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DOLLAR GENERAL CORP

FORM 10-Q
(Quarterly Report)

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Address	100 MISSION RIDGE GOODLETTSVILLE, TN 37072
Telephone	6158554000
CIK	0000029534
Symbol	DG
SIC Code	5331 - Variety Stores
Industry	Retail (Specialty)
Sector	Services
Fiscal Year	02/01

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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 October 29, 2010

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**

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 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 registrant had 341,101,600 shares of common stock outstanding on December 3, 2010.

PART I—FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

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

	October 29, 2010 (Unaudited)	January 29, 2010 (see Note 1)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 237,906	$ 222,076
Merchandise inventories	1,885,753	1,519,578
Income taxes receivable	27,677	7,543
Prepaid expenses and other current assets	121,422	96,252
Total current assets	2,272,758	1,845,449
Net property and equipment	1,414,700	1,328,386
Goodwill	4,338,589	4,338,589
Intangible assets, net	1,262,834	1,284,283
Other assets, net	60,693	66,812
Total assets	$ 9,349,574	$ 8,863,519
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term obligations	$ 1,358	$ 3,671
Accounts payable	971,538	830,953
Accrued expenses and other	378,750	342,290
Income taxes payable	14,068	4,525
Deferred income taxes	44,601	25,061
Total current liabilities	1,410,315	1,206,500
Long-term obligations	3,286,907	3,399,715
Deferred income taxes	565,510	546,172
Other liabilities	254,669	302,348
Commitments and contingencies		
Redeemable common stock	14,783	18,486
Shareholders' equity:		
Preferred stock	—	—
Common stock	298,459	298,013
Additional paid-in capital	2,937,300	2,923,377
Retained earnings	608,386	203,075
Accumulated other comprehensive loss	(26,755)	(34,167)
Total shareholders' equity	3,817,390	3,390,298
Total liabilities and shareholders' equity	$ 9,349,574	$ 8,863,519

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 39 weeks ended	
	October 29, 2010	October 30, 2009	October 29, 2010	October 30, 2009
Net sales	$ 3,223,427	$ 2,928,751	$ 9,548,896	$ 8,610,595
Cost of goods sold	2,212,759	2,025,669	6,502,493	5,946,113
Gross profit	1,010,668	903,082	3,046,403	2,664,482
Selling, general and administrative expenses	736,334	686,843	2,180,589	1,990,157
Operating profit	274,334	216,239	865,814	674,325
Interest income	(90)	(26)	(128)	(135)
Interest expense	67,235	87,612	208,583	266,792
Other (income) expense	8,312	513	14,983	(215)
Income before income taxes	198,877	128,140	642,376	407,883
Income taxes	70,757	52,491	237,065	155,638
Net income	$ 128,120	$ 75,649	$ 405,311	$ 252,245
Earnings per share:				
Basic	$ 0.38	$ 0.24	$ 1.19	$ 0.79
Diluted	$ 0.37	$ 0.24	$ 1.18	$ 0.79
Weighted average shares outstanding:				
Basic	341,062	317,945	340,961	317,919
Diluted	344,739	320,558	344,628	319,454

See notes to condensed consolidated financial statements .

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

	For the 39 weeks ended	
	October 29, 2010	October 30, 2009
Cash flows from operating activities:		
Net income	$ 405,311	$ 252,245
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	189,739	194,045
Deferred income taxes	31,620	40,298
Tax benefit of stock options	(6,413)	(308)
Non-cash share-based compensation	11,620	9,249
Loss on debt retirement, net	14,576	—
Other non-cash gains and losses	7,920	9,211
Change in operating assets and liabilities:		
Merchandise inventories	(366,903)	(262,993)
Prepaid expenses and other current assets	(26,412)	(3,048)
Accounts payable	146,933	162,867
Accrued expenses and other	(4,083)	19,427
Income taxes	(4,178)	(28,828)
Other	(1,108)	(1,038)
Net cash provided by operating activities	398,622	391,127
Cash flows from investing activities:		
Purchases of property and equipment	(259,243)	(186,859)
Proceeds from sale of property and equipment	868	682
Net cash used in investing activities	(258,375)	(186,177)
Cash flows from financing activities:		
Issuance of common stock	599	2,018
Issuance of long-term obligations	—	1,080
Repayments of long-term obligations	(130,654)	(7,921)
Repurchases of equity	(825)	(1,680)
Proceeds from exercise of stock options	50	—
Payment of cash dividends and related amounts	—	(239,731)
Tax benefit of stock options	6,413	308
Net cash used in financing activities	(124,417)	(245,926)
Net increase (decrease) in cash and cash equivalents	15,830	(40,976)
Cash and cash equivalents, beginning of period	222,076	377,995
Cash and cash equivalents, end of period	$ 237,906	$ 337,019
Supplemental schedule of non-cash investing and financing activities:		
Purchases of property and equipment awaiting processing for payment, included in Accounts payable	$ 24,046	$ 19,174

See notes to condensed consolidated financial statements.

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. Accordingly, the reader 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 January 29, 2010 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 2010 fiscal year will end on January 28, 2011 and its 2009 fiscal year ended on January 29, 2010.

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 October 29, 2010 and results of operations for the 13-week and 39-week accounting periods ended October 29, 2010 and October 30, 2009 have been made.

The condensed consolidated balance sheet as of January 29, 2010 has been derived from the audited consolidated financial statements at that date but does not include all of the information and notes required by U.S. GAAP for complete financial statements.

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 LIFO charges (credits) of zero and $(1.0) million in the respective 13-week periods, and $0.7 million and $(0.5) million in the respective 39-week periods, ended October 29, 2010 and October 30, 2009.

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.

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

In June 2009, the FASB issued new accounting guidance 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, and includes other provisions. This standard was effective as of January 30, 2010, the beginning of the Company's 2010 fiscal year. The impact of the adoption of this guidance on the Company's condensed consolidated financial statements was not material.

2. Comprehensive income

Comprehensive income consists of the following:

	13 Weeks Ended		39 Weeks Ended	
(in thousands)	October 29, 2010	October 30, 2009	October 29, 2010	October 30, 2009
Net income	$ 128,120	$ 75,649	$ 405,311	$ 252,245
Unrealized net gain on hedged transactions, net of income tax expense of $1,774, $45, $5,240, and $1,559, respectively (see Note 7)	2,912	18	7,412	2,825
Comprehensive income	$ 131,032	$ 75,667	$ 412,723	$ 255,070

3. Earnings per share

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

	13 Weeks Ended October 29, 2010			13 Weeks Ended October 30, 2009		
	Net Income	Shares	Per Share Amount	Net Income	Shares	Per Share Amount
Basic earnings per share	$ 128,120	341,062	$ 0.38	$ 75,649	317,945	$ 0.24
Effect of dilutive share-based awards		3,677			2,613	
Diluted earnings per share	$ 128,120	344,739	$ 0.37	$ 75,649	320,558	$ 0.24

	39 Weeks Ended October 29, 2010			39 Weeks Ended October 30, 2009		
	Net Income	Shares	Per Share Amount	Net Income	Shares	Per Share Amount
Basic earnings per share	$ 405,311	340,961	$ 1.19	$ 252,245	317,919	$ 0.79
Effect of dilutive share-based awards		3,667			1,535	
Diluted earnings per share	$ 405,311	344,628	$ 1.18	$ 252,245	319,454	$ 0.79

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 0.3 million and 0.2 million in the 13-week periods ended October 29, 2010 and October 30, 2009, 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") 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 fiscal year, while not currently under examination, is 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 later remain open for examination by the various state taxing authorities.

