# DOLLAR GENERAL CORP

## FORM 10-Q
(Quarterly Report)

## Filed 12/4/2003 For Period Ending 10/31/2003

| | |
|---|---|
| Address | 100 MISSION RIDGE |
| | GOODLETTSVILLE, Tennessee 37072 |
| Telephone | 615-855-4000 |
| CIK | 0000029534 |
| Industry | Retail (Specialty) |
| Sector | Services |
| Fiscal Year | 01/31 |

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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 31, 2003**

**Commission file number: 001-11421**

**DOLLAR GENERAL CORPORATION**
( *Exact Name of Registrant as Specified in Its Charter* )

| **TENNESSEE** | **61-0502302** |
|---|---|
| *(State or Other Jurisdiction of Incorporation or Organization)* | *(I.R.S. Employer Identification No.)* |

**100 MISSION RIDGE**
**GOODLETTSVILLE, TN 37072**
*(Address of Principal Executive Offices, Zip Code)*

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

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

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes [X ] No [ ]

The number of shares of common stock outstanding on December 2, 2003 was 337,010,790.

## PART I – FINANCIAL INFORMATION

### ITEM 1. FINANCIAL STATEMENTS

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

| | (Unaudited) October 31, 2003 | January 31, 2003 |
|---|---|---|
| ASSETS | | |
| Current assets: | | |

| | | |
|---|---|---|
| Cash and cash equivalents | $ 138,470 | $ 121,318 |
| Merchandise inventories | 1,373,200 | 1,123,031 |
| Deferred income taxes | 21,729 | 33,860 |
| Other current assets | 65,301 | 45,699 |
| Total current assets | 1,598,700 | 1,323,908 |
| Property and equipment, at cost | 1,667,438 | 1,577,823 |
| Less accumulated depreciation and amortization | 687,951 | 584,001 |
| Net property and equipment | 979,487 | 993,822 |
| Other assets, net | 11,007 | 15,423 |
| Total assets | $ 2,589,194 | $ 2,333,153 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Current portion of long-term obligations | $ 17,295 | $ 16,209 |
| Accounts payable | 440,505 | 341,303 |
| Accrued expenses and other | 287,724 | 239,898 |
| Income taxes payable | 14,553 | 67,091 |
| Total current liabilities | 760,077 | 664,501 |
| Long-term obligations | 268,357 | 330,337 |
| Deferred income taxes | 59,100 | 50,247 |
| Shareholders' equity: | | |
| Preferred stock | - | - |
| Common stock | 168,415 | 166,670 |
| Additional paid-in capital | 363,767 | 313,269 |
| Retained earnings | 975,255 | 812,220 |
| Accumulated other comprehensive loss | (1,206) | (1,349) |
| | 1,506,231 | 1,290,810 |
| Less other shareholders' equity | 4,571 | 2,742 |
| Total shareholders' equity | 1,501,660 | 1,288,068 |
| Total liabilities and shareholders' equity | $ 2,589,194 | $ 2,333,153 |

*See notes to condensed consolidated financial statements.*

**DOLLAR GENERAL CORPORATION AND SUBSIDIARIES**
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**
(Unaudited)
*(Dollars in thousands except per share amounts)*

| | For the 13 weeks ended | | | |
|---|---|---|---|---|
| | October 31, 2003 | | November 1, 2002 | |
| | Amount | % of Net Sales | Amount | % of Net Sales |
| Net sales | $ 1,685,346 | 100.00% | $ 1,497,702 | 100.00% |
| Cost of goods sold | 1,168,449 | 69.33 | 1,069,119 | 71.38 |
| Gross profit | 516,897 | 30.67 | 428,583 | 28.62 |
| Selling, general and administrative | 385,551 | 22.88 | 335,152 | 22.38 |

| | | | | |
|---|---|---|---|---|
| Litigation settlement and related proceeds | - | - | (25,041) | (1.67) |
| Operating profit | 131,346 | 7.79 | 118,472 | 7.91 |
| Interest expense, net | 7,976 | 0.47 | 11,537 | 0.77 |
| Income before taxes on income | 123,370 | 7.32 | 106,935 | 7.14 |
| Provision for taxes on income | 45,467 | 2.70 | 38,365 | 2.56 |
| Net income | $ 77,903 | 4.62% | $ 68,570 | 4.58% |

| | | |
|---|---|---|
| Diluted earnings per share | $ 0.23 | $ 0.20 |
| Weighted average diluted shares (000s) | 339,238 | 334,970 |
| Basic earnings per share | $ 0.23 | $ 0.21 |
| Weighted average basic shares (000s) | 335,411 | 333,227 |
| Dividends per share | $ 0.035 | $ 0.032 |

*See notes to condensed consolidated financial statements.*

**DOLLAR GENERAL CORPORATION AND SUBSIDIARIES**
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**
(Unaudited)
*(Dollars in thousands except per share amounts)*

| | For the 39 weeks ended | | | |
|---|---|---|---|---|
| | October 31, 2003 | | November 1, 2002 | |
| | Amount | % of Net Sales | Amount | % of Net Sales |
| Net sales | $ 4,905,504 | 100.00% | $ 4,340,841 | 100.00% |
| Cost of goods sold | 3,463,871 | 70.61 | 3,144,539 | 72.44 |
| Gross profit | 1,441,633 | 29.39 | 1,196,302 | 27.56 |
| Selling, general and administrative | 1,105,493 | 22.54 | 946,123 | 21.80 |
| Litigation settlement and related proceeds | - | - | (29,541) | (0.68) |
| Operating profit | 336,140 | 6.85 | 279,720 | 6.44 |
| Interest expense, net | 25,286 | 0.51 | 33,306 | 0.77 |
| Income before taxes on income | 310,854 | 6.34 | 246,414 | 5.67 |
| Provision for taxes on income | 112,683 | 2.30 | 89,554 | 2.06 |
| Net income | $ 198,171 | 4.04% | $ 156,860 | 3.61% |

| | | |
|---|---|---|
| Diluted earnings per share | $ 0.59 | $ 0.47 |
| Weighted average diluted shares (000s) | 336,892 | 335,180 |
| Basic earnings per share | $ 0.59 | $ 0.47 |
| Weighted average basic shares (000s) | 334,175 | 332,986 |
| Dividends per share | $ 0.105 | $ 0.096 |

*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 31, 2003 | November 1, 2002 |
| *Cash flows from operating activities:* | | |
| Net income | $ 198,171 | $ 156,860 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 113,114 | 102,302 |
| Deferred income taxes | 20,912 | 68,424 |
| Tax benefit from stock option exercises | 10,780 | 2,278 |
| Litigation settlement (see Note 4) | - | (161,800) |
| Change in operating assets and liabilities: | | |
| Merchandise inventories | (250,169) | (118,097) |
| Other current assets | (19,602) | (2,774) |
| Accounts payable | 99,202 | 87,963 |
| Accrued expenses and other | 49,039 | 10,105 |
| Income taxes | (52,538) | (3,137) |
| Other | 1,974 | (14,124) |
| Net cash provided by operating activities | 170,883 | 128,000 |
| *Cash flows from investing activities:* | | |
| Purchase of property and equipment | (96,923) | (104,727) |
| Purchase of promissory notes (see Note 7) | (49,582) | - |
| Proceeds from sale of property and equipment | 195 | 379 |
| Net cash used in investing activities | (146,310) | (104,348) |
| *Cash flows from financing activities:* | | |
| Net borrowings under revolving credit facilities | - | 168,400 |
| Repayments of long-term obligations | (11,808) | (393,378) |
| Payment of cash dividends | (35,136) | (31,972) |
| Proceeds from exercise of stock options | 39,660 | 4,844 |
| Other financing activities | (137) | 4,030 |
| Net cash used in financing activities | (7,421) | (248,076) |
| Net increase (decrease) in cash and cash equivalents | 17,152 | (224,424) |
| Cash and cash equivalents, beginning of period | 121,318 | 261,525 |
| Cash and cash equivalents, end of period | $ 138,470 | $ 37,101 |
| *Supplemental schedule of noncash investing and financing activities:* | | |
| Purchase of property and equipment under capital lease obligations | $ 551 | $ 8,134 |

*See notes to condensed consolidated financial statements.*

**DOLLAR GENERAL CORPORATION AND SUBSIDIARIES**
**Notes to Condensed Consolidated Financial Statements (Unaudited)**

**1. Basis of presentation and accounting policies**

**Basis of presentation**

The accompanying unaudited condensed consolidated financial statements of Dollar General Corporation (the "Company") have been prepared in accordance with accounting principles generally accepted in the United States 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 accounting principles generally accepted in the United States 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 year ended January 31, 2003 for additional information.

The accompanying condensed consolidated financial statements have been prepared in accordance with the Company's customary accounting practices and have not been audited. In management's opinion, all adjustments (which are of a normal recurring nature) necessary for a fair presentation of the consolidated financial position and results of operations for the 13-week and 39-week periods ended October 31, 2003 and November 1, 2002 have been made.

Certain prior year amounts have been reclassified to conform to the current period presentation. Ongoing estimates of inventory shrinkage, 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.

**Accounting pronouncements**

In April 2002, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." SFAS No. 145 rescinds both SFAS No. 4, "Reporting Gains and Losses from Extinguishment of Debt," and the amendment to SFAS No. 4, SFAS No. 64, "Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements." Generally, under SFAS No. 145, gains and losses from debt extinguishments will no longer be classified as extraordinary items. The Company adopted the provisions of SFAS No. 145 on February 1, 2003, and the adoption of SFAS No. 145 did not have a material effect on the Company's financial position or results of operations.

In July 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 nullifies Emerging Issues Task Force ("EITF") Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)" ("EITF 94-3"). SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred, whereas EITF 94-3 had recognized the liability at the commitment date to an exit plan. The Company was required to adopt the provisions of SFAS No. 146 effective for exit or disposal activities initiated after December 31, 2002. The adoption of SFAS No. 146 did not have a material impact on the Company's financial position or results of operations.

In November 2002, the EITF reached a consensus on EITF Issue No. 02-16 "Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor" ("EITF 02-16") which addresses the accounting and income statement classification for consideration given by a vendor to a retailer in connection with the sale of the vendor's products or for the promotion of sales of the vendor's products. The EITF concluded that such consideration received from vendors should be reflected as a decrease in prices paid for inventory and recognized in cost of sales as the related inventory is sold, unless specific criteria are met qualifying the consideration for treatment as reimbursement of specific, identifiable incremental costs. As clarified by the EITF in January 2003, this issue is effective for arrangements with vendors initiated on or after January 1, 2003. The provisions of this consensus have been applied prospectively and are consistent with the Company's existing accounting policy. Accordingly, the adoption of EITF 02-16 did not have a material impact on the Company's financial position or results of operations.

FASB Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN 46"), expands upon current guidance relating to when a company should include in its financial statements the assets, liabilities and activities of a

Variable Interest Entity ("VIE"). The consolidation requirements of FIN 46 apply immediately to VIEs created after January 31, 2003. At the October 8, 2003 FASB meeting, the FASB deferred the effective date of FIN 46, and the consolidation requirements for "older" VIEs currently are the first fiscal year or interim period ending after December 15, 2003, which would apply for the Company at the end of its 2003 fiscal year. Additional modifications of FIN 46 have been proposed by the FASB, and the Company will continue to monitor future developments related to this interpretation. The Company leases four of its distribution centers ("DCs") from lessors, which meet the definition of VIEs. Two of these DCs have been recorded as financing obligations whereby the property and equipment, along with the related lease obligations, are reflected in the accompanying condensed consolidated balance sheets. The other two DCs, excluding the equipment, have been recorded as operating leases in accordance with SFAS No. 98, "Accounting for Leases." The Company adopted the provisions of FIN 46 on August 2, 2003 and the adoption of FIN 46 did not have a material effect on the Company's financial position or results of operations.

## 2. Comprehensive income

Comprehensive income consists of the following (in thousands):

| | 13 Weeks Ended | |
|---|---|---|
| | October 31, 2003 | November 1, 2002 |
| Net income | $ 77,903 | $ 68,570 |
| Net change in derivative financial instruments | 60 | 630 |
| Comprehensive income | $ 77,963 | $ 69,200 |

| | 39 Weeks Ended | |
|---|---|---|
| | October 31, 2003 | November 1, 2002 |
| Net income | $ 198,171 | $ 156,860 |
| Net change in derivative financial instruments | 143 | 1,846 |
| Comprehensive income | $ 198,314 | $ 158,706 |

## 3. Earnings per share

The amounts reflected below are in thousands except per share data.

| | 13 Weeks Ended October 31, 2003 | | |
|---|---|---|---|
| | Net Income | Shares | Per Share Amount |
| Basic earnings per share | $ 77,903 | 335,411 | $ 0.23 |
| Effect of dilutive stock options | | 3,827 | |
| Diluted earnings per share | $ 77,903 | 339,238 | $ 0.23 |

| | 13 Weeks Ended November 1, 2002 | | |
|---|---|---|---|
| | Net Income | Shares | Per Share Amount |
| Basic earnings per share | $ 68,570 | 333,227 | $ 0.21 |
| Effect of dilutive stock options | | 1,743 | |
| Diluted earnings per share | $ 68,570 | 334,970 | $ 0.20 |

| | 39 Weeks Ended October 31, 2003 |
|---|---|

| | Net Income | Shares | Per Share Amount |
|---|---|---|---|
| Basic earnings per share | $ 198,171 | 334,175 | $ 0.59 |
| Effect of dilutive stock options | | 2,717 | |
| Diluted earnings per share | $ 198,171 | 336,892 | $ 0.59 |

| | 39 Weeks Ended November 1, 2002 | | |
|---|---|---|---|
| | Net Income | Shares | Per Share Amount |
| Basic earnings per share | $ 156,860 | 332,986 | $ 0.47 |
| Effect of dilutive stock options | | 2,194 | |
| Diluted earnings per share | $ 156,860 | 335,180 | $ 0.47 |

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

## 4. Commitments and contingencies

### Legal proceedings

*Restatement-Related Proceedings* . As previously disclosed in the Company's periodic reports filed with the Securities and Exchange Commission (the "SEC"), the Company restated its audited financial statements for fiscal years 1999 and 1998, and certain unaudited financial information for fiscal year 2000, by means of its Form 10-K for the fiscal year ended February 2, 2001, which was filed on January 14, 2002. The SEC is conducting an investigation into the circumstances giving rise to the restatement. The Company is cooperating with this investigation by providing documents, testimony and other information to the SEC. At this time, the Company is unable to predict the outcome of this investigation and the ultimate effects on the Company, if any.

In addition, as previously discussed in the Company's periodic reports filed with the SEC, the Company settled in the second quarter of 2002 the lead shareholder derivative action relating to the restatement that had been filed in Tennessee State Court. All other pending state and federal derivative cases were subsequently dismissed during the third quarter of fiscal 2002. The settlement of the shareholder derivative lawsuits resulted in a net payment to the Company, after attorney's fees payable to the plaintiffs' counsel, of approximately $25.2 million, which was recorded as income during the third quarter of 2002. The Company also settled the federal consolidated restatement-related class action lawsuit in the second quarter of fiscal 2002. The $162 million settlement was paid in the first half of fiscal 2002, but was previously expensed in the fourth quarter of 2000. The Company received from its insurers $4.5 million in respect of such settlement in July 2002, which was recorded as income during the second quarter of 2002.

Plaintiffs representing fewer than 1% of the shares traded during the class period chose to opt out of the federal class action settlement and may elect to pursue recovery against the Company individually. In 2002, the Company settled and paid a claim by one such plaintiff and recognized an expense of $0.2 million in respect of that agreement. To the Company's knowledge, no other litigation has yet been filed or threatened by parties who opted out of the class action settlement. The Company cannot predict whether any additional litigation will be filed or estimate the potential liabilities associated with such litigation, but it does not believe that the resolution of any such litigation will have a material adverse effect on the Company's financial position or results of operations.

*Other Litigation* . On March 14, 2002, a complaint was filed in the United States District Court for the Northern District of Alabama to commence a purported collective action against the Company on behalf of current and former salaried store managers. The complaint alleges that these individuals were entitled to overtime pay and should not have been classified as exempt employees under the Fair Labor Standards Act ("FLSA"). Plaintiffs seek to recover overtime pay, liquidated damages, declaratory relief and attorneys' fees. In the third quarter of 2003, the court denied

the plaintiff's motion to allow the action to proceed as a nationwide collective action, but determined that the action could proceed collectively as to a region that has not yet been defined. This action is still in the discovery phase. The Company believes that its store managers are and have been properly classified as exempt employees under the FLSA and that the action is not appropriate for collective action treatment. The Company intends to appeal the decision to allow the action to proceed as a regional collective action and to vigorously defend the action. However, no assurances can be given that the Company will be successful either in its appeal or in defending this action on the merits or otherwise, and, if not, the resolution could have a material adverse effect on the Company's financial position or results of operations.

The Company is involved in other legal actions and claims arising in the ordinary course of business. The Company currently believes that such litigation and claims, both individually and in the aggregate, will be resolved without a material effect on the Company's financial position or results of operations. 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 financial position or results of operations.

**Other matters**

As previously disclosed in the Company's periodic reports filed with the SEC, the Internal Revenue Service ("IRS") has conducted a normal examination of the Company's 1998 and 1999 federal income tax returns. At this time, the local audit fieldwork has been completed, and the Company is awaiting the final IRS report. The Company does not anticipate any material changes to its tax liabilities as a result of these audits.

**5. Stock-based compensation**

The Company has a shareholder-approved stock incentive plan under which stock options, restricted stock and other equity-based awards may be granted to officers, directors and key employees. Stock options currently are granted under this plan at the market price on the grant date and generally vest ratably over a four-year period. A 500,000 share grant under this plan to the Company's Chief Executive Officer ("CEO") in the first quarter of 2003, however, vests at a rate of 333,333 shares on the first anniversary, and 166,667 shares on the second anniversary, of the grant date. All stock options granted under this plan have a ten-year life. Options granted prior to 2002 either pursuant to this plan or pursuant to other shareholder-approved stock incentive plans from which the Company no longer grants awards are subject to Company performance-based vesting, time-based vesting or a combination thereof, and have a ten-year life. In addition, prior to June 2003, the plan provided for automatic annual stock option grants to non-employee directors pursuant to a non-discretionary formula. Those stock options vest one year after the grant date and have a ten-year life.

The stock incentive plan was amended effective June 2, 2003 to provide for the automatic annual grant of 4,600 restricted stock units to each non-employee director (6,000 restricted stock units to any non-employee director serving as Chairman) in lieu of the automatic annual stock option grants. These units generally vest one year after the grant date, but no payout (in either cash or shares of common stock) shall be made until the director has ceased to be a member of the Board of Directors.

The terms of this plan limit the number of shares of restricted stock eligible for issuance thereunder to a maximum of 4 million shares. At October 31, 2003, 3,839,135 shares of restricted stock were available for grant under this plan.

In addition, as previously disclosed in the Company's Form 10-Q for the quarter ended May 2, 2003, the Company granted stock options and restricted stock to its CEO in transactions that were not made under the stock incentive plan.

The Company accounts for stock option grants in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB No. 25"), and related interpretations because the Company believes the alternative fair value accounting provided for under SFAS No. 123, "Accounting for Stock-Based Compensation," as amended by SFAS No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure," requires the use of option valuation models that were not developed for use in valuing employee stock

options. Under APB No. 25, compensation expense is generally not recognized for plans in which the exercise price of the stock options equals the market price of the underlying stock on the date of grant and the number of shares subject to exercise is fixed. Had compensation cost for the Company's stock-based compensation plans been determined based on the fair value at the grant date for awards under these plans consistent with the methodology prescribed under SFAS No. 123, net income and earnings per share would have been reduced to the pro forma amounts indicated in the following table:

| | 13 Weeks Ended | |
|---|---|---|
| *(Amounts in thousands except per share data)* | October 31, 2003 | November 1, 2002 |
| Net income – as reported | $ 77,903 | $ 68,570 |
| Less pro forma effect of stock option grants | 791 | 3,894 |
| Net income – pro forma | $ 77,112 | $ 64,676 |
| Earnings per share – as reported | | |
| Basic | $ 0.23 | $ 0.21 |
| Diluted | $ 0.23 | $ 0.20 |
| Earnings per share – pro forma | | |
| Basic | $ 0.23 | $ 0.19 |
| Diluted | $ 0.23 | $ 0.19 |

| | 39 Weeks Ended | |
|---|---|---|
| *(Amounts in thousands except per share data)* | October 31, 2003 | November 1, 2002 |
| Net income – as reported | $ 198,171 | $ 156,860 |
| Less pro forma effect of stock option grants | 4,604 | 12,960 |
| Net income – pro forma | $ 193,567 | $ 143,900 |
| Earnings per share – as reported | | |
| Basic | $ 0.59 | $ 0.47 |
| Diluted | $ 0.59 | $ 0.47 |
| Earnings per share – pro forma | | |
| Basic | $ 0.58 | $ 0.43 |
| Diluted | $ 0.57 | $ 0.43 |

The pro forma effects on net income for the 13 weeks and 39 weeks ended October 31, 2003 and November 1, 2002 are not representative of the pro forma effect on net income in future periods because they do not take into consideration pro forma compensation expense related to grants made prior to 1995.

The fair value of options granted during the third quarter of 2003 and 2002 was $6.34 and $6.47 per share, respectively. The fair value of options granted during the first 39 weeks of 2003 and 2002 was $5.42 and $6.85 per share, respectively. The fair value of each stock option grant was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

| | 13 Weeks Ended | |
|---|---|---|
| | October 31, 2003 | November 1, 2002 |
| Expected dividend yield | 0.9% | 0.8% |
| Expected stock price volatility | 37.6% | 34.8% |
| Weighted average risk-free interest rate | 3.0% | 3.9% |

| | | |
|---|---|---|
| Expected life of options (years) | 4.0 | 7.0 |

| | 39 Weeks Ended | |
|---|---|---|
| | October 31, 2003 | November 1, 2002 |
| Expected dividend yield | 0.9% | 0.8% |
| Expected stock price volatility | 36.9% | 35.5% |
| Weighted average risk-free interest rate | 2.6% | 5.3% |
| Expected life of options (years) | 3.7 | 6.6 |

The Black-Scholes option model was developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

## 6. Segment reporting

The Company manages its business on the basis of one reportable segment. As of October 31, 2003 and November 1, 2002, all of the Company's operations were located within the United States. The following data is presented in accordance with SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information."

| | 13 Weeks Ended | |
|---|---|---|
| *(In thousands)* | October 31, 2003 | November 1, 2002 |
| Classes of similar products: | | |
| Net sales: | | |
| Highly consumable | $ 1,076,913 | $ 959,873 |
| Seasonal | 237,365 | 196,213 |
| Home products | 207,570 | 187,250 |
| Basic clothing | 163,498 | 154,366 |
| | $ 1,685,346 | $ 1,497,702 |

| | 39 Weeks Ended | |
|---|---|---|
| *(In thousands)* | October 31, 2003 | November 1, 2002 |
| Classes of similar products: | | |
| Net sales: | | |
| Highly consumable | $ 3,094,797 | $ 2,703,617 |
| Seasonal | 737,952 | 627,303 |
| Home products | 614,746 | 566,634 |
| Basic clothing | 458,009 | 443,287 |
| | $ 4,905,504 | $ 4,340,841 |

## 7. Long-term obligations and related promissory notes

In May 2003, the Company purchased two secured promissory notes (the "Notes") from Principal Life Insurance Company totaling $49.6 million. These Notes represent debt issued by a third party entity from which the Company leases its DC in South Boston, Virginia. This existing lease is recorded as a financing obligation in the accompanying condensed consolidated financial statements. By acquiring these Notes, the Company is holding the debt instruments pertaining to its lease-financing obligation and, because a legal right of offset exists, has reflected the acquired Notes as a reduction of its outstanding financing obligations in its condensed consolidated financial

statements. There was no gain or loss recognized as a result of this transaction.

## 8. Guarantor subsidiaries

All of the Company's subsidiaries, except for one subsidiary whose assets and revenues are not material (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. In order to participate as a subsidiary guarantor on certain of the Company's financing arrangements, a subsidiary of the Company has entered into a letter agreement with certain state regulatory agencies to maintain a minimum balance of stockholders' equity of $550 million as of October 31, 2003, which is equivalent to the sum of the Company's debt it has guaranteed plus $50 million. The Company was in compliance with such agreement as of October 31, 2003.

The following consolidating schedules present condensed financial information on a combined basis. Dollar amounts are in thousands.

| | As of October 31, 2003 | | | |
|---|---|---|---|---|
| | DOLLAR GENERAL CORPORATION | GUARANTOR SUBSIDIARIES | ELIMINATIONS | CONSOLIDATED TOTAL |
| **BALANCE SHEETS:** | | | | |
| **ASSETS** | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | $ 93,345 | $ 45,125 | $ - | $ 138,470 |
| Merchandise inventories | - | 1,373,200 | - | 1,373,200 |
| Deferred income taxes | 13,854 | 7,875 | - | 21,729 |
| Other current assets | 23,450 | 1,587,522 | (1,545,671) | 65,301 |
| Total current assets | 130,649 | 3,013,722 | (1,545,671) | 1,598,700 |
| Property and equipment, at cost | 176,199 | 1,491,239 | - | 1,667,438 |
| Less accumulated depreciation and amortization | 77,147 | 610,804 | - | 687,951 |
| Net property and equipment | 99,052 | 880,435 | - | 979,487 |
| Other assets, net | 3,100,858 | 40,908 | (3,130,759) | 11,007 |
| Total assets | $ 3,330,559 | $ 3,935,065 | $ (4,676,430) | $ 2,589,194 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | | |
| Current liabilities: | | | | |
| Current portion of long-term obligations | $ 8,687 | $ 8,608 | $ - | $ 17,295 |
| Accounts payable | 1,587,143 | 398,938 | (1,545,576) | 440,505 |
| Accrued expenses and other | 35,317 | 252,502 | (95) | 287,724 |
| Income taxes payable | - | 14,553 | - | 14,553 |
| Total current liabilities | 1,631,147 | 674,601 | (1,545,671) | 760,077 |
| Long-term obligations | 195,216 | 1,058,427 | (985,286) | 268,357 |
| Deferred income taxes | 2,536 | 56,564 | - | 59,100 |
| Shareholders' equity: | | | | |
| Preferred stock | - | - | - | - |
| Common stock | 168,415 | 23,853 | (23,853) | 168,415 |
| Additional paid-in capital | 363,767 | 1,247,290 | (1,247,290) | 363,767 |
| Retained earnings | 975,255 | 874,330 | (874,330) | 975,255 |
| Accumulated other comprehensive loss | (1,206) | - | - | (1,206) |
| | 1,506,231 | 2,145,473 | (2,145,473) | 1,506,231 |

| | | | | |
|---|---|---|---|---|
| Less other shareholders' equity | 4,571 | - | - | 4,571 |
| Total shareholders' equity | 1,501,660 | 2,145,473 | (2,145,473) | 1,501,660 |
| Total liabilities and shareholders' equity | $ 3,330,559 | $ 3,935,065 | $ (4,676,430) | $ 2,589,194 |

| | As of January 31, 2003 | | | |
|---|---|---|---|---|
| | DOLLAR GENERAL CORPORATION | GUARANTOR SUBSIDIARIES | ELIMINATIONS | CONSOLIDATED TOTAL |
| **BALANCE SHEETS:** | | | | |
| **ASSETS** | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | $ 72,799 | $ 48,519 | $ - | $ 121,318 |
| Merchandise inventories | - | 1,123,031 | - | 1,123,031 |
| Deferred income taxes | 8,937 | 24,923 | - | 33,860 |
| Other current assets | 19,004 | 1,328,417 | (1,301,722) | 45,699 |
| Total current assets | 100,740 | 2,524,890 | (1,301,722) | 1,323,908 |
| Property and equipment, at cost | 169,551 | 1,408,272 | - | 1,577,823 |
| Less accumulated depreciation and amortization | 65,677 | 518,324 | - | 584,001 |
| Net property and equipment | 103,874 | 889,948 | - | 993,822 |
| Other assets, net | 2,786,977 | 38,949 | (2,810,503) | 15,423 |
| Total assets | $ 2,991,591 | $ 3,453,787 | $ (4,112,225) | $ 2,333,153 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | | |
| Current liabilities: | | | | |
| Current portion of long-term obligations | $ 8,202 | $ 8,007 | $ - | $ 16,209 |
| Accounts payable | 1,412,008 | 230,273 | (1,300,978) | 341,303 |
| Accrued expenses and other | 32,642 | 208,000 | (744) | 239,898 |
| Income taxes payable | - | 67,091 | - | 67,091 |
| Total current liabilities | 1,452,852 | 513,371 | (1,301,722) | 664,501 |
| Long-term obligations | 249,748 | 937,473 | (856,884) | 330,337 |
| Deferred income taxes | 923 | 49,324 | - | 50,247 |
| Shareholders' equity: | | | | |
| Preferred stock | - | - | - | - |
| Common stock | 166,670 | 23,853 | (23,853) | 166,670 |
| Additional paid-in capital | 313,269 | 1,247,279 | (1,247,279) | 313,269 |
| Retained earnings | 812,220 | 682,487 | (682,487) | 812,220 |
| Accumulated other comprehensive loss | (1,349) | - | - | (1,349) |
| | 1,290,810 | 1,953,619 | (1,953,619) | 1,290,810 |
| Less other shareholders' equity | 2,742 | - | - | 2,742 |
| Total shareholders' equity | 1,288,068 | 1,953,619 | (1,953,619) | 1,288,068 |
| Total liabilities and shareholders' equity | $ 2,991,591 | $ 3,453,787 | $ (4,112,225) | $ 2,333,153 |

| | For the 13 weeks ended October 31, 2003 | | | |
|---|---|---|---|---|
| | DOLLAR GENERAL CORPORATION | GUARANTOR SUBSIDIARIES | ELIMINATIONS | CONSOLIDATED TOTAL |
| **STATEMENTS OF INCOME:** | | | | |
| Net sales | $ 48,202 | $ 1,685,346 | $ (48,202) | $ 1,685,346 |
| Cost of goods sold | - | 1,168,449 | - | 1,168,449 |

| | | | | |
|---|---|---|---|---|
| Gross profit | 48,202 | 516,897 | (48,202) | 516,897 |
| Selling, general and administrative | 32,464 | 401,289 | (48,202) | 385,551 |
| Operating profit | 15,738 | 115,608 | - | 131,346 |
| Interest expense, net | 4,567 | 3,409 | - | 7,976 |
| Income before taxes on income | 11,171 | 112,199 | - | 123,370 |
| Provision for taxes on income | 4,366 | 41,101 | - | 45,467 |
| Equity in subsidiaries' earnings, net of taxes | 71,098 | - | (71,098) | - |
| Net income | $ 77,903 | $ 71,098 | $ (71,098) | $ 77,903 |

| | For the 13 weeks ended November 1, 2002 | | | |
|---|---|---|---|---|
| | DOLLAR GENERAL CORPORATION | GUARANTOR SUBSIDIARIES | ELIMINATIONS | CONSOLIDATED TOTAL |
| **STATEMENTS OF INCOME:** | | | | |
| Net sales | $ 34,739 | $ 1,497,702 | $ (34,739) | $ 1,497,702 |
| Cost of goods sold | - | 1,069,119 | - | 1,069,119 |
| Gross profit | 34,739 | 428,583 | (34,739) | 428,583 |
| Selling, general and administrative | 26,863 | 343,028 | (34,739) | 335,152 |
| Litigation settlement and related proceeds | (25,041) | - | - | (25,041) |
| Operating profit | 32,917 | 85,555 | - | 118,472 |
| Interest expense, net | 8,389 | 3,148 | - | 11,537 |
| Income before taxes on income | 24,528 | 82,407 | - | 106,935 |
| Provision for taxes on income | 9,658 | 28,707 | - | 38,365 |
| Equity in subsidiaries' earnings, net of taxes | 53,700 | - | (53,700) | - |
| Net income | $ 68,570 | $ 53,700 | $ (53,700) | $ 68,570 |

| | For the 39 weeks ended October 31, 2003 | | | |
|---|---|---|---|---|
| | DOLLAR GENERAL CORPORATION | GUARANTOR SUBSIDIARIES | ELIMINATIONS | CONSOLIDATED TOTAL |
| **STATEMENTS OF INCOME:** | | | | |
| Net sales | $ 125,783 | $ 4,905,504 | $ (125,783) | $ 4,905,504 |
| Cost of goods sold | - | 3,463,871 | - | 3,463,871 |
| Gross profit | 125,783 | 1,441,633 | (125,783) | 1,441,633 |
| Selling, general and administrative | 97,792 | 1,133,484 | (125,783) | 1,105,493 |
| Operating profit | 27,991 | 308,149 | - | 336,140 |
| Interest expense, net | 17,628 | 7,658 | - | 25,286 |
| Income before taxes on income | 10,363 | 300,491 | - | 310,854 |
| Provision for taxes on income | 4,034 | 108,649 | - | 112,683 |
| Equity in subsidiaries' earnings, net of taxes | 191,842 | - | (191,842) | - |
| Net income | $ 198,171 | $ 191,842 | $ (191,842) | $ 198,171 |

| | For the 39 weeks ended November 1, 2002 | | | |
|---|---|---|---|---|
| | DOLLAR GENERAL CORPORATION | GUARANTOR SUBSIDIARIES | ELIMINATIONS | CONSOLIDATED TOTAL |
| **STATEMENTS OF INCOME:** | | | | |
| Net sales | $ 96,590 | $ 4,340,841 | $ (96,590) | $ 4,340,841 |
| Cost of goods sold | - | 3,144,539 | - | 3,144,539 |
| Gross profit | 96,590 | 1,196,302 | (96,590) | 1,196,302 |
| Selling, general and administrative | 84,984 | 957,729 | (96,590) | 946,123 |
| Litigation settlement and related proceeds | (29,541) | - | - | (29,541) |
| Operating profit | 41,147 | 238,573 | - | 279,720 |
| Interest expense, net | 19,939 | 13,367 | - | 33,306 |
| Income before taxes on income | 21,208 | 225,206 | - | 246,414 |
| Provision for taxes on income | 8,369 | 81,185 | - | 89,554 |
| Equity in subsidiaries' earnings, net of taxes | 144,021 | - | (144,021) | - |

| | | | | |
|---|---|---|---|---|
| Net income | $ 156,860 | $ 144,021 | $ (144,021) | $ 156,860 |

| | For the 39 weeks ended October 31, 2003 | | | |
|---|---|---|---|---|
| | DOLLAR GENERAL CORPORATION | GUARANTOR SUBSIDIARIES | ELIMINATIONS | CONSOLIDATED TOTAL |
| **STATEMENTS OF CASH FLOWS:** | | | | |
| *Cash flows from operating activities:* | | | | |
| Net income | $ 198,171 | $ 191,842 | $ (191,842) | $ 198,171 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | | | |
| Depreciation and amortization | 14,858 | 98,256 | - | 113,114 |
| Deferred income taxes | (3,376) | 24,288 | - | 20,912 |
| Tax benefit from stock option exercises | 10,780 | - | - | 10,780 |
| Equity in subsidiaries' earnings, net | (191,842) | - | 191,842 | - |
| Change in operating assets and liabilities: | | | | |
| Merchandise inventories | - | (250,169) | - | (250,169) |
| Other current assets | (7,473) | (255,039) | 242,910 | (19,602) |
| Accounts payable | 175,135 | 168,665 | (244,598) | 99,202 |
| Accrued expenses and other | 2,675 | 45,715 | 649 | 49,039 |
| Income taxes | 4,177 | (56,715) | - | (52,538) |
| Other | 1,197 | (262) | 1,039 | 1,974 |
| Net cash provided by (used in) operating activities | 204,302 | (33,419) | - | 170,883 |
| *Cash flows from investing activities:* | | | | |
| Purchase of property and equipment | (6,897) | (90,026) | - | (96,923) |
| Purchase of promissory notes | (49,582) | - | - | (49,582) |
| Proceeds from sale of property and equipment | 18 | 177 | - | 195 |
| Issuance of long-term notes receivable | (127,258) | (1,144) | 128,402 | - |
| Contribution of capital | (10) | - | 10 | - |
| Net cash used in investing activities | (183,729) | (90,993) | 128,412 | (146,310) |
| *Cash flows from financing activities:* | | | | |
| Issuance of long-term obligations | 1,144 | 127,258 | (128,402) | - |
| Repayments of long-term obligations | (5,642) | (6,166) | - | (11,808) |
| Payment of cash dividends | (35,136) | - | - | (35,136) |
| Proceeds from exercise of stock options | 39,660 | - | - | 39,660 |
| Other financing activities | (53) | (84) | - | (137) |
| Issuance of common stock, net | - | 10 | (10) | - |
| Net cash provided by (used in) financing activities | (27) | 121,018 | (128,412) | (7,421) |
| Net increase (decrease) in cash and cash equivalents | 20,546 | (3,394) | - | 17,152 |
| Cash and cash equivalents, beginning of period | 72,799 | 48,519 | - | 121,318 |
| Cash and cash equivalents, end of period | $ 93,345 | $ 45,125 | $ - | $ 138,470 |

| | For the 39 weeks ended November 1, 2002 | | | |
|---|---|---|---|---|
| | DOLLAR GENERAL CORPORATION | GUARANTOR SUBSIDIARIES | ELIMINATIONS | CONSOLIDATED TOTAL |
| **STATEMENTS OF CASH FLOWS:** | | | | |
| *Cash flows from operating activities:* | | | | |
| Net income | $ 156,860 | $ 144,021 | $ (144,021) | $ 156,860 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | |
| Depreciation and amortization | 12,106 | 90,196 | - | 102,302 |
| Deferred income taxes | 64,235 | 4,189 | - | 68,424 |
| Tax benefit from stock option exercises | 2,278 | - | - | 2,278 |
| Equity in subsidiaries' earnings, net | (144,021) | - | 144,021 | - |

| | | | | |
|---|---|---|---|---|
| Litigation settlement | (161,800) | - | - | (161,800) |
| Change in operating assets and liabilities: | | | | |
| Merchandise inventories | - | (118,097) | - | (118,097) |
| Other current assets | (6,783) | (13,518) | 17,527 | (2,774) |
| Accounts payable | 260,992 | (157,249) | (15,780) | 87,963 |
| Accrued expenses and other | (28,235) | 38,340 | - | 10,105 |
| Income taxes | (20,970) | 17,833 | - | (3,137) |
| Other | (8,826) | (3,551) | (1,747) | (14,124) |
| Net cash provided by operating activities | 125,836 | 2,164 | - | 128,000 |
| *Cash flows from investing activities:* | | | | |
| Purchase of property and equipment | (9,586) | (95,141) | - | (104,727) |
| Proceeds from sale of property and equipment | 169 | 210 | - | 379 |
| Issuance of long-term notes receivable | (96,590) | - | 96,590 | - |
| Contribution of capital | (317,602) | - | 317,602 | - |
| Net cash used in investing activities | (423,609) | (94,931) | 414,192 | (104,348) |
| *Cash flows from financing activities:* | | | | |
| Net borrowings under revolving credit facilities | 168,400 | - | - | 168,400 |
| Issuance of long-term obligations | - | 96,590 | (96,590) | - |
| Repayments of long-term obligations | (71,418) | (321,960) | - | (393,378) |
| Payment of cash dividends | (31,972) | - | - | (31,972) |
| Proceeds from exercise of stock options | 4,844 | - | - | 4,844 |
| Other financing activities | 4,030 | - | - | 4,030 |
| Issuance of common stock, net | - | 317,602 | (317,602) | - |
| Net cash provided by (used in) financing activities | 73,884 | 92,232 | (414,192) | (248,076) |
| Net decrease in cash and cash equivalents | (223,889) | (535) | - | (224,424) |
| Cash and cash equivalents, beginning of period | 217,539 | 43,986 | - | 261,525 |
| Cash and cash equivalents, end of period | $ (6,350) | $ 43,451 | $ - | $ 37,101 |

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

The following text contains references to years 2003, 2002 and 2001, which represent fiscal years of Dollar General Corporation (the "Company") ending or ended, as applicable, January 30, 2004, January 31, 2003 and February 1, 2002, respectively. This discussion and analysis should be read in conjunction with, and is qualified in its entirety by, the condensed consolidated financial statements and the notes thereto as of October 31, 2003.

### Forward-Looking Statements

Except for specific historical information, many of the matters discussed in this Form 10-Q may express or imply projections of revenues or expenditures, statements of plans and objectives for future operations, statements of future economic performance, or statements regarding the expected outcome or impact of pending or threatened litigation. These, and similar statements, are forward-looking statements concerning matters that involve risks, uncertainties and other factors which may cause the actual performance of the Company to differ materially from those expressed or implied by these statements. All forward-looking information should be evaluated in the context of these risks, uncertainties and other factors. The words "believe," "anticipate," "project," "plan," "expect," "estimate," "objective," "forecast," "goal," "intend," "will likely result," or "will continue" and similar expressions generally identify forward-looking statements. The Company believes the assumptions underlying these forward-looking statements are reasonable; however, any of the assumptions could be inaccurate, and therefore, actual results may differ materially from those projected in the forward-looking statements. The factors that may result in actual results differing from such forward-looking information include, but are not limited to: the Company's ability to maintain adequate liquidity through its cash resources and credit facilities; the Company's ability to comply with the terms of its credit facilities (or obtain waivers for non-compliance); transportation and distribution delays or interruptions; the impact on transportation costs from the "driver hours of service" regulations adopted by the Federal Motor Carriers Safety Administration, which are scheduled to become effective on January 4, 2004; the Company's ability to

negotiate effectively the cost and purchase of merchandise; inventory risks due to shifts in market demand; changes in product mix; interruptions in suppliers' businesses; costs and potential problems and interruptions associated with implementation of new or upgraded systems and technology; fuel price and interest rate fluctuations; a deterioration in general economic conditions caused by acts of war or terrorism; temporary changes in demand due to weather patterns; seasonality of the Company's business; delays associated with building, opening and operating new stores; delays associated with building, opening, expanding or converting new or existing distribution centers; the impact of the Securities and Exchange Commission ("SEC") inquiry related to the restatement of certain of the Company's financial statements further described in Part II, Item 1 of this Form 10-Q; and other factors described from time to time in the Company's filings with the SEC, press releases and other communications.

Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this Form 10-Q. Except as may be required by law, the Company undertakes no obligation to publicly update or revise any forward-looking statements contained herein to reflect events or circumstances occurring after the date of this Form 10-Q or to reflect the occurrence of unanticipated events. Readers are advised, however, to consult any further disclosures the Company may make on related subjects in its public disclosures or documents filed with the SEC.

**Critical Accounting Policies**

*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 the retail inventory method ("RIM"), the valuation of inventories at cost and the resulting gross margins are calculated by applying a calculated cost-to-retail ratio to the retail value of inventories. 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 lower of cost or market 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 ending inventory valuation at cost as well as resulting gross margins. These significant estimates, coupled with the fact that the RIM is an averaging process, can, under certain circumstances, produce distorted or inaccurate 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 includes 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

* inaccurate estimates of LIFO reserves

To reduce the potential of such distortions in the valuation of inventory, the Company's RIM currently utilizes 10 departments in which fairly homogenous classes of merchandise inventories having similar gross margins are grouped. In the future, in order to further refine its RIM calculation, the Company intends to expand the number of departments it utilizes for its gross margin calculation. The impact of this intended change on the Company's future consolidated financial statements cannot currently be estimated. Other factors that reduce potential distortion include the use of historical experience in estimating the shrink provision (see discussion below) and the utilization of an outside statistician to assist in the LIFO sampling process and index formulation. Also, on a periodic basis, the Company reviews and evaluates the salability of its inventory and records adjustments, if necessary, to reflect its inventory at the lower of cost or market.

The Company calculates its shrink provision based on actual physical inventory results during the fiscal year

and an accrual for estimated shrink occurring subsequent to a physical inventory through the current fiscal reporting period. This accrual is calculated as a percentage of sales and is determined by dividing the sum of all book-to-physical inventory adjustments recorded during the previous twelve months by the related sales for the same period. To the extent that subsequent physical inventories yield different results than this estimated accrual, the Company's shrink rate for a given reporting period will include the impact of adjusting the estimated results to the actual results.

During the current period, the Company implemented an item level perpetual inventory system for financial reporting purposes. This new system provides better information regarding the type of inventory that we own and improves our ability to estimate our shrink provision. The utilization of this improved information in our RIM calculation resulted in a non-recurring inventory adjustment of approximately $7.8 million, which favorably impacted gross margin in the current period.

*Property and Equipment.* Property and equipment are recorded at cost. The Company groups its assets into relatively homogeneous classes and provides for depreciation on a straight-line basis over the estimated average useful life of each asset class. The valuation and classification of these assets and the assignment of useful depreciable lives involves significant judgments and the use of estimates. Property and equipment are reviewed for impairment periodically and whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable.

*Self-Insurance Liability.* The Company retains a significant portion of the risk for its workers' compensation, employee health insurance, general liability, property loss and automobile coverage. These costs are significant primarily due to the large employee base and number of stores. Provisions are made to this insurance liability on an undiscounted basis based on actual claim data and estimates of incurred but not reported claims developed by outside actuaries utilizing historical claim trends. If future claim trends deviate from recent historical patterns, the Company may be required to record additional expenses or expense reductions which could be material to the Company's financial results.

**Results of Operations**

The nature of the Company's business is modestly seasonal. Historically, sales in the fourth quarter have 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 the Company's business may affect comparisons between periods.

The Company has included in this document certain financial information not derived in accordance with generally accepted accounting principles ("GAAP"), such as selling, general and administrative ("SG&A") expenses, net income and diluted earnings per share that exclude the impact of restatement-related items. The Company believes that this information is useful to investors as it indicates more clearly the Company's comparative year-to-year operating results. This information should not be considered a substitute for any measures derived in accordance with GAAP. The Compensation Committee of the Company's Board of Directors may use portions of this information for compensation purposes to ensure that employees are not inappropriately penalized or rewarded as a result of unusual items affecting the Company's financial statements. Management also may use this information to better understand the Company's underlying operating results. A reconciliation of this information to the most comparable GAAP measures has been included in the table at the end of this section.

**13 WEEKS ENDED OCTOBER 31, 2003 AND NOVEMBER 1, 2002**

*Net Sales* . Net sales for the 13 weeks ended October 31, 2003 were $1.69 billion as compared against $1.50 billion during the 13 weeks ended November 1, 2002, an increase of 12.5%. The increase resulted primarily from 577 net new stores and a same store sales increase of 3.8%. Same store sales increases are calculated based on the comparable calendar weeks in the prior year and include only those stores that were open both at the end of a fiscal period and the beginning of the preceding fiscal year. The same store sales increase is primarily a result of strong sales of food, health and beauty aids and seasonal items. Net sales increases by category were as follows: highly

consumable 12.2%; seasonal 21.0%; home products 10.9%; and basic clothing 5.9%.

*Gross Profit* . Gross profit during the current year period was $516.9 million, or 30.7% of sales, versus $428.6 million, or 28.6% of sales, during the comparable period in the prior year, an increase of 20.6%. The increase in the gross margin rate as a percentage of sales is primarily attributable to a higher average mark-up on beginning inventory balances in all four of the Company's merchandise categories as compared against the same period last year. This resulted from having higher average mark-ups on inventory purchased during the first two quarters of 2003 due to increased purchases of higher margin seasonal and basic home products, an increase in import purchases compared with the same period last year which carry higher than average mark-ups and increases in various performance-based vendor rebates. Other issues impacting the year over year comparison in the gross margin rate include a reduction in our shrink provision from 4.00% to 3.15% (calculated using retail dollars as a percentage of sales) and a reduction in distribution and transportation expenses as a percentage of sales. Gross profit during the current year period was favorably impacted by an approximately $7.8 million non-recurring inventory adjustment primarily representing a change in the Company's estimated provision for shrinkage. The adjustment resulted from having better information regarding the type of inventory that we own as provided by the Company's item level perpetual inventory system that was recently implemented for financial reporting purposes. The relatively strong increase in sales of higher margin seasonal items experienced in the current year period also impacted the year over year comparison in the gross margin rate.

*Selling, General and Administrative.* SG&A expenses during the current year period were $385.6 million, or 22.9% of sales, versus $335.2 million, or 22.4% of sales, during the comparable period in the prior year, an increase of 15.0%. The increase in SG&A expenses as a rate of sales as compared to the prior year period is due principally to an increase in our accrual for bonuses, increases in workers' compensation and general liability costs, and increases in store training-related costs.

*Litigation Settlement and Related Proceeds.* The Company recorded $25.0 million in net restatement litigation proceeds during the prior year period, which amount included $25.2 million in insurance proceeds associated with the restatement-related shareholders derivative litigation offset by a $0.2 million settlement accrual for a shareholders class action opt-out claim also related to the Company's restatement. See Note 4 to the Company's condensed consolidated financial statements as of October 31, 2003.

*Interest Expense, Net.* Net interest expense in the current year period was $8.0 million, or 0.5% of sales, as compared to $11.5 million, or 0.8% of sales, in the prior year period, a decrease of 30.9%. The reduction in net interest expense is primarily attributable to lower average debt outstanding in the current year period. The Company had $285.7 million in debt outstanding at October 31, 2003 as compared to $518.3 million in debt outstanding at November 1, 2002.

*Provision for Taxes on Income* . The Company's effective tax rate was 36.9% in the current year period compared to 35.9% in the prior year period. The effective tax rate in the current year period was impacted by an adjustment that increased certain state income tax liabilities. The Company's effective tax rate was lowered in the prior year quarter by favorable adjustments to prior estimates determined after the filing of the Company's amended tax returns for 1998 and 1999 as well as the original returns for the 2000 and 2001 years.

*Net Income* . Net income during the current year period was $77.9 million, or 4.6% of sales, versus $68.6 million, or 4.6% of sales, during the comparable period in the prior year, an increase of 13.6%. Diluted earnings per share in the current year period were $0.23 versus $0.20 in the prior year period. Excluding restatement-related items and the insurance proceeds noted above, diluted earnings per share were $0.23 in the current year period versus $0.16 in the prior year period. See reconciliation of non-GAAP disclosures below.

**39 WEEKS ENDED OCTOBER 31, 2003 AND NOVEMBER 1, 2002**

*Net Sales.* Net sales for the 39 weeks ended October 31, 2003 were $4.91 billion as compared against $4.34 billion during the comparable period in the prior year, an increase of 13.0%. The increase resulted primarily from 577

net new stores and a same store sales increase of 4.3%. Same store sales increases are calculated based on the comparable calendar weeks in the prior year, and include only those stores that were open both at the end of a fiscal period and at the beginning of the preceding fiscal year. The same store sales increase is primarily a result of strong sales of food, health and beauty aids and seasonal items. Net sales increases by category were as follows: highly consumable 14.5%; seasonal 17.6%; home products 8.5%; and basic clothing 3.3%.

*Gross Profit.* Gross profit during the current year period was $1.44 billion, or 29.4% of sales, versus $1.20 billion, or 27.6% of sales, during the comparable period in the prior year, an increase of 20.5%. The increase in the gross margin rate as a percentage of sales was due principally to a higher mark-up percentage on the Company's inventory purchases than that experienced during the comparable period in the prior year. Factors contributing to the increase in the purchase mark-up include increased purchases of higher margin seasonal and basic home products, a 64% increase in import purchases compared with the same period last year which carry higher than average mark-ups and increases in various performance-based vendor rebates. Other factors contributing to the increase in the gross margin rate include a reduction in our shrinkage provision from 3.57% in the prior year period to 3.10% in the current year period (calculated using retail dollars as a percentage of sales), a reduction in the rate of sales of distribution and transportation expenses, a reduction in damaged product markdowns, and the relatively strong increase in sales in higher margin seasonal items experienced in the current year period.

*Selling, General and Administrative.* SG&A expenses during the current year period were $1.11 billion, or 22.5% of sales, versus $0.95 billion, or 21.8% of sales, during the comparable period in the prior year, an increase of 16.8%. The Company recorded $0.4 million and $5.4 million in net expenses, primarily professional fees, in the current and prior year periods, respectively, related to the restatement of certain previously released financial data. Excluding restatement-related items, SG&A expenses would have increased by 17.5% to 22.5% of sales in the current year period versus 21.7% of sales in the prior year period. See reconciliation of non-GAAP disclosures below.

The increase in SG&A expenses as a rate of sales as compared to the prior year period is primarily attributable to an increase in our accrual for bonuses and increases in workers' compensation, general liability, store labor, store occupancy and store utility costs that were greater than the increase in sales.

*Litigation Settlement and Related Proceeds.* The Company recorded $29.5 million in net restatement litigation proceeds during the prior year period, which amount included $29.7 million in insurance proceeds associated with the settlement of the restatement-related class action and shareholder derivative litigation offset by a $0.2 million settlement accrual for a shareholder class action opt-out claim related to the Company's restatement. See Note 4 to the Company's condensed consolidated financial statements as of October 31, 2003.

*Interest Expense, Net.* Net interest expense was $25.3 million, or 0.5% of sales, in the current year period as compared to $33.3 million, or 0.8% of sales, in the prior year period, a decrease of 24.1%. The decrease is primarily attributable to lower average debt outstanding in the current year period. The Company had $285.7 million in debt outstanding at October 31, 2003 as compared to $518.3 million in debt outstanding at November 1, 2002.

*Provision for Taxes on Income* . The Company's effective tax rate was 36.2% in the current year period and 36.3% in the prior year period. The effective tax rate in the current year period was favorably impacted by a $0.8 million adjustment related to a change in tax laws in the state of Mississippi.

*Net Income* . Net income during the current year period was $198.2 million, or 4.0% of sales, versus $156.9 million, or 3.6% of sales, during the comparable period in the prior year, an increase of 26.3%. Diluted earnings per share in the current year period were $0.59 versus $0.47 in the prior year period. Excluding restatement-related items and the insurance proceeds noted above, diluted earnings per share for the current year period were $0.59 versus $0.42 in the prior year period. See reconciliation of non-GAAP disclosures below.

**Reconciliation of Non-GAAP Disclosures**
(in thousands, except per share amounts)

| | For the 13 weeks ended | | For the 39 weeks ended | |
|---|---|---|---|---|
| | **October 31, 2003** | **November 1, 2002** | **October 31, 2003** | **November 1, 2002** |
| Net income in accordance with GAAP | $ 77,903 | $ 68,570 | $ 198,171 | $ 156,860 |

| | | | | |
|---|---|---|---|---|
| Restatement-related items in SG&A | 2 | 783 | 371 | 5,406 |
| Litigation settlement and related proceeds | - | (25,041) | - | (29,541) |
| Total restatement-related items | 2 | (24,258) | 371 | (24,135) |
| Tax effect | (13) | 8,924 | (146) | 8,879 |
| Total restatement-related items, net of tax | (11) | (15,334) | 225 | (15,256) |
| Net income, excluding restatement-related items | $ 77,892 | $ 53,236 | $ 198,396 | $ 141,604 |
| Weighted average diluted shares outstanding | 339,238 | 334,970 | 336,892 | 335,180 |
| Diluted earnings per share, excluding restatement-related items | $ 0.23 | $ 0.16 | $ 0.59 | $ 0.42 |
| SG&A in accordance with GAAP | $ 385,551 | $ 335,152 | $ 1,105,493 | $ 946,123 |
| Less restatement-related items | 2 | 783 | 371 | 5,406 |
| SG&A, excluding restatement-related items | $ 385,549 | $ 334,369 | $ 1,105,122 | $ 940,717 |
| SG&A, excluding restatement-related items, % to sales | 22.9% | 22.3% | 22.5% | 21.7% |

## Liquidity and Capital Resources

*Current Financial Condition / Recent Developments* . At October 31, 2003, the Company's total debt (including the current portion of long-term obligations and short-term borrowings) was $285.7 million, and the Company had $138.5 million of cash and cash equivalents and $1.50 billion of shareholders' equity, compared to $346.5 million of total debt, $121.3 million of cash and cash equivalents and $1.29 billion of shareholders' equity at January 31, 2003.

The Company has a $300 million revolving credit facility (the "Credit Facility"). The Company pays interest on funds borrowed under the Credit Facility at rates that are subject to change based upon the rating of the Company's senior debt by independent agencies. The Company has two interest rate options, base rate (which is usually equal to prime rate) and LIBOR. Based upon the Company's debt ratings during the first 39 weeks of 2003, the facility fees were 37.5 basis points, the all-in drawn margin under the LIBOR option was LIBOR plus 237.5 basis points and the all-in drawn margin under the base rate option was the base rate plus 125 basis points. The Credit Facility is secured by approximately 400 of the Company's retail stores, its headquarters and two of its distribution centers. As of October 31, 2003, the Company had no outstanding borrowings and $22.5 million of standby letters of credit under the Credit Facility. In addition, the Company had outstanding $2.1 million of standby letters of credit that were issued under separate agreements.

The Company has outstanding $200 million (principal amount) of 8 5/8% unsecured notes due June 15, 2010. Interest on the notes is payable semi-annually on June 15 and December 15 of each year. The holders of the notes may elect to have their notes repaid on June 15, 2005, at 100% of the principal amount plus accrued and unpaid interest. The Company may seek, from time to time, to retire its outstanding notes through cash purchases on the open market, privately negotiated transactions or otherwise. Such repurchases, if any, will depend on prevailing market conditions, the Company's liquidity requirements, contractual restrictions and other factors. The amounts involved may be material.

The Company believes that its existing cash balances, cash flows from operations, the Credit Facility and its ongoing access to the capital markets will provide sufficient financing to meet the Company's currently foreseeable liquidity and capital resource needs.

The Company plans to open approximately 670 stores during the fiscal year ending January 30, 2004. On November 17, 2003 the Company announced its intention to open 695 stores in fiscal 2004 and to continue growing at a similar pace in 2005 and 2006. The Company also announced on November 17, 2003 its intention to increase its merchandise handling capabilities by converting two distribution centers from single to dual sortation facilities during

the first half of 2004 and to open a new distribution center in 2005. The Company anticipates funding the costs associated with such openings and DC conversions with cash flows from operations and/or by borrowings under the Credit Facility.

On March 13, 2003, the Board of Directors authorized the Company to repurchase up to 12 million shares of its outstanding common stock. Purchases may be made in the open market or in privately negotiated transactions from time to time subject to market conditions. This authorization expires March 13, 2005. As of October 31, 2003, the Company had not purchased any of its shares pursuant to the current authorization.

*Cash flows provided by operating activities* . Net cash provided by operating activities totaled $170.9 million during the first 39 weeks of 2003, as compared to a $128.0 million source of cash during the comparable period in the prior year. The primary source of cash in 2003 was the Company's net income plus depreciation and amortization expense, which together totaled $311.3 million. In addition, the Company generated $99.2 million as a result of increases in its accounts payable balances. The increase in accounts payable is a result of the seasonal increase in inventory levels in anticipation of the holiday selling season. Significant uses of cash in the current year period include an increase in inventories of $250.2 million and a reduction in our income tax payable of $52.5 million. Inventory turns have improved on a rolling 12-month basis from 3.7 times to 3.9 times as measured at November 1, 2002, and October 31, 2003, respectively.

The primary source of net cash provided by operating activities during the corresponding prior year period was the Company's net income plus depreciation and amortization expense, which together totaled $259.2 million. Other sources of cash in the prior year period include an increase in accounts payable of $88.0 million and a decrease in the net deferred tax asset of $68.4 million. The decrease in the net deferred tax asset primarily reflects the tax benefit that the Company received in its 2002 income tax return with respect to the $162.0 million payment in settlement of the restatement-related class action litigation, described in Note 4 of the Company's condensed consolidated financial statements as of October 31, 2003. Significant uses of cash in the prior year period include a $118.1 million increase in inventory levels and the $162.0 million shareholder class action litigation settlement payment described above.

*Cash flows used in investing activities* . Net cash used in investing activities during the first 39 weeks of 2003 totaled $146.3 million, as compared to a $104.3 million use of cash during the comparable period in the prior year. The Company purchased property and equipment totaling $96.9 million in the current year period which consisted primarily of $45.7 million for new stores, $31.5 million for other store-related projects and $13.6 million for various technology projects. Also during the current year period, the Company purchased two secured promissory notes totaling $49.6 million which represent debt issued by a third party entity from which the Company leases its DC in South Boston, Virginia. See Note 7 to the Company's condensed consolidated financial statements as of October 31, 2003. The $104.7 million spent in the prior year period consisted primarily of $39.1 million for new stores and relocations, $15.5 million for various store-related technology projects and $21.2 million for distribution and transportation projects.

*Cash flows used in financing activities* . Net cash used in financing activities during the first 39 weeks of 2003 was $7.4 million, which consisted principally of $35.1 million in dividend payments and repayments of long-term obligations of $11.8 million, offset by proceeds from stock option exercises of $39.7 million. Net cash used in financing activities during the comparable period in the prior year was $248.1 million, which consisted principally of $32.0 million in dividends and $225.0 million of net debt repayments.

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We have no material changes to the disclosures relating to this item that are set forth in our report on Form 10-K for the fiscal year ended January 31, 2003.

## ITEM 4. CONTROLS AND PROCEDURES

*(a) Disclosure Controls and Procedures* . The Company, under the supervision and with the participation of the Company's management, including the Chief Executive Officer and the Chief Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e)

promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of October 31, 2003. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that, as of October 31, 2003, the Company's disclosure controls and procedures are effective for the purposes set forth in the definition thereof in Exchange Act Rule 13a-15(e).

*(b) Changes in Internal Control Over Financial Reporting* . There have been no changes during the quarter ended October 31, 2003 in the Company's internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f)) that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## PART II – OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

The information contained in Note 4 to the 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 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) See the Exhibit Index immediately following the Signature page hereto.

(b)
(1) A Current Report on Form 8-K, dated August 7, 2003, was furnished to the SEC pursuant to Item 9 and Item 12 in connection with a news release regarding the sales results for the four-week period, 26 weeks and second quarter ended August 1, 2003, and other matters.
(2) A Current Report on Form 8-K, dated August 26, 2003, was furnished to the SEC pursuant to Item 9 in connection with a news release regarding the declaration of a dividend.
(3) A Current Report on Form 8-K, dated August 28, 2003, as amended by Form 8-K/A dated August 28, 2003, was furnished to the SEC pursuant to Items 9 and 12 in connection with news releases regarding results of operations and financial condition for the second quarter and 26 weeks ended August 1, 2003, the updated 2003 outlook, the conference call regarding 2003 second quarter earnings, and the naming of a new President and COO.
(4) A Current Report on Form 8-K, dated September 4, 2003, was furnished to the SEC pursuant to Item 9 in connection with a news release regarding August sales results and the September sales outlook.
(5) A Current Report on Form 8-K, dated September 17, 2003, was filed with the SEC pursuant to Item 11 in connection with a temporary trading suspension under the Company's 401(k) Plan.
(6) A Current Report on Form 8-K, dated September 19, 2003, was furnished to the SEC pursuant to Item 9 in connection with a news release regarding the naming of a new Executive Vice President.
(7) A Current Report on Form 8-K, dated October 9, 2003, was furnished to the SEC pursuant to Item 9 in connection with a news release regarding September sales results and the October sales outlook.

## 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 4, 2003 By: /s/ James J. Hagan

James J. Hagan
Executive Vice President and Chief Financial Officer

## EXHIBIT INDEX

10.1 Dollar General Corporation 1998 Stock Incentive Plan, as amended and restated effective June 2, 2003, and as further modified through August 26, 2003, (incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended August 1, 2003, filed August 29, 2003).

10.2 Employment Agreement, effective September 22, 2003, by and between Dollar General Corporation and Lawrence V. Jackson.

10.3 Supplemental Retirement Plan for Lawrence V. Jackson, effective September 22, 2003.

31 Certifications of Chief Executive Officer and Chief Financial Officer under Exchange Act Rule 13a-14(a).

32 Certifications of Chief Executive Officer and Chief Financial Officer under 18 U.S.C. 1350.

## EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT ("Agreement"), effective September 22, 2003 ("Effective Date"), is made and entered into by and between **DOLLAR GENERAL CORPORATION** (the "Company"), and Lawrence V. Jackson ("Employee").

**W I T N E S S E T H:**

WHEREAS, Company desires to employ Employee upon the terms and subject to the conditions hereinafter set forth, and Employee desires to accept such employment;

NOW, THEREFORE, for and in consideration of the premises, the mutual promises, covenants and agreements contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

**Employment Terms**

**1.** **Employment .** Subject to the terms and conditions of this Agreement, Company agrees to employ Employee as President and Chief Operating Officer ("COO") of Dollar General Corporation.

**2.** **Term .** The term of this Agreement shall be until September 22, 2006 ("Term"), unless otherwise terminated pursuant to Paragraphs 7, 8, 9, 10, 11 or 12 hereof.

**3.** **Position, Duties and Administrative Support .**

a. Position . Employee shall serve as President and COO. Employee shall report to the Chairman and Chief Executive Officer ("CEO") and perform such duties and responsibilities as the Chairman and CEO may prescribe from time-to-time.

b. Full-Time Efforts . Employee shall perform and discharge faithfully, diligently and to the best of his

ability such duties and responsibilities and shall devote his full-time efforts to the business and affairs of Company. Employee agrees to promote the best interests of Company and to take no action that in any way damages the public image or reputation of Company, its subsidiaries or its affiliates.

c. Administrative Support . Employee shall be provided with office space and administrative support commensurate with his position as President and COO.

d. No Interference With Duties . Employee shall not devote time to other activities which would inhibit or otherwise interfere with the proper performance of his duties, and shall not be directly or indirectly concerned or interested in any other occupation, activity or interest in any business whatsoever other than by reason of holding a non-controlling interest as a shareholder, securities holder or debenture holder in a corporation quoted on a nationally recognized exchange. Employee may not serve as a member of a board of directors of a for-profit company, other than the Company or any of its subsidiaries or affiliates, during the Term without the express approval of the CEO.

**4. Work Standard .** Employee hereby agrees that he shall at all times comply with and abide by all terms and conditions set forth in this Agreement, and all applicable work policies, procedures and rules as may be issued by Company. Employee also agrees that he shall comply with all federal, state and local statutes, regulations and public ordinances governing the performance of his duties hereunder.

**5. Compensation .**

a. Base Salary . Subject to the terms and conditions set forth in this Agreement, Company shall pay Employee, and Employee shall accept, an annual salary ("Base Salary") in the amount of Six Hundred Thousand and No/100 Dollars ($600,000.00). The Base Salary shall be paid in accordance with Company's normal payroll practices and may be increased from time to time at the sole discretion of the Compensation Committee of the Board of Directors ("Compensation Committee").

b. Incentive Bonus . Employee's incentive compensation for the Term of this Agreement shall be determined under the Company's bonus program for executives established by the Compensation Committee and amended in its discretion. For the 2003 fiscal year, Employee shall receive a bonus equal to at least 65% of his Base Salary (prorated based on his tenure with the Company for the year) and may be eligible for a maximum payout of up to 100% of Base Salary (also prorated) based on the attainment of certain corporate targets. For the 2004 fiscal year and for the remainder of the Term, Employee's target Bonus shall be set at a level commensurate with the Employee's job position of President and COO of the Company. The actual bonus paid pursuant to this Paragraph 5 (b) shall be based on performance criteria established by the Compensation Committee in accordance with the terms and conditions of the bonus program for executives.

c. Stock Options . Pursuant to its 1998 Employee Stock Incentive Plan, as amended from time to time, or any successor plan thereof (the "Plan"), Company shall grant to Employee two hundred thousand (200,000) non-qualified stock options to purchase Company stock. Such options shall be granted at the next regularly scheduled Compensation Committee meeting after Employee's hire date at a purchase price determined by the Compensation Committee which purchase price shall not be less than 50% of the "Fair Market Value" of the Company's "Common Stock" (as such terms are defined under the Plan) as of the date of grant. In addition, such options shall vest in four

equal annual installments (25% each year) on each successive annual anniversary of the date of grant. All unvested options shall forfeit upon Employee's termination except as provided in this Paragraph and Paragraphs 8, 9, 11 and 12 below. Employee shall be eligible for annual future grants under the Plan subject to Compensation Committee approval. For purposes of this Paragraph 5(c) only, if Employee's initial employment Term ending September 22, 2006 expires unrenewed for any reason other than Cause, all stock options granted to Employee pursuant to this Paragraph 5(c) shall become fully vested and remain exercisable as provided in the applicable agreement evidencing such awards.

d. Restricted Stock . Pursuant to the Plan, Company shall grant to Employee twenty-four thousand (24,000) shares of restricted stock. Such restricted stock shall be granted at the next regularly scheduled Compensation Committee meeting after Employee's hire date and shall vest in three equal annual installments (1/3 each year) on each successive annual anniversary of the date of grant. All unvested stock shall be forfeited upon Employee's termination except as provided in this Paragraph and Paragraphs 8, 9, 11 and 12 below. For purposes of this Paragraph 5(d) only, if Employee's initial employment Term ending September 22, 2006 expires unrenewed for any reason other than Cause, all restricted stock granted to Employee pursuant to this Paragraph 5(d) shall become fully vested.

e. Signing Bonus . Within ten (10) business days of the Effective Date of this Agreement, the Company shall pay to Employee One Hundred Thousand Dollars ($100,000). If on or before September 21, 2004 Employee is terminated for Cause as defined in Paragraph 7 or voluntarily terminates employment unless it is for Good Reason as defined in Paragraph 10(b), Employee shall repay the amount set forth in the preceding sentence within three (3) business days of his last day of employment.

f. Supplemental Executive Retirement Plan . In lieu of participation in the Company's supplemental executive retirement plan for key employees, the Company shall enter into an individual arrangement with Employee providing a mutually agreeable SERP benefit ("SERP"). The document providing such SERP is attached hereto as Exhibit A.

g. Vacation . Upon Employee's Effective Date, he shall be eligible for two weeks vacation during his first year of employment. After his first year, he shall be eligible for three weeks vacation each year. Any granted but unused vacation as of an annual anniversary of employment date or at Employee's termination date shall be forfeited.

h. Business Expenses . Employee shall be reimbursed for all reasonable business expenses incurred in carrying out the work hereunder. Employee shall adhere to the Company's expense reimbursement policies and shall follow those expense reimbursement procedures that generally apply to other Company employees.

i. Moving Expenses . The Company will reimburse Employee for reasonable and customary moving expenses directly related to Employee's relocation from Alamo, CA to the Nashville, Tennessee area in accordance with the terms of the Company's relocation policy.

j. Perquisites . Employee shall be entitled to receive such other executive perquisites, fringe and other benefits as are provided to the senior most executives and their families under any of the Company's plans and/or

programs in effect from time to time and such other benefits as are customarily available to executives of the Company and their families.

**6.** **Benefits .** During the Term, Employee (and, where applicable, Employee's eligible dependents) shall be eligible to participate in the various Company welfare benefit plans, practices and policies (including, without limitation, medical, prescription, dental, vision, disability, employee life, accidental death and travel accident insurance plans and programs) to the extent and in accordance with the terms of those plans as generally provided to executives or other similarly situated employees of the Company. In addition, Employee shall be eligible to participate, pursuant to their terms, in any other benefit plans offered by the Company to executives or other employees (excluding plans applicable solely to the CEO), including, without limitation, the 401(k) Retirement and Savings Plan and Compensation Deferral Program. Collectively the plans and arrangements described in this Paragraph 6 are hereinafter referred to as the "Benefits Plans."

**7.** **Termination for Cause .** Under the following conditions, each of which shall constitute "Cause" or "Termination for Cause", this Agreement may be terminated immediately at any time by Company without any liability owing to Employee or Employee's beneficiaries under this Agreement, except for those benefits owed under any other plan or agreement covering Employee which shall be governed by the terms of such plan or agreement:

a. Any act involving fraud, dishonesty or material misrepresentation, any breach of applicable regulations of competent authorities in relation to trading or dealing with stocks, securities, investments and the like, or any act by Employee resulting in an investigation by the Securities & Exchange Commission;

b. Other than as required by law, the carrying out of any activity or the making of any statement which prejudices or reduces the good name and standing of Company or any of its affiliates or would bring any one of these into contempt or ridicule;

c. Attendance at work in a state of intoxication or otherwise being found in possession at his place of work of any prohibited drug or substance, possession of which would amount to a criminal offense;

d. Assault or other act of violence against any employee of Company or other person during the course of his employment; or

e. Conviction of any felony whