condensed consolidated balance sheets as of August 3, 2012 and February 3, 2012:

(in thousands)		August 3, 2012		February 3, 2012
Derivatives Designated as Hedging Instruments				
Interest rate swaps classified in current liabilities as Accrued expenses and other	$	3,117	$	10,820
Interest rate swaps classified in noncurrent Other liabilities	$	5,376	$	

The tables below present the pre-tax effect of the Company s derivative financial instruments on the condensed consolidated statements of comprehensive income for the 13-week and 26-week periods ended August 3, 2012 and July 29, 2011:

	13 Weeks Ended				26 Weeks Ended			
(in thousands)		August 3, 2012		July 29, 2011		August 3, 2012		July 29, 2011
Derivatives in Cash Flow Hedging Relationships								
Loss related to effective portion of derivative recognized in OCI	$	8,506	$	1,235	$	8,542	$	2,838
Loss related to effective portion of derivative reclassified from Accumulated OCI to Interest expense	$	4,386	$	8,821	$	8,571	$	18,141
(Gain) loss related to ineffective portion of derivative recognized in Other (income) expense	$	(2,434)	$	103	$	(2,392)	$	208

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 there is a payment default or repayment is accelerated by the lender as a result of the Company s default on indebtedness equal to or greater than the cross default threshold in the Credit Facilities.

As of August 3, 2012, 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 $8.8 million. If the Company had breached any of these provisions at August 3, 2012, it could have been required to post full collateral or settle its obligations under the agreements at an estimated termination value of $8.8 million. As of August 3, 2012, the Company had not breached any of these provisions or posted any collateral related to these agreements.

8. Commitments and contingencies

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. Approximately 3,950 individuals have opted into the lawsuit, approximately 800 of whom have been dismissed for various reasons, including failure to cooperate in discovery.

Except as to certain limited fact discovery, the discovery period has closed. On April 2, 2012, the Company filed its decertification motion. Plaintiff s response to that motion was filed on May 9, 2012. No deadline currently exists for potentially dispositive motions, and the court has not set a trial date.

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 is vigorously defending the *Richter* matter. 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 its defense of the 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 the matter; however, if the Company is not successful in its defense efforts, the resolution of *Richter* could have a material adverse effect on the Company s 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) (now captioned, *Wanda Womack, et al. v. Dolgencorp, Inc.,* Case No. 2:06-cv-00465-VEH). 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 sought to proceed collectively under the Equal Pay Act and as a class under Title VII, and requested 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 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. The Company s motion to decertify the Equal Pay Act class was denied as premature.

The parties agreed to mediate, and the court stayed the action pending the results of the mediation. The mediation occurred in March and April, 2011, at which time the Company reached an agreement in principle to settle the matter on behalf of the entire putative class. The proposed settlement, which received final approval from the court on July 23, 2012, provides for both monetary and equitable relief. Under the approved terms, $15.5 million was paid into a fund for the class members that will be apportioned and paid out to individual members (less certain administrative expenses and any additional attorneys fees approved by the court). An additional $3.25 million will be paid for plaintiffs legal fees and costs. Of the total $18.75 million, the Company s Employment Practices Liability Insurance (EPLI) carrier paid approximately $15.9 million in the first quarter of 2012 to a third party claims administrator to disburse the funds, per the settlement terms, to claimants and counsel in accordance with the court s orders, which represented the balance remaining of the $20 million EPLI policy covering the claims. The Company paid approximately $2.8 million to the third party claims administrator. In addition, the Company agreed to make, and, effective April 1, 2012, has made, certain adjustments to its pay setting policies and procedures for new store managers. Because it deemed settlement probable and estimable, the Company accrued for the net settlement as well as for certain additional anticipated fees related thereto during the first quarter of 2011, and concurrently recorded a receivable of approximately $15.9 million from its EPLI carrier. Due to the payments described above, the accrual and receivable were each relieved during the first quarter of 2012.

On April 9, 2012, the Company was served with a lawsuit filed in the United States District Court for the Eastern District of Virginia entitled *Jonathan Marcum v. Dolgencorp. Inc.* (Civil Action No. 3:12-cv-00108-JRS) in which the plaintiff, whose conditional offer of employment was rescinded, alleges defamation and that certain of the Company s background check procedures violate the Fair Credit Reporting Act (FCRA). According to the complaint, the plaintiff seeks to represent a putative class of applicants in connection with his FCRA claims. The Company filed its response to the complaint in June 2012. The plaintiff s certification motion is due to be filed on or before December 7, 2012.