As of October 29, 2010, the total reserves for uncertain tax benefits, interest expense related to income taxes and potential income tax penalties were $35.4 million, $6.3 million and $0.5 million, respectively, for a total of $42.2 million. Of this amount, $2.7 million and $38.4 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 $1.1 million reducing deferred tax assets related to net operating loss carry forwards. The reserve for uncertain tax positions decreased during the 39-week period ended October 29, 2010 by $32.2

million due principally to the reduction of a liability associated with an accounting method utilized by the Company for income tax return filing purposes and the elimination (a reduction in income tax expense) of selected income tax reserves upon effective resolution of the respective uncertain tax positions. The Company believes it is reasonably possible that the reserve for uncertain tax positions may be reduced by approximately $9.6 million in the coming twelve months principally as a result of the settlement of currently ongoing income tax examinations. Of this amount, $1.7 million and $7.9 million are included in current liabilities as Accrued expenses and other and in noncurrent Other liabilities, respectively, in the condensed consolidated balance sheet as of October 29, 2010. Also, as of October 29, 2010, approximately $35.4 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 periods ended October 29, 2010 and October 30, 2009 were 35.6% and 41.0%, respectively, for the 13-week periods, and 36.9% and 38.2%, respectively, for the 39-week periods. The decreases in the income tax rates were primarily associated with income tax examination related activity. In the 2009 periods, income tax expense was increased due to unfavorable income tax examination results while the 2010 period reflected decreases due to the elimination of selected income tax reserves upon the effective resolution of the respective uncertain tax positions.

5. Current and long-term obligations

On September 29, 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 pretax loss on this transaction of $8.2 million is reflected in Other (income) expense in the Company's condensed consolidated statement of income for the 13-week and 39-week periods ended October 29, 2010.

On May 6, 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. The pretax loss on this transaction of $6.5 million is reflected in Other (income) expense in the Company's condensed consolidated statement of income for the 39-week period ended October 29, 2010.

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).

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 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 October 29, 2010, 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 the credit valuation adjustments are not significant to the overall valuation of its derivatives. 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 classified in Level 2 of the fair value hierarchy are valued at cost. The Company does not have any fair value measurements using significant unobservable inputs (Level 3) as of October 29, 2010.

(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 October 29, 2010
Assets:				
Trading securities (a)	$ 8,099	$ —	$ —	$ 8,099
Liabilities:				
Long-term obligations (b)	3,427,241	21,385	—	3,448,626
Derivative financial instruments (c)	—	45,298	—	45,298
Deferred compensation (d)	16,347	—	—	16,347

(a) Reflected at fair value in the condensed consolidated balance sheet as Prepaid expenses and other current assets of $1,869 and Other assets, net of $6,230.
(b) Reflected at book value in the condensed consolidated balance sheet as Current portion of long-term obligations of $1,358 and Long-term obligations of $3,286,907.
(c) Reflected in the condensed consolidated balance sheet as non-current Other liabilities.
(d) Reflected at fair value in the condensed consolidated balance sheet as Accrued expenses and other current liabilities of $1,869 and non-current Other liabilities of $14,478.

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 39-week periods ended October 29, 2010 and October 30, 2009, 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 October 29, 2010, 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 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 expected to be

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 $32.5 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 October 29, 2010, the Company had no such non-designated hedges. As of October 30, 2009, the Company had one diesel fuel commodity swap hedging monthly usage of diesel fuel through January 2010 with a total 3.7 million gallons notional during the remaining term that was not designated as a hedge in a qualifying hedging relationship.

The table below presents the fair value of the Company's derivative financial instruments as well as their classification on the condensed consolidated balance sheets as of October 29, 2010 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 October 29, 2010			Other liabilities	$ 45,298
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 condensed consolidated statement of income (including OCI, see Note 2) for the 13-week and 39-week periods ended October 29, 2010 and October 30, 2009 (in thousands):

Tabular Disclosure of the Effect of Derivative Instruments on the Condensed Consolidated Statement of Income
For the 13 weeks ended October 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	$ 5,104	Interest expense	$ 9,790	Other (income) expense	$ 123

Tabular Disclosure of the Effect of Derivative Instruments on the Condensed Consolidated Statement of Income
For the 13 weeks ended October 30, 2009

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	$ 12,993	Interest expense	$ 13,056	Other (income) expense	$ 154

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	$ 360

Tabular Disclosure of the Effect of Derivative Instruments on the Condensed Consolidated Statement of Income
For the 39 weeks ended October 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	$ 20,540	Interest expense	$ 33,192	Other (income) expense	$ 408

Tabular Disclosure of the Effect of Derivative Instruments on the Condensed Consolidated Statement of Income
For the 39 weeks ended October 30, 2009

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	$ 32,462	Interest expense	$ 36,485	Other (income) expense	$ 468

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	$ (683)

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 October 29, 2010, 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 $46.7 million. If the Company had breached any of these provisions at October 29, 2010, it could have been required to post full collateral or settle its obligations under the agreements at an estimated termination value of $46.7 million. As of October 29, 2010, 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, and approximately 3,860 individuals opted into the lawsuit. Recently, the court entered a scheduling order that will govern, 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 makes allegations substantially similar to those raised in *Richter* and seeks 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). Like the *Richter* plaintiff, the plaintiff in Beard seeks to recover overtime pay, liquidated damages, and attorneys' fees and costs. To date approximately 95 individuals have opted into the *Beard* lawsuit; however, the plaintiff has not asked the court to certify any class.

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

Company intends to vigorously defend these actions. However, at this time, it is not possible to predict whether these actions 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. If the Company is not successful in its defense efforts, the resolution 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. At this time, it is not possible to predict whether the court will permit this action to proceed collectively or as a class. However, the Company believes that this action is not appropriate for either collective or class treatment and that the Company's wage and hour policies and practices comply with both federal and state law. The Company plans to vigorously defend this action; however, no assurances can be given that the Company will be successful in the defense on the merits or otherwise, and, if it is not successful, the resolution of this action 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"). 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 at the appropriate time.

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. However, the Company believes that the case is not appropriate for class or collective treatment and that its policies and practices comply with the Equal Pay Act and Title VII. The Company intends to vigorously defend the action; however, no assurances can be given that the Company will be successful in the defense on the merits or otherwise. If the Company is not successful in defending the Calvert 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's motion to transfer the case back to the Southern District of Mississippi is pending. 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)). 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 court 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 the Company's wage and hour policies and practices comply with both federal and state law. The Company plans to vigorously defend *Walker* and *McCown* ; however, no assurances can be given that the Company will be successful in the defense on the merits or otherwise, and, if it is not successful, their resolution 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, 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 but does not believe that this 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 not successful, the resolution of this action could have a material adverse effect on the Company's financial statements as a whole.

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. Share-based payments

For the 39-week periods ended October 29, 2010 and October 30, 2009, the Company recorded share-based compensation expense (a component of selling, general and administrative expenses) of $23.1 million and $9.4 million, respectively. The increase in the 2010 period is primarily attributable to certain equity appreciation rights as discussed below.

The Company's Second Amended and Restated Equity Appreciation Rights Plan provides for the granting of equity appreciation rights to nonexecutive managerial employees. During the 39-week period ended October 29, 2010, 679,777 of such equity appreciation rights, affecting 873 employees, vested in conjunction with a secondary offering of the Company's common stock, resulting in share-based awards expense of $13.3 million as well as expense for related payroll taxes of $1.0 million.

10. Segment reporting

The Company manages its business on the basis of one reportable segment. As of October 29, 2010, 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		39 Weeks Ended	
(In thousands)	October 29, 2010	October 30, 2009	October 29, 2010	October 30, 2009
Classes of similar products:				
Consumables	$ 2,378,667	$ 2,137,504	$ 6,907,541	$ 6,186,509
Seasonal	401,544	370,026	1,302,780	1,149,775
Home products	223,026	207,798	670,352	636,875
Apparel	220,190	213,423	668,223	637,436
Net sales	$ 3,223,427	$ 2,928,751	$ 9,548,896	$ 8,610,595

11. Related party transactions

Affiliates of Kohlberg Kravis Roberts & Co. ("KKR") and Goldman, Sachs & Co. indirectly own a substantial portion of the Company's common stock. A Member and a Director of KKR and a Managing Director of Goldman, Sachs & Co. serve on the Company's Board of Directors.

Affiliates of KKR and Goldman, Sachs & Co. (among other entities) may be lenders under the Company's senior secured term loan facility ("Term Loan Facility") which had a $2.3 billion principal amount at inception and a principal balance as of October 29, 2010 of approximately $1.96 billion. The Company paid approximately $45.5 million and $57.8 million of interest on the Term Loan Facility during the 39-week periods ended October 29, 2010 and October 30, 2009, respectively.

Goldman, Sachs & Co. is a counterparty to an amortizing interest rate swap with a $323.3 million notional amount as of October 29, 2010, entered into in connection with the Term Loan Facility. The Company paid Goldman, Sachs & Co. approximately $12.9 million and $13.0 million in the 39-week periods ended October 29, 2010 and October 30, 2009, respectively, pursuant to this swap.

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 annual management fee, initially $5.0 million and subject to annual escalation. The Company completed its initial public offering of common stock in November 2009 and concurrently terminated the advisory agreement. In addition, the Company periodically reimburses KKR for incidental expenses incurred on behalf of the Company. The Company reimbursed KKR for incidental expenses of $0.1 million for the 39-week period ended October 29, 2010 and incurred advisory fees and other expenses for the 39-week period ended October 30, 2009 of $4.1 million. 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.

Affiliates of KKR and Goldman, Sachs & Co. served as underwriters in connection with the Company's initial public offering of its common stock and in connection with the secondary offering of the Company's common stock held by certain existing shareholders that was completed in April 2010. The Company did not sell shares of common stock, receive proceeds from such shareholders' sale of shares of common stock or pay any underwriting fees in connection with the secondary offering.

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.

	October 29, 2010				
	DOLLAR GENERAL CORPORATION	GUARANTOR SUBSIDIARIES	OTHER SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTAL
BALANCE SHEET:					
ASSETS					
Current assets:					
Cash and cash equivalents	$ 45,332	$ 169,938	$ 22,636	$ —	$ 237,906
Merchandise inventories	—	1,885,753	—	—	1,885,753
Income taxes receivable	54,265	—	—	(26,588)	27,677
Deferred income taxes	5,239	—	6,115	(11,354)	—
Prepaid expenses and other current assets	622,277	3,451,419	11,208	(3,963,482)	121,422
Total current assets	727,113	5,507,110	39,959	(4,001,424)	2,272,758
Net property and equipment	103,800	1,310,668	232	—	1,414,700
Goodwill	4,338,589	—	—	—	4,338,589
Intangible assets, net	1,199,257	63,577	—	—	1,262,834
Deferred income taxes	—	—	45,023	(45,023)	—
Other assets, net	5,023,574	13,264	301,623	(5,277,768)	60,693
Total assets	$ 11,392,333	$ 6,894,619	$ 386,837	$ (9,324,215)	$ 9,349,574
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities:					
Current portion of long-term obligations	$ —	$ 1,358	$ —	$ —	$ 1,358
Accounts payable	3,427,153	1,448,216	46,072	(3,949,903)	971,538
Accrued expenses and other	89,552	242,614	60,163	(13,579)	378,750
Income taxes payable	2,820	11,220	26,616	(26,588)	14,068
Deferred income taxes	—	55,955	—	(11,354)	44,601
Total current liabilities	3,519,525	1,759,363	132,851	(4,001,424)	1,410,315
Long-term obligations	3,533,958	2,932,414	—	(3,179,465)	3,286,907
Deferred income taxes	417,109	193,424	—	(45,023)	565,510
Other liabilities	89,568	25,673	139,428	—	254,669
Redeemable common stock	14,783	—	—	—	14,783
Shareholders' equity:					
Preferred stock	—	—	—	—	—
Common stock	298,459	23,855	100	(23,955)	298,459
Additional paid-in capital	2,937,300	431,253	19,900	(451,153)	2,937,300
Retained earnings	608,386	1,528,637	94,558	(1,623,195)	608,386
Accumulated other comprehensive loss	(26,755)	—	—	—	(26,755)
Total shareholders' equity	3,817,390	1,983,745	114,558	(2,098,303)	3,817,390
Total liabilities and shareholders' equity	$ 11,392,333	$ 6,894,619	$ 386,837	$ (9,324,215)	$ 9,349,574

	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
Merchandise inventories	—	1,519,578	—	—	1,519,578
Income taxes receivable	9,924	1,645	—	(4,026)	7,543
Deferred income taxes	16,066	—	3,559	(19,625)	—
Prepaid expenses and other current assets	625,157	3,040,792	704	(3,570,401)	96,252
Total current assets	748,767	4,665,016	25,718	(3,594,052)	1,845,449
Net property and equipment	99,452	1,228,829	105	—	1,328,386
Goodwill	4,338,589	—	—	—	4,338,589
Intangible assets, net	1,201,223	83,060	—	—	1,284,283
Deferred income taxes	—	—	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	$ —	$ —	$ 3,671
Accounts payable	3,033,723	1,311,063	46,818	(3,560,651)	830,953
Accrued expenses and other	72,320	226,571	53,149	(9,750)	342,290
Income taxes payable	4,086	—	4,465	(4,026)	4,525
Deferred income taxes	—	44,686	—	(19,625)	25,061
Total current liabilities	3,111,951	1,584,169	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
Deferred income taxes	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)	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)
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 13 weeks ended October 29, 2010				
	DOLLAR GENERAL CORPORATION	GUARANTOR SUBSIDIARIES	OTHER SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTAL
STATEMENTS OF INCOME:					
Net sales	$ 75,020	$ 3,223,427	$ 21,888	$ (96,908)	$ 3,223,427
Cost of goods sold	—	2,212,759	—	—	2,212,759
Gross profit	75,020	1,010,668	21,888	(96,908)	1,010,668
Selling, general and administrative expenses	68,201	748,432	16,609	(96,908)	736,334
Operating profit	6,819	262,236	5,279	—	274,334
Interest income	(12,244)	(3,843)	(4,898)	20,895	(90)
Interest expense	70,103	18,021	6	(20,895)	67,235
Other (income) expense	8,312	—	—	—	8,312
Income (loss) before income taxes	(59,352)	248,058	10,171	—	198,877
Income tax expense (benefit)	(26,871)	94,555	3,073	—	70,757
Equity in subsidiaries' earnings, net of taxes	160,601	—	—	(160,601)	—
Net income	$ 128,120	$ 153,503	$ 7,098	$ (160,601)	$ 128,120

	For the 13 weeks ended October 30, 2009				
	DOLLAR GENERAL CORPORATION	GUARANTOR SUBSIDIARIES	OTHER SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTAL
STATEMENTS OF INCOME:					
Net sales	$ 81,305	$ 2,928,751	$ 22,910	$ (104,215)	$ 2,928,751
Cost of goods sold	—	2,025,669	—	—	2,025,669
Gross profit	81,305	903,082	22,910	(104,215)	903,082
Selling, general and administrative expenses	73,916	702,070	15,072	(104,215)	686,843
Operating profit	7,389	201,012	7,838	—	216,239
Interest income	(14,697)	(862)	(5,049)	20,582	(26)
Interest expense	93,184	15,003	7	(20,582)	87,612
Other (income) expense	513	—	—	—	513
Income (loss) before income taxes	(71,611)	186,871	12,880	—	128,140
Income tax expense (benefit)	(22,595)	70,589	4,497	—	52,491
Equity in subsidiaries' earnings, net of taxes	124,665	—	—	(124,665)	—
Net income	$ 75,649	$ 116,282	$ 8,383	$ (124,665)	$ 75,649

	For the 39 weeks ended October 29, 2010				
	DOLLAR GENERAL CORPORATION	GUARANTOR SUBSIDIARIES	OTHER SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTAL
STATEMENTS OF INCOME:					
Net sales	$ 235,606	$ 9,548,896	$ 63,479	$ (299,085)	$ 9,548,896
Cost of goods sold	—	6,502,493	—	—	6,502,493
Gross profit	235,606	3,046,403	63,479	(299,085)	3,046,403
Selling, general and administrative expenses	214,273	2,214,507	50,894	(299,085)	2,180,589
Operating profit	21,333	831,896	12,585	—	865,814
Interest income	(33,651)	(4,094)	(14,805)	52,422	(128)
Interest expense	227,412	33,576	17	(52,422)	208,583
Other (income) expense	14,983	—	—	—	14,983
Income (loss) before income taxes	(187,411)	802,414	27,373	—	642,376
Income tax expense (benefit)	(73,780)	302,237	8,608	—	237,065
Equity in subsidiaries' earnings, net of taxes	518,942	—	—	(518,942)	—
Net income	$ 405,311	$ 500,177	$ 18,765	$ (518,942)	$ 405,311

	For the 39 weeks ended October 30, 2009				
	DOLLAR GENERAL CORPORATION	GUARANTOR SUBSIDIARIES	OTHER SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTAL
STATEMENTS OF INCOME:					
Net sales	$ 212,930	$ 8,610,595	$ 68,061	$ (280,991)	$ 8,610,595
Cost of goods sold	—	5,946,113	—	—	5,946,113
Gross profit	212,930	2,664,482	68,061	(280,991)	2,664,482
Selling, general and administrative expenses	193,586	2,028,607	48,955	(280,991)	1,990,157
Operating profit	19,344	635,875	19,106	—	674,325
Interest income	(41,006)	(3,007)	(14,489)	58,367	(135)
Interest expense	283,540	41,602	17	(58,367)	266,792
Other (income) expense	(215)	—	—	—	(215)
Income (loss) before income taxes	(222,975)	597,280	33,578	—	407,883
Income tax expense (benefit)	(79,975)	224,309	11,304	—	155,638
Equity in subsidiaries' earnings, net of taxes	395,245	—	—	(395,245)	—
Net income	$ 252,245	$ 372,971	$ 22,274	$ (395,245)	$ 252,245

	For the 39 weeks ended October 29, 2010				
	DOLLAR GENERAL CORPORATION	GUARANTOR SUBSIDIARIES	OTHER SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTAL
STATEMENTS OF CASH FLOWS:					
Cash flows from operating activities:					
Net income	$ 405,311	$ 500,177	$ 18,765	$ (518,942)	$ 405,311
Adjustments to reconcile net income to net cash provided by (used in) operating activities:					
Depreciation and amortization	24,906	164,795	38	—	189,739
Deferred income taxes	26,633	16,161	(11,174)	—	31,620
Tax benefit of stock options	(6,413)	—	—	—	(6,413)
Non-cash share-based compensation	11,620	—	—	—	11,620
Loss on debt retirement, net	14,576	—	—	—	14,576
Other non-cash gains and losses	953	6,967	—	—	7,920
Equity in subsidiaries' earnings, net	(518,942)	—	—	518,942	—
Change in operating assets and liabilities:					
Merchandise inventories	—	(366,903)	—	—	(366,903)
Prepaid expenses and other current assets	4,601	(30,332)	(681)	—	(26,412)
Accounts payable	2,301	144,634	(2)	—	146,933
Accrued expenses and other	(6,143)	2,200	(140)	—	(4,083)
Income taxes	(39,194)	12,865	22,151	—	(4,178)
Other	7	(1,113)	(2)	—	(1,108)
Net cash provided by (used in) operating activities	(79,784)	449,451	28,955	—	398,622
Cash flows from investing activities:					
Purchases of property and equipment	(16,115)	(242,963)	(165)	—	(259,243)
Proceeds from sale of property and equipment	—	868	—	—	868
Net cash used in investing activities	(16,115)	(242,095)	(165)	—	(258,375)
Cash flows from financing activities:					
Issuance of common stock	599	—	—	—	599
Repayments of long-term obligations	(129,217)	(1,437)	—	—	(130,654)
Repurchases of equity	(825)	—	—	—	(825)
Proceeds from exercise of stock options	50	—	—	—	50
Tax benefit of stock options	6,413	—	—	—	6,413
Changes in intercompany note balances, net	166,591	(138,982)	(27,609)	—	—
Net cash provided by (used in) financing activities	43,611	(140,419)	(27,609)	—	(124,417)
Net increase (decrease) in cash and cash equivalents	(52,288)	66,937	1,181	—	15,830
Cash and cash equivalents, beginning of period	97,620	103,001	21,455	—	222,076
Cash and cash equivalents, end of period	$ 45,332	$ 169,938	$ 22,636	$ —	$ 237,906

	For the 39 weeks ended October 30, 2009				
	DOLLAR GENERAL CORPORATION	GUARANTOR SUBSIDIARIES	OTHER SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTAL
STATEMENTS OF CASH FLOWS:					
Cash flows from operating activities:					
Net income	$ 252,245	$ 372,971	$ 22,274	$ (395,245)	$ 252,245
Adjustments to reconcile net income to net cash provided by (used in) operating activities:					
Depreciation and amortization	28,011	165,868	166	—	194,045
Deferred income taxes	(8,106)	75,917	(27,513)	—	40,298
Tax benefit of stock options	(308)	—	—	—	(308)
Non-cash share-based compensation	9,249	—	—	—	9,249
Other non-cash gains and losses	1,217	7,994	—	—	9,211
Equity in subsidiaries' earnings, net	(395,245)	—	—	395,245	—
Change in operating assets and liabilities:					
Merchandise inventories	—	(262,993)	—	—	(262,993)
Prepaid expenses and other current assets	7,136	(10,583)	399	—	(3,048)
Accounts payable	20,527	142,327	13	—	162,867
Accrued expenses and other	2,230	16,924	273	—	19,427
Income taxes	11,559	(55,167)	14,780	—	(28,828)
Other	(3,368)	2,297	33	—	(1,038)
Net cash provided by (used in) operating activities	(74,853)	455,555	10,425	—	391,127
Cash flows from investing activities:					
Purchases of property and equipment	(29,143)	(157,663)	(53)	—	(186,859)
Proceeds from sale of property and equipment	—	682	—	—	682
Net cash used in investing activities	(29,143)	(156,981)	(53)	—	(186,177)
Cash flows from financing activities:					
Issuance of common stock	2,018	—	—	—	2,018
Issuance of long-term obligations	—	1,080	—	—	1,080
Repayments of long-term obligations	(5,750)	(2,171)	—	—	(7,921)
Repurchases of equity	(1,680)	—	—	—	(1,680)
Payment of cash dividends and related amounts	(239,731)	—	—	—	(239,731)
Tax benefit of stock options	308	—	—	—	308
Changes in intercompany note balances, net	201,733	(193,521)	(8,212)	—	—
Net cash used in financing activities	(43,102)	(194,612)	(8,212)	—	(245,926)
Net increase (decrease) in cash and cash equivalents	(147,098)	103,962	2,160	—	(40,976)
Cash and cash equivalents, beginning of period	292,637	64,404	20,954	—	377,995
Cash and cash equivalents, end of period	$ 145,539	$ 168,366	$ 23,114	$ —	$ 337,019

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of
Dollar General Corporation:

We have reviewed the condensed consolidated balance sheet of Dollar General Corporation and subsidiaries (the Company) as of October 29, 2010, and the related condensed consolidated statements of operations for the three-month and nine-month periods ended October 29, 2010 and October 30, 2009, and the condensed consolidated statements of cash flows for the nine-month periods ended October 29, 2010 and October 30, 2009. These financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the condensed consolidated financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Dollar General Corporation as of January 29, 2010 and the related consolidated statements of operations, shareholders' equity, and cash flows for the fiscal year then ended (not presented herein) and in our report dated March 31, 2010, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of January 29, 2010, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ Ernst & Young LLP

December 6, 2010
Nashville, Tennessee

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

General

This discussion and analysis is based on, should be read with, and is qualified in its entirety by, the accompanying unaudited condensed consolidated financial statements and related notes, as well as our consolidated financial statements and the related Management's Discussion and Analysis of Financial Condition and Results of Operations as contained in our Annual Report on Form 10-K for the year ended January 29, 2010. It also should be read in conjunction with the disclosure under "Cautionary Disclosure Regarding Forward-Looking Statements" in this report.

Executive Overview

We are the largest discount retailer in the United States by number of stores, with 9,273 stores located in 35 states as of October 29, 2010, 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.

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, over the past two years 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 continued weakness in the housing and credit markets, while the timetable for economic recovery remains 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, we remain optimistic with regard to continuing to execute our operating priorities for the remainder of 2010.

At the beginning of 2008, we defined the following four operating priorities on which we remain keenly focused:

- drive productive sales growth,
- increase our gross margins,
- leverage process improvements and information technology to reduce costs, and
- 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. We continue to enhance our category management processes, allowing the expansion of our product offerings while also improving profitability. Our improved processes have facilitated our success in adding more productive items and eliminating unproductive items. We are better utilizing the space in our stores through more effective and productive space planning. In the 2010 third quarter, we completed the third and fourth phases of our four phase process to raise the height of our merchandise fixtures across the store. Phase three primarily impacts expansion of the health and beauty, home and apparel sections of the store. Phase four impacts the seasonal section and includes additional space to further expand health and beauty products in 2011. We believe our introduction in late 2009 and 2010 of the Rexall brand, which is exclusive to Dollar General in the U.S., in several of our health and beauty categories, distinguishes our offering from other discount retailers, and we plan to further expand the brand in the future. In addition, we are making significant progress in defining and improving our store standards with a goal of developing a consistent look and feel across all stores. We have recently intensified our efforts to improve our merchandise in-stock levels. Our improved advertising circulars have allowed us to communicate our strong value proposition to both new and existing customers. Finally, we believe we have significant potential to grow sales through new stores in both existing and new markets. We plan to open approximately 600 new stores in 2010, 491 of which have been opened through October 29, 2010. Relocations, which generally increase square footage, and remodels are also important to the transformation of our stores over the next several years. We plan to relocate or remodel 500 stores in 2010, 458 of which have been completed through October 29, 2010.

Our second priority is to increase gross profit through category management, distribution efficiencies, shrink reduction, an improved pricing model, expansion of private brand offerings and increased foreign sourcing. Our merchandising team has been successful in efforts to upgrade our merchandise selection to better serve our customers while managing our everyday low price strategy. We constantly review our pricing strategy and work diligently to minimize product cost increases and to remain competitive. We are focused on sales of private brands, which generally have higher gross profit rates than national brands, while we continue to offer a wide variety of national brands to ensure an optimal mix of product offerings. We believe that our improved quality, selection, packaging and branding of our seasonal merchandise has contributed significantly to sales increases. We have made significant progress since 2007 in reducing inventory shrinkage, as a percentage of sales, and we continue to be highly focused on shrink reduction initiatives. Finally, our supply chain team continues its efforts to increase capacity utilization and transportation efficiencies.

Our third priority is leveraging process improvements and information technology to reduce costs. We are committed as an organization to extracting costs that do not affect the customer experience. Recently, we implemented significant changes in our procurement processes, which we expect to improve our ability to purchase more efficiently across all functions. Other examples of cost reduction initiatives include our continuing focus on safety to reduce workers' compensation expense, the improvement of energy management in our stores through the installation of energy management systems and increased preventive maintenance, and the reduction of waste management costs through recycling of cardboard and other materials. In addition, our real estate team has had success in negotiating favorable terms in lease renewals

and, in some cases, has negotiated favorable purchases of store real estate as discussed in more detail below, which we anticipate will benefit us going forward.

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.

Focus on these priorities resulted in improved performance in the third quarter of 2010 over the comparable 2009 period in many of our key financial metrics, as follows. Basis points amounts referred to below are equal to 0.01% as a percentage of sales.

- Total sales increased 10.1% to $3.22 billion. Sales in same-stores increased 4.2% driven by increases in customer traffic and average transaction amount. Average sales per square foot for all stores over the 52-week period ended October 29, 2010 were approximately $200, up from $192 for the comparable prior 52-week period.

- Gross profit, as a percentage of sales, increased to 31.4% compared to 30.8% in the 2009 third quarter. This increase was primarily the result of higher average markups, partially offset by higher markdowns, and was driven by efforts to reduce our merchandise purchase costs while maintaining our everyday low prices.

- Selling, general and administrative expenses, or SG&A, as a percentage of sales, was 22.8% compared to 23.5% in the 2009 third quarter.

- Operating profit, as a percentage of sales, was 8.5% compared to 7.4% in the 2009 third quarter, an improvement of 113 basis points.

- Interest expense decreased by $20.4 million to $67.2 million in the 2010 third quarter primarily due to an $844 million reduction of long-term obligations in the 12-month period ended October 29, 2010. Total long-term obligations as of October 29, 2010 were $3.29 billion. The Company repurchased long-term obligations of $65 million in the 2010 third quarter resulting in a charge of $8.2 million ($5.0 million net of income taxes, or $0.01 per diluted share).

- Net income was equal to $128.1 million, or $0.37 per diluted share, compared to net income of $75.6 million, or $0.24 per diluted share, in the 2009 third quarter.

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 pursue the purchase of certain leased stores. We believe that the current environment in the real estate

markets has provided us with 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 during the third quarter of 2010 and have plans to purchase additional stores during the balance of the year. As a result of this decision we have raised our expectations for total capital expenditures in 2010 as set forth below under the heading " Cash flows from investing activities".

Our leased store strategy continues to feature low initial capital expenditures, limited maintenance capital, low occupancy and operating costs, and our focused merchandise offering within a broad range of categories, allowing us to deliver low retail prices while generating strong cash flows and investment returns. The cost of a typical new store in 2010 has been approximately $230,000 for equipment, fixtures and initial inventory, net of payables, approximately $160,000 of which is related to property and equipment. Also in 2010, remodeled stores have required approximately $75,000 for equipment and fixtures while the cost of relocated stores has been approximately $130,000 for equipment, fixtures and additional inventory as required, net of payables.

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 will take effect immediately. Although we do not expect this legislation will have a material effect on our consolidated financial statements in fiscal 2010, we continue to evaluate the impact it will have on our costs in future years, and those costs could be material. Our analysis depends in part upon future guidance yet to be developed by federal agencies interpreting the legislation, and any estimates we develop could be significantly affected by any changes to or agency interpretation of the legislation prior to its full implementation.

The above discussion is a summary only. Readers should refer to the detailed discussion of our operating results below for the full analysis of our financial performance in the current year period as compared with the prior year period.

Results of Operations

Accounting Periods . We follow the concept of a 52-53 week fiscal year that ends on the Friday nearest to January 31. The following text contains references to years 2010 and 2009, which represent 52-week fiscal years ending or ended January 28, 2011 and January 29, 2010, respectively. Consequently, references to quarterly accounting periods for 2010 and 2009 contained herein refer to 13-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 the fourth quarter 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 income, vary by quarter. Results of a period shorter than a full year may not be indicative of results expected for the entire year. Furthermore, the seasonal nature of our business may affect comparisons between periods.

The following table contains results of operations data for the most recent 13-week and 39-week periods of each of 2010 and 2009, and the dollar and percentage variances among those periods:

(amounts in millions, except per share amounts)	13 Weeks Ended		2010 vs. 2009		39 Weeks Ended		2010 vs. 2009	
	Oct. 29, 2010	Oct. 30, 2009	Amount change	% change	Oct. 29, 2010	Oct. 30, 2009	Amount change	% change
Net sales by category:								
Consumables	$ 2,378.7	$ 2,137.5	$ 241.2	11.3 %	$ 6,907.5	$ 6,186.5	$ 721.0	11.7 %
% of net sales	73.79 %	72.98 %			72.34 %	71.85 %		
Seasonal	401.5	370.0	31.5	8.5	1,302.8	1,149.8	153.0	13.3
% of net sales	12.46 %	12.63 %			13.64 %	13.35 %		
Home products	223.0	207.8	15.2	7.3	670.4	636.9	33.5	5.3
% of net sales	6.92 %	7.10 %			7.02 %	7.40 %		
Apparel	220.2	213.4	6.8	3.2	668.2	637.4	30.8	4.8
% of net sales	6.83 %	7.29 %			7.00 %	7.40 %		
Net sales	$ 3,223.4	$ 2,928.8	$ 294.7	10.1 %	$ 9,548.9	$ 8,610.6	$ 938.3	10.9 %
Cost of goods sold	2,212.8	2,025.7	187.1	9.2	6,502.5	5,946.1	556.4	9.4
% of net sales	68.65 %	69.16 %			68.10 %	69.06 %		
Gross profit	1,010.7	903.1	107.6	11.9	3,046.4	2,664.5	381.9	14.3
% of net sales	31.35 %	30.84 %			31.90 %	30.94 %		
Selling, general and administrative expenses	736.3	686.8	49.5	7.2	2,180.6	1,990.2	190.4	9.6
% of net sales	22.84 %	23.45 %			22.84 %	23.11 %		
Operating profit	274.3	216.2	58.1	26.9	865.8	674.3	191.5	28.4
% of net sales	8.51 %	7.38 %			9.07 %	7.83 %		
Interest income	(0.1)	(0.0)	(0.1)	246.2	(0.1)	(0.1)	0.0	(5.2)
% of net sales	(0.00)%	(0.00)%			(0.00)%	(0.00)%		
Interest expense	67.2	87.6	(20.4)	(23.3)	208.6	266.8	(58.2)	(21.8)
% of net sales	2.09 %	2.99 %			2.18 %	3.10 %		
Other (income) expense	8.3	0.5	7.8	—	15.0	(0.2)	15.2	—
% of net sales	0.26 %	0.02 %			0.16 %	(0.00)%		
Income before income taxes	198.9	128.1	70.7	55.2	642.4	407.9	234.5	57.5
% of net sales	6.17 %	4.38 %			6.73 %	4.74 %		
Income taxes	70.8	52.5	18.3	34.8	237.1	155.6	81.4	52.3
% of net sales	2.20 %	1.79 %			2.48 %	1.81 %		
Net income	$ 128.1	$ 75.6	$ 52.5	69.4 %	$ 405.3	$ 252.2	$ 153.1	60.7 %
% of net sales	3.97 %	2.58 %			4.24 %	2.93 %		
Diluted earnings per share	$ 0.37	$ 0.24	$ 0.13	54.2 %	$ 1.18	$ 0.79	$ 0.39	49.4 %
Diluted weighted shares outstanding	344.7	320.6	24.2	7.5 %	344.6	319.5	25.1	7.9 %

13 WEEKS ENDED OCTOBER 29, 2010 AND OCTOBER 30, 2009

Net Sales . The net sales increases in the third quarters of 2010 and 2009 reflect same-store sales increases of 4.2% and 9.2%, respectively, compared to the corresponding prior year periods. Same-stores include stores that have been open at least 13 months and remain open at the end of the reporting period. For the 2010 quarter, there were 8,541 same-stores which accounted for sales of $3.01 billion. The remainder of the sales increase was attributable to new stores, partially offset by sales from closed stores. Our most significant sales increases resulted from the expansion of our health and beauty products and from further improvements in our packaged food, candy and snacks and perishables offerings.

In summary, we believe that the increase in sales reflects the impact of various operating and merchandising initiatives discussed in the Executive Overview, including the impact of improved store standards, the expansion of our merchandise offerings, improved utilization of store square footage and improved marketing efforts.

Gross Profit. The gross profit rate as a percentage of sales was 31.4% in the 2010 third quarter compared to 30.8% in the 2009 third quarter. The increase in the 2010 gross profit rate was driven by our efforts to reduce merchandise purchase costs while maintaining everyday low prices. These efforts resulted primarily in higher purchase markups, partially offset by increased markdowns. Increased sales volumes, as well as our increased use of private brands and more effective category management processes, have contributed to our ability to increase overall markups.

SG&A Expense. SG&A expense was 22.8% as a percentage of sales in the 2010 third quarter compared to 23.5% in the 2009 third quarter, a decrease of 61 basis points, due primarily to decreases in estimated incentive compensation, healthcare expense, and external consulting fees, as well as other cost reduction and productivity initiatives, which resulted in certain costs, including store and administrative salaries increasing less than the overall 10.1% increase in sales for the period. Increased debit card usage caused processing fees to increase at a higher rate than the increase in sales.

Interest Expense . The decrease in interest expense in the 2010 period from the 2009 period is due to lower outstanding borrowings, resulting from our repurchases of indebtedness in 2010 and 2009 as further described below under Liquidity and Capital Resources.

Other (Income) Expense. Other (income) expense in the 2010 period includes the pretax loss of $8.2 million resulting from the repurchase in the open market $65.0 million aggregate principal amount of our Senior Notes at a price of 110.75% plus accrued and unpaid interest.

Income Taxes. The effective income tax rate for the 2010 period was 35.6% compared to a rate of 41.0% for the 2009 period. The decrease in the income tax rate was primarily associated with income tax examination related activity. In the 2009 period, income tax expense was increased due to unfavorable income tax examination results while the 2010 period reflected decreases due to the elimination of selected income tax reserves upon the effective resolution of the respective uncertain tax positions.

39 WEEKS ENDED OCTOBER 29, 2010 AND OCTOBER 30, 2009

Net Sales . The net sales increases in the 2010 and 2009 periods reflect same-store sales increases of 5.3% and 10.3%, respectively, compared to the corresponding prior year periods. Same-stores include stores that have been open at least 13 months and remain open at the end of the reporting period. For 2010, there were 8,541 same-stores which accounted for sales of $8.96 billion. The remainder of the sales increase was attributable to new stores, partially offset by sales from closed stores.

We believe that the increase in sales reflects the impact of various operating and merchandising initiatives discussed in the Executive Overview, including the impact of improved store standards and the expansion of our merchandise offerings, in addition to improved utilization of store square footage and improved marketing efforts.

Gross Profit. The gross profit rate as a percentage of sales was 31.9% in the 2010 period compared to 30.9% in the 2009 period. The increase in the 2010 gross profit rate resulted primarily from higher purchase markups, partially offset by increased markdowns. Increased sales volumes have contributed to our ability to reduce product costs. In addition, our increased mix of private brands and our more effective category management processes have contributed to our ability to increase overall markups. These factors were partially offset by increased transportation costs in the 2010 period, driven primarily by higher fuel costs.

SG&A Expense. SG&A expense was 22.8% as a percentage of sales in the 2010 period compared to 23.1% in the 2009 period, a decrease of 27 basis points. SG&A in the 2010 period includes expenses totaling $15.0 million, or 16 basis points, relating to a secondary offering of our common stock, including $0.7 million of legal and other transaction expenses and $14.3 million relating to the acceleration of certain equity appreciation rights. Decreases in estimated incentive compensation, the cost of health benefits and consulting fees contributed to the overall decrease in SG&A as a percentage of sales. Utilities (primarily due to lower waste management costs reflecting our recycling efforts) increased at a rate lower than the 10.9% increase in sales. As a result of increased usage, debit card processing fees increased at a higher rate than the increase in sales.

Interest Expense . The decrease in interest expense in the 2010 period from the 2009 period is due to lower outstanding borrowings, resulting from our repurchases of indebtedness in 2009 and 2010 as further described below in the discussion of Liquidity and Capital Resources.

Other (Income) Expense. Other (income) expense in the 2010 period includes pretax losses of $14.7 million resulting from the repurchase in the open market $115.0 million aggregate principal amount of our Senior Notes plus accrued and unpaid interest.

Income Taxes. The effective income tax rate for the 2010 period was 36.9% compared to a rate of 38.2% for the 2009 period. The decrease in the income tax rate was primarily associated with income tax examination related activity. In the 2009 period, income tax expense was increased due to unfavorable income tax examination results while the 2010 period reflected decreases due to the elimination of selected income tax reserves upon the effective resolution of the respective uncertain tax positions.

Accounting Pronouncements

In June 2009, the FASB issued new accounting guidance 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, and includes other provisions. This standard was effective as of January 30, 2010, the beginning of our fiscal year. The adoption of this guidance did not have a material impact on our consolidated financial statements and is not currently expected to be material in future periods.

Liquidity and Capital Resources

Credit Facilities

We have two senior secured credit facilities (the "Credit Facilities") which provide financing of up to $2.995 billion as of October 29, 2010. The Credit Facilities consist of a $1.964 billion senior secured term loan facility ("Term Loan Facility") and a senior secured asset-based revolving credit facility ("ABL Facility"). Total commitments under the ABL Facility are equal to $1.031 billion (of which up to $350.0 million is available for letters of credit), subject to borrowing base availability. The ABL Facility includes borrowing capacity available for letters of credit and for short-term borrowings referred to as swingline loans.

The amount available under the ABL Facility (including letters of credit) is subject to certain borrowing base limitations. The ABL Facility includes a "last out" tranche in respect of which we may borrow up to a maximum amount of $101.0 million.

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) as of October 29, 2010, under the ABL Facility (except in the last out tranche described above), 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. 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.

Under the Term Loan Facility we are required to prepay outstanding term loans, subject to certain exceptions, with: up to 50% of our annual excess cash flow (as defined in the credit agreement) 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; the net cash proceeds of certain non-ordinary

course asset sales or other dispositions of property; and the net cash proceeds of any incurrence of debt other than proceeds from debt permitted under the senior secured credit agreement. Through October 29, 2010, 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.

We voluntarily prepaid $325.0 million of the Term Loan Facility in January 2010 and, as a result, no further principal payments will be required prior to its maturity on July 6, 2014, assuming no mandatory prepayment provisions are triggered before such date. 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.

In addition, we are required to prepay the ABL Facility, subject to certain exceptions, with the net cash proceeds of all non-ordinary course asset sales or other dispositions of revolving facility collateral (as defined in the senior secured credit agreement); and to the extent such extensions of credit exceed the then current borrowing base. Through October 29, 2010, no prepayments have been required under any prepayment provisions.

We may voluntarily repay outstanding loans under the Term Loan Facility or the ABL Facility at any time without premium or penalty, other than customary “breakage” costs with respect to LIBOR loans.

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.

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; or change our lines of business. The senior secured credit agreements also contain certain customary affirmative covenants and events of default.

At October 29, 2010, we had no borrowings, $23.0 million of commercial letters of credit, and $61.0 million of standby letters of credit outstanding under our ABL Facility.

Senior Notes due 2015 and Senior Subordinated Toggle Notes due 2017

As of October 29, 2010, 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 $11.6 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, and PIK interest (as defined below) if applicable, accrues at a rate of 12.625% per annum. For any interest period subsequent to the initial interest period through July 15, 2011, we may elect to pay interest on the Senior Subordinated Notes (i) in cash, (ii) by increasing the principal amount of the Senior Subordinated Notes or issuing new Senior Subordinated Notes ("PIK interest") or (iii) by paying interest on half of the principal amount of the Senior Subordinated Notes in cash interest and half in PIK interest. After July 15, 2011, all interest on the Senior Subordinated Notes will be payable in cash. Through October 29, 2010, all interest on the Senior Subordinated Notes has been paid in cash.

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 in 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. On May 6, 2010, we repurchased in the open market $50.0 million aggregate principal amount of Senior Notes at a price of 111.0% plus accrued and unpaid interest, and on September 29, 2010, we repurchased in the open market $65.0 million aggregate principal amount of Senior Notes at a price of 110.75% plus accrued and unpaid interest. The pretax losses on these transactions are reflected in our condensed consolidated financial statements for the 13- and 39-week periods ended October 29, 2010 in the amounts of $8.2 million and $14.7 million, respectively.

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.

The indentures contain covenants limiting, among other things, our ability and the ability of our restricted subsidiaries to (subject to certain exceptions): i ncur additional debt; issue disqualified stock or issue certain preferred stock; pay dividends on or make certain distributions and other restricted payments; create certain liens or encumbrances; sell assets; enter into transactions with affiliates; make payments to us; consolidate, merge, sell or otherwise dispose of all or substantially all of our assets; or designate our subsidiaries as unrestricted subsidiaries.

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 October 29, 2010, this ratio was 1.2 to 1. Senior secured debt is defined as our total debt secured by liens or similar encumbrances less cash and cash equivalents. EBITDA is defined as income (loss) from continuing operations before cumulative effect of change in accounting principles plus interest and other financing costs, net, provision for income taxes, and depreciation and amortization. Adjusted EBITDA is defined as EBITDA, further adjusted to give effect to adjustments required in calculating this covenant ratio under our Credit Facilities. EBITDA and Adjusted EBITDA are not presentations made in accordance with U.S. GAAP, are not measures of financial performance or condition, liquidity or profitability, and should not be considered as an alternative to (1) net income, operating income or any other performance measures determined in accordance with U.S. GAAP or (2) operating cash flows determined in accordance with U.S. GAAP. Additionally, EBITDA and Adjusted EBITDA are not intended to be measures of free cash flow for management’s discretionary use, as they do not consider certain cash requirements such as interest payments, tax payments and debt service requirements and replacements of fixed assets.

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

incurring additional secured indebtedness (other than the additional funding provided for under the senior secured credit agreement and pursuant to specified exceptions).

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

	13 Weeks Ended		39 Weeks Ended		52 Weeks Ended	
(in millions)	Oct. 29, 2010	Oct. 30, 2009	Oct. 30, 2010	Oct. 30, 2009	Oct. 29, 2010	Jan. 29, 2010
Net income	$ 128.1	$ 75.6	$ 405.3	$ 252.2	$ 492.5	$ 339.4
Add (subtract):						
Interest income	(0.1)	(0.0)	(0.1)	(0.1)	(0.1)	(0.1)
Interest expense	67.2	87.6	208.5	266.7	287.4	345.6
Depreciation and amortization	60.4	59.5	180.3	182.4	239.6	241.7
Income taxes	70.8	52.5	237.1	155.7	294.1	212.7
EBITDA	326.4	275.2	1,031.1	856.9	1,313.5	1,139.3
Adjustments:						
Loss on debt retirement, net	8.2	—	14.6	—	69.9	55.3
(Gain) loss on hedging instruments	0.1	1.0	0.3	(1.0)	1.8	0.5
Impact of markdowns related to inventory clearance activities, net of purchase accounting adjustments	—	(1.0)	—	(6.6)	(0.7)	(7.3)
Advisory and consulting fees to affiliates	—	1.4	0.1	4.4	59.2	63.5
Non-cash expense for share-based awards	3.3	3.3	12.8	9.4	22.1	18.7
Indirect merger-related costs	0.2	0.5	1.0	5.7	5.9	10.6
Other non-cash charges (including LIFO)	1.4	—	6.6	8.8	4.4	6.6
Total Adjustments	13.2	5.2	35.4	20.7	162.6	147.9
Adjusted EBITDA	$ 339.6	$ 280.4	$ 1,066.5	$ 877.6	$ 1,476.1	$ 1,287.2

Current Financial Condition / Recent Developments

At October 29, 2010, we had total outstanding debt (including the current portion of long-term obligations) of approximately $3.29 billion. We had $947.1 million available for borrowing under our ABL Facility at that date. Our liquidity needs are significant, primarily due to our debt service and other obligations. However, we believe our cash flow from operations and existing cash balances, combined with availability under the Credit Facilities, will provide sufficient liquidity to fund our current obligations, projected working capital requirements and capital spending for a period that includes the next 12 months as well as the next several years.

Our inventory balance represented approximately 50% of our total assets exclusive of goodwill and other intangible assets as of October 29, 2010. Our proficiency in managing our inventory balances can have a significant impact on our cash flows from operations during a given fiscal year. Inventory purchases are often somewhat seasonal in nature, such as the

purchase of warm-weather or Christmas-related merchandise. Efficient management of our inventory continues to be an area of focus for us.

As described in Note 8 to the condensed 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. We also have certain income tax-related contingencies as more fully described below under “Critical Accounting Policies and Estimates” and in Note 4 to the condensed consolidated financial statements. Future negative developments could have a material adverse effect on our liquidity.

Cash flows from operating activities . Cash flows from operating activities in the 2010 period compared to the 2009 period were positively impacted by our strong operating performance due to greater sales, higher gross margins, and SG&A leverage, as described in more detail above under “Results of Operations.” Other significant factors in the change in cash flows from operating activities in the 2010 period as compared to the 2009 period were related to working capital in general and merchandise inventories in particular. 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, and other factors. Merchandise inventories increased by 24% overall during the first three quarters of 2010 compared to a 19% overall increase during the comparable period in 2009. Inventory levels in our four inventory categories in the 2010 period compared to the respective 2009 period were as follows: the consumables category increased 23% compared to a 26% increase; the seasonal category increased by 31% compared to a 27% increase; the home products category increased by 23% compared to an increase of 1%; and apparel increased by 17% compared to a 2% decline. Increases in inventory balances are related to our sales increases, the addition of new stores, the expansion of new items in our merchandise assortment, and the timing of receipt of imported merchandise in the seasonal, home products and apparel categories, among other factors.

Cash flows from investing activities . Significant components of property and equipment purchases in the 2010 period included the following approximate amounts: $95 million for new leased stores and store purchases; $85 million for improvements and upgrades to existing stores; $44 million for remodels and relocations of existing stores; $18 million for distribution and transportation related purchases; and $17 million for systems-related capital projects. The average cost of new and remodeled leased stores has increased in the 2010 period compared to the 2009 period due to a greater number of stores in shopping centers, which typically have more extensive leasehold improvements. In addition, the timing of new, remodeled and relocated store openings along with other factors may affect the relationship between such openings and the related property and equipment purchases in any given period. During the 2010 period, we opened 491 new stores and remodeled or relocated 458 stores.

Significant components of property and equipment purchases in the 2009 period included the following approximate amounts: $76 million for improvements and upgrades to existing stores; $43 million for new stores, $23 million for administrative capital costs, $21 million for remodels and relocations of existing stores, $14 million for distribution and transportation related capital expenditures and $8 million for systems-related capital projects. During the 2009 period, we opened 386 new stores and remodeled or relocated 332 stores.

As discussed in the Executive Overview, during 2010 we made a strategic decision to pursue the purchase of certain leased stores. We believe that the current environment in the real estate markets has provided us with 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 during the third quarter of 2010 and have plans to purchase additional stores during the balance of the year. Capital expenditures for the 2010 fiscal year are currently projected to be in the range of $410 million to $430 million. The current estimate includes the store purchase program as well as initial costs related to the construction of a new distribution center in the southeastern U.S. We anticipate funding our 2010 capital requirements with cash flows from operations and, if necessary, we also have significant availability under our ABL Facility.

Cash flows from financing activities . On September 29, 2010, we repurchased in the open market $65.0 million aggregate principal amount of Senior Notes at a price of 110.75%, resulting in a cash outflow of $72.0 million. On May 6, 2010, we repurchased in the open market $50.0 million aggregate principal amount of Senior Notes at a price of 111.0%, resulting in a cash outflow of $55.5 million. We had no borrowings or repayments under the ABL Facility in the 2010 or 2009 periods.

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.

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 and 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 completed testing on our goodwill and indefinite lived trade name intangible assets during the third quarter of 2010. No indicators of impairment were evident and no adjustment to these assets was required. We are not currently projecting a decline in cash flows that could be expected to have an adverse effect such as a violation of debt covenants or future goodwill 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 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.

Insurance Liabilities . We retain a significant portion of the risk for our workers' compensation, employee health, property loss, automobile and general liability. These represent significant costs primarily due to our large employee base and number of stores. Provisions are made 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 29, 2010, approximately 38% 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 stock has been publicly traded for a relatively limited period of time due to our initial public offering in November 2009 and therefore our volatility estimates are based on a peer group of companies. 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 adjust this 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 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

There have been no material changes to the disclosures relating to this item from those set forth in our Annual Report on Form 10-K for the fiscal year ended January 29, 2010.

ITEM 4. 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) Changes in Internal Control Over Financial Reporting . There have been no changes in our internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f)) during the quarter ended October 29, 2010 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

The information contained in Note 8 to the unaudited condensed consolidated financial statements under the heading “Legal proceedings” contained in Part I, Item 1 of this Form 10-Q is incorporated herein by this reference.

ITEM 1A. RISK FACTORS.

There have been no material changes to the disclosures relating to this item from those set forth in our Annual Report on Form 10-K for the fiscal year ended January 29, 2010.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

The following table contains information regarding purchases of our common stock made during the quarter ended October 29, 2010 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
07/31/10-08/31/10	3,813	$ 26.61	—	—
09/01/10-09/30/10	—	$ —	—	—
10/01/10-10/29/10	—	$ —	—	—
Total	3,813	$ 26.61	—	—

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

ITEM 6. EXHIBITS.

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

CAUTIONARY DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

We include “forward-looking statements” within the meaning of the federal securities laws throughout this report, particularly under “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Note 8. Commitments and Contingencies.” You can identify these statements because they are not limited to historical fact or they use words such as “may,” “will,” “should,” “expect,” “ believe,” “anticipate,” “project,” “plan,” “estimate,” “objective,” “intend,” or “could,” and similar expressions that concern our strategy, plans, intentions or beliefs about future occurrences or results. For example, statements relating to estimated and projected expenditures, cash flows, results of operations, financial condition and liquidity; plans and objectives for future operations, growth or initiatives; and the expected outcome or effect of pending or threatened litigation or audits are forward-looking statements.

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 include, without limitation

- failure to successfully execute our growth strategy, including delays in store growth, difficulties executing sales and operating profit margin initiatives and inventory shrinkage reduction;
- the failure of our new store base to achieve sales and operating levels consistent with our expectations;
- risks and challenges in connection with sourcing merchandise from domestic and foreign vendors, as well as trade restrictions;
- our level of success in gaining and maintaining broad market acceptance of our private brands and in achieving our other initiatives;
- unfavorable publicity or consumer perception of our products;
- our debt levels and restrictions in our debt agreements;
- economic conditions, including their effect on the financial and capital markets, our suppliers and business partners, employment levels, consumer demand, disposable income, credit availability and spending patterns, inflation; and the cost of goods;
- increases in commodity prices (including, without limitation, cotton, oil, paper and resin);
- levels of inventory shrinkage;
- seasonality of our business;

- increases in costs of fuel or other energy, transportation or utilities costs and in the costs of labor, employment and health care;
- the impact of changes in or noncompliance with governmental laws and regulations (including, but not limited to, product safety, healthcare and unionization) and developments in or outcomes of legal proceedings, investigations or audits;
- disruptions in our supply chain including, without limitation, a decrease in transportation capacity for overseas shipments or work stoppages or other labor disruptions that could impede our receipt of imported merchandise;
- damage or interruption to our information systems;
- changes in the competitive environment in our industry and the markets where we operate;
- natural disasters, unusually adverse weather conditions, pandemic outbreaks, boycotts, war and geo-political events;
- the incurrence of material uninsured losses, excessive insurance costs, or accident costs;
- our failure to protect our brand name;
- our loss of key personnel or our inability to hire additional qualified personnel;
- interest rate and currency exchange fluctuations;
- our failure to maintain effective internal controls;
- changes to income tax expense due to changes in or interpretation of tax laws, or as a result of federal or state income tax examinations;
- changes to or new accounting guidance, such as changes to lease accounting guidance or a requirement to convert to international financial reporting standards;
- factors disclosed under “Risk Factors” in Part I, Item 1A of our Form 10-K for the fiscal year ended January 29, 2010;
- factors disclosed elsewhere in this document (including, without limitation, in conjunction with the forward-looking statements themselves and under the heading “Critical Accounting Policies and Estimates”) and other factors.

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 material 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.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized, both on behalf of the Registrant and in his capacity as principal financial and accounting officer of the Registrant.

DOLLAR GENERAL CORPORATION

Date: December 6, 2010

By: /s/ David M. Tehle
David M. Tehle
Executive Vice President and Chief Financial Officer

EXHIBIT INDEX

10.1	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 number 001-11421))
10.2	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 number 001-11421))
15	Letter re unaudited interim financial information
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

Exhibit 15

December 6, 2010

The Board of Directors and Shareholders

Dollar General Corporation

We are aware of the incorporation by reference in the Registration Statements (Nos. 333-151047, 333-151049, 333-151655, 333-151661 and 333-163200, on Form S-8 and 333-165799 and 333-165800 on Form S-3) of Dollar General Corporation of our reports dated June 8, 2010, August 31, 2010, and December 6, 2010 relating to the unaudited condensed consolidated interim financial statements of Dollar General Corporation that are included in its Forms 10-Q for the quarters ended April 30, 2010, July 30, 2010, and October 29, 2010.

Very truly yours,

/s/ Ernst & Young LLP

Nashville, Tennessee

Exhibit 31

CERTIFICATIONS

I, Richard W. Dreiling, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Dollar General Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 6, 2010

/s/ Richard W. Dreiling
Richard W. Dreiling
Chief Executive Officer

I, David M. Tehle, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Dollar General Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 6, 2010

/s/ David M. Tehle
David M. Tehle
Chief Financial Officer

Exhibit 32

CERTIFICATIONS
Pursuant to 18 U.S.C. Section 1350

Each of the undersigned hereby certifies that to his knowledge the Quarterly Report on Form 10-Q for the fiscal quarter ended October 29, 2010 of Dollar General Corporation (the "Company") filed with the Securities and Exchange Commission on the date hereof fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in such report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Richard W. Dreiling
Name: Richard W. Dreiling
Title: Chief Executive Officer
Date: December 6, 2010

/s/ David M. Tehle
Name: David M. Tehle
Title: Chief Financial Officer
Date: December 6, 2010