At this time, it is not possible to predict whether the court ultimately will permit the action to proceed as a class under the FCRA. 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. At this stage in the proceedings, the Company cannot estimate either the size of any potential class or the value of the claims raised by the plaintiff. For these reasons, the Company is unable to estimate any potential loss or range of loss in such a scenario; 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.

In September 2011, the Chicago Regional Office of the United States Equal Employment Opportunity Commission (EEOC or Commission) notified the Company of a cause finding related to the Company s criminal background check policy. The cause finding alleges that Dollar General s criminal background check policy, which excludes from employment individuals with certain criminal convictions for specified periods, has a disparate impact on

African-American candidates and employees in violation of Title VII of the Civil Rights Act of 1964, as amended.

The Company and the EEOC engaged in the statutorily required conciliation process, and despite the Company s good faith efforts to resolve the matter, the Commission notified the Company on July 26, 2012 of its view that conciliation had failed.

The Company believes that its criminal background check process is both lawful and necessary to a safe environment for its employees and customers and the protection of its assets and shareholders investments. Based on the Commission s conciliation demands and its decision to fail conciliation, the Company believes that litigation may ensue. The Company does not believe that this matter would be amenable to class or similar treatment; however, because at this time the Company cannot estimate or determine the form that any ultimate litigation would take, the size of any putative class or the damages or other recoveries that would be sought, it cannot estimate the potential exposure. If the matter were to proceed successfully as a class or similar action, it could have a material impact on the Company s financial statements as a whole.

On May 20, 2011, a lawsuit entitled *Winn-Dixie Stores, Inc., et al. v. Dolgencorp, LLC* was filed in the United States District Court for the Southern District of Florida (Case No. 9:11-cv-80601-DMM) (Winn-Dixie) in which the plaintiffs alleged that the sale of food and other items in approximately 55 of the Company s stores, each of which allegedly is or was at some time co-located in a shopping center with one of plaintiffs stores, violates restrictive covenants that plaintiffs contend are binding on the occupants of the shopping centers. Plaintiffs sought damages and an injunction limiting the sale of food and other items in those stores. Although plaintiffs did not make a demand for any specific amount of damages, documents prepared and produced by plaintiffs during discovery suggested that plaintiffs would seek as much as $47 million although the court limited their ability to prove such damages. The Company vigorously defended the *Winn-Dixie* matter and viewed that sum as wholly without basis and unsupported by the law and the facts. The various leases involved in the matter are unique in their terms and/or the factual circumstances surrounding them, and, in some cases, the stores named by plaintiffs are not now and have never been co-located with plaintiffs stores. The court granted the Company s motion challenging the admissibility of plaintiffs damages expert, precluding the expert from testifying. The case was consolidated with similar cases against Big Lots and Dollar Tree, and a non-jury trial commenced on May 14, 2012 and presentation of evidence concluded on May 22, 2012. The court issued an order on August 10, 2012 in which it (i) dismissed all claims for damages, (ii) dismissed claims for injunctive relief for all but four stores, and (iii) directed the Company to report to the court on its compliance with restrictive covenants at the four stores for which it did not dismiss the claims for injunctive relief. The Company believes that the ruling will have no material impact on the Company s financial statements or otherwise. Plaintiffs filed a notice of appeal of the court s decision on August 28, 2012. If an appeal is pursued and is successful in overturning all or a portion of the court s ruling, no assurances can be given that the Company will be successful in its ultimate defense of the action on the merits or otherwise. If the Company is not successful in its defense, the outcome could have a material adverse effect on the Company s financial statements as a whole.

In 2008, the Company terminated an interest rate swap as a result of the counterparty s declaration of bankruptcy and made a cash payment of $7.6 million to settle the swap. On May 14, 2010, the Company received a demand from the counterparty for an additional payment of approximately $19 million plus interest. In April 2011, the Company reached a settlement with the counterparty under which the Company paid an additional $9.85 million in exchange for a full release. The Company accrued the settlement amount along with additional expected fees and costs related thereto in the first quarter of 2011. The settlement was finalized and the payment was made in May 2011.

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.

9. Related party transactions

From time to time, the Company may conduct business with related parties including KKR and Goldman Sachs & Co., and references herein to these entities include their affiliates. KKR and Goldman, Sachs & Co. indirectly own a significant portion of the Company s common stock. Two of KKR s members and a Managing Director of Goldman, Sachs & Co. serve on the Company s Board of Directors.

KKR and Goldman, Sachs & Co. (among other entities) are or may be lenders, agents or arrangers under the Company s Term Loan Facility and ABL Facility discussed in further detail in Note 5. The Company made interest payments of approximately $32.1 million and $36.8 million on the Term Loan Facility and $2.6 million and zero on the ABL Facility during the 26-week periods ended August 3, 2012 and July 29, 2011, respectively. In connection with the Term Loan Facility extension, KKR received $0.4 million. In connection with the ABL Facility and Term Loan Facility extensions, Goldman, Sachs & Co. received $0.1 million and $0.4 million, respectively.

As joint book-running managers in connection with the issuance of the Senior Notes, KKR and Goldman Sachs & Co. received an equivalent share of approximately $2.3 million during the 26-week period ended August 3, 2012.

Goldman, Sachs & Co. was a counterparty to an amortizing interest rate swap, entered into in connection with the Term Loan Facility, which matured on July 31, 2012. The Company paid Goldman, Sachs & Co. approximately $2.5 million and $10.6 million in the 26-week periods ended August 3, 2012 and July 29, 2011, respectively, pursuant to this swap.

KKR and 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 and June 2012. The Company did not sell shares of common stock, receive proceeds from such shareholders sales of shares of common stock or pay any underwriting fees in connection with the secondary offering. Certain members of the Company s management exercised registration rights in connection with such offering.

The Company repurchased common stock held by Buck Holdings, L.P. (which is controlled by KKR and Goldman Sachs & Co.) during 2012 as further discussed in Note 2.

10. Segment reporting

The Company manages its business on the basis of one reportable segment. As of August 3, 2012, 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. Net sales grouped by classes of similar products are presented below.

	13 Weeks Ended		26 Weeks Ended	
(In thousands)	**August 3, 2012**	**July 29, 2011**	**August 3, 2012**	**July 29, 2011**
Classes of similar products:				
Consumables	$ 2,920,821	$ 2,611,070	$ 5,798,103	$ 5,140,140
Seasonal	536,738	502,569	1,061,231	959,626
Home products	255,915	235,803	514,913	470,011
Apparel	235,181	225,752	475,613	457,114
Net sales	$ 3,948,655	$ 3,575,194	$ 7,849,860	$ 7,026,891

11. Subsequent event

On August 29, 2012, the Company s Board of Directors authorized a $500 million common stock repurchase program in addition to the program discussed in Note 2. The repurchase authorization has no expiration date and allows repurchases from time to time in the open market or in privately negotiated transactions, which could include repurchases from Buck Holdings, L.P. or other related parties if appropriate. The timing and number of shares purchased depends on a variety of factors, such as price, market conditions and other factors. Repurchases under the program may be funded from available cash or borrowings under the ABL Facility discussed in Note 5.

12. 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.

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	August 3, 2012				
	DOLLAR GENERAL CORPORATION	GUARANTOR SUBSIDIARIES	OTHER SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTAL
BALANCE SHEET:					
ASSETS					
Current assets:					
Cash and cash equivalents	$ 3,443	$ 109,458	$ 21,256	$	$ 134,157
Merchandise inventories		2,147,837			2,147,837
Income taxes receivable	109,111	12,420		(32,058)	89,473
Deferred income taxes	1,008		22,511	(23,519)	
Prepaid expenses and other current assets	619,332	5,156,562	5,711	(5,638,628)	142,977
Total current assets	732,894	7,426,277	49,478	(5,694,205)	2,514,444
Net property and equipment	117,075	1,854,990	140		1,972,205
Goodwill	4,338,589				4,338,589
Other intangible assets, net	1,199,700	27,799			1,227,499
Deferred income taxes			50,374	(50,374)	
Other assets, net	7,218,130	15,103	343,380	(7,525,876)	50,737
Total assets	$ 13,606,388	$ 9,324,169	$ 443,372	$ (13,270,455)	$ 10,103,474
LIABILITIES AND SHAREHOLDERS EQUITY					
Current liabilities:					
Current portion of long-term obligations	$	$ 344	$	$	$ 344
Accounts payable	5,106,274	1,615,197	51,983	(5,629,597)	1,143,857
Accrued expenses and other	36,861	273,982	64,458	(9,030)	366,271
Income taxes payable			32,723	(32,058)	665
Deferred income taxes		39,065		(23,519)	15,546
Total current liabilities	5,143,135	1,928,588	149,164	(5,694,204)	1,526,683
Long-term obligations	3,164,978	3,508,553		(3,786,280)	2,887,251
Deferred income taxes	441,965	259,930		(50,374)	651,521
Other liabilities	40,299	37,529	144,180		222,008
Redeemable common stock	5,601				5,601
Shareholders equity:					
Preferred stock					
Common stock	291,983	23,855	100	(23,955)	291,983
Additional paid-in capital	2,973,160	431,253	19,900	(451,153)	2,973,160
Retained earnings	1,550,438	3,134,461	130,028	(3,264,489)	1,550,438
Accumulated other comprehensive loss	(5,171)				(5,171)
Total shareholders equity	4,810,410	3,589,569	150,028	(3,739,597)	4,810,410
Total liabilities and shareholders equity	$ 13,606,388	$ 9,324,169	$ 443,372	$ (13,270,455)	$ 10,103,474

	February 3, 2012				
	DOLLAR GENERAL CORPORATION	GUARANTOR SUBSIDIARIES	OTHER SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTAL
BALANCE SHEET:					
ASSETS					
Current assets:					
Cash and cash equivalents	$ 1,844	$ 102,627	$ 21,655	$	$ 126,126
Merchandise inventories		2,009,206			2,009,206
Deferred income taxes	10,078		21,729	(31,807)	
Prepaid expenses and other current assets	551,457	4,685,263	5,768	(5,102,746)	139,742
Total current assets	563,379	6,797,096	49,152	(5,134,553)	2,275,074
Net property and equipment	113,661	1,681,072	227		1,794,960
Goodwill	4,338,589				4,338,589
Other intangible assets, net	1,199,200	36,754			1,235,954
Deferred income taxes			49,531	(49,531)	
Other assets, net	6,575,574	13,260	323,736	(6,868,627)	43,943
Total assets	$ 12,790,403	$ 8,528,182	$ 422,646	$ (12,052,711)	$ 9,688,520
LIABILITIES AND SHAREHOLDERS EQUITY					
Current liabilities:					
Current portion of long-term obligations	$	$ 590	$	$	$ 590
Accounts payable	4,654,237	1,451,277	52,362	(5,093,789)	1,064,087
Accrued expenses and other	79,010	264,575	62,447	(8,957)	397,075
Income taxes payable	12,972	5,013	26,443		44,428
Deferred income taxes		35,529		(31,807)	3,722
Total current liabilities	4,746,219	1,756,984	141,252	(5,134,553)	1,509,902
Long-term obligations	2,879,475	3,340,075		(3,601,659)	2,617,891
Deferred income taxes	435,791	270,736		(49,531)	656,996
Other liabilities	54,336	33,156	141,657		229,149
Redeemable common stock	6,087				6,087
Shareholders equity:					
Preferred stock					
Common stock	295,828	23,855	100	(23,955)	295,828
Additional paid-in capital	2,960,940	431,253	19,900	(451,153)	2,960,940
Retained earnings	1,416,918	2,672,123	119,737	(2,791,860)	1,416,918
Accumulated other comprehensive loss	(5,191)				(5,191)
Total shareholders equity	4,668,495	3,127,231	139,737	(3,266,968)	4,668,495
Total liabilities and shareholders equity	$ 12,790,403	$ 8,528,182	$ 422,646	$ (12,052,711)	$ 9,688,520

	For the 13-weeks ended August 3, 2012				
	DOLLAR GENERAL CORPORATION	GUARANTOR SUBSIDIARIES	OTHER SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTAL
STATEMENTS OF COMPREHENSIVE INCOME:					
Net sales	$ 85,206	$ 3,948,655	$ 25,874	$ (111,080)	$ 3,948,655
Cost of goods sold		2,685,432			2,685,432
Gross profit	85,206	1,263,223	25,874	(111,080)	1,263,223
Selling, general and administrative expenses	77,460	888,877	20,752	(111,080)	876,009
Operating profit	7,746	374,346	5,122		387,214
Interest income	(10,539)	(9,503)	(4,838)	24,880	
Interest expense	50,677	9,860	9	(24,880)	35,666
Other (income) expense	26,557				26,557
Income (loss) before income taxes	(58,949)	373,989	9,951		324,991
Income tax expense (benefit)	(35,313)	142,951	3,213		110,851
Equity in subsidiaries earnings, net of taxes	237,776			(237,776)	
Net income	$ 214,140	$ 231,038	$ 6,738	$ (237,776)	$ 214,140
Comprehensive income	$ 211,630	$ 231,038	$ 6,738	$ (237,776)	$ 211,630

	For the 13-weeks ended July 29, 2011				
	DOLLAR GENERAL CORPORATION	GUARANTOR SUBSIDIARIES	OTHER SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTAL
STATEMENTS OF COMPREHENSIVE INCOME:					
Net sales	$ 74,404	$ 3,575,194	$ 22,581	$ (96,985)	$ 3,575,194
Cost of goods sold		2,426,852			2,426,852
Gross profit	74,404	1,148,342	22,581	(96,985)	1,148,342
Selling, general and administrative expenses	67,640	805,790	21,868	(96,985)	798,313
Operating profit	6,764	342,552	713		350,029
Interest income	(11,688)	(6,115)	(5,266)	23,069	
Interest expense	69,292	14,396	8	(23,069)	60,627
Other (income) expense	58,239				58,239
Income (loss) before income taxes	(109,079)	334,271	5,971		231,163
Income tax expense (benefit)	(40,666)	124,341	1,446		85,121
Equity in subsidiaries earnings, net of taxes	214,455			(214,455)	
Net income	$ 146,042	$ 209,930	$ 4,525	$ (214,455)	$ 146,042
Comprehensive income	$ 150,656	$ 209,930	$ 4,525	$ (214,455)	$ 150,656

	For the 26-weeks ended August 3, 2012				
	DOLLAR GENERAL CORPORATION	GUARANTOR SUBSIDIARIES	OTHER SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTAL
STATEMENTS OF COMPREHENSIVE INCOME:					
Net sales	$ 168,456	$ 7,849,860	$ 49,205	$ (217,661)	$ 7,849,860
Cost of goods sold		5,358,381			5,358,381
Gross profit	168,456	2,491,479	49,205	(217,661)	2,491,479
Selling, general and administrative expenses	153,142	1,740,825	43,635	(217,661)	1,719,941
Operating profit	15,314	750,654	5,570		771,538
Interest income	(20,490)	(18,079)	(9,840)	48,409	
Interest expense	101,783	19,349	17	(48,409)	72,740
Other (income) expense	28,228				28,228
Income (loss) before income taxes	(94,207)	749,384	15,393		670,570
Income tax expense (benefit)	(49,133)	287,046	5,102		243,015
Equity in subsidiaries earnings, net of taxes	472,629			(472,629)	
Net income	$ 427,555	$ 462,338	$ 10,291	$ (472,629)	$ 427,555
Comprehensive income	$ 427,574	$ 462,338	$ 10,291	$ (472,629)	$ 427,574

	For the 26-weeks ended July 29, 2011				
	DOLLAR GENERAL CORPORATION	GUARANTOR SUBSIDIARIES	OTHER SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTAL
STATEMENTS OF COMPREHENSIVE INCOME:					
Net sales	$ 161,921	$ 7,026,891	$ 41,395	$ (203,316)	$ 7,026,891
Cost of goods sold		4,791,152			4,791,152
Gross profit	161,921	2,235,739	41,395	(203,316)	2,235,739
Selling, general and administrative expenses	147,201	1,580,358	39,849	(203,316)	1,564,092
Operating profit	14,720	655,381	1,546		671,647
Interest income	(24,110)	(10,096)	(10,494)	44,700	
Interest expense	144,038	26,847	14	(44,700)	126,199
Other (income) expense	60,511				60,511
Income (loss) before income taxes	(165,719)	638,630	12,026		484,937
Income tax expense (benefit)	(61,110)	239,387	3,649		181,926
Equity in subsidiaries earnings, net of taxes	407,620			(407,620)	
Net income	$ 303,011	$ 399,243	$ 8,377	$ (407,620)	$ 303,011
Comprehensive income	$ 312,325	$ 399,243	$ 8,377	$ (407,620)	$ 312,325

	For the 26 weeks ended August 3, 2012				
	DOLLAR GENERAL CORPORATION	GUARANTOR SUBSIDIARIES	OTHER SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTAL
STATEMENTS OF CASH FLOWS:					
Cash flows from operating activities:					
Net income	$ 427,555	$ 462,338	$ 10,291	$ (472,629)	$ 427,555
Adjustments to reconcile net income to net cash from operating activities:					
Depreciation and amortization	14,934	131,220	106		146,260
Deferred income taxes	8,051	(7,270)	(1,625)		(844)
Tax benefit of stock options	(59,235)				(59,235)
Loss on debt retirement, net	30,620				30,620
Noncash share-based compensation	10,224				10,224
Other noncash gains and losses	(2,309)	5,641			3,332
Equity in subsidiaries earnings, net	(472,629)			472,629	
Change in operating assets and liabilities:					
Merchandise inventories		(139,998)			(139,998)
Prepaid expenses and other current assets	18,046	(20,347)	454		(1,847)
Accounts payable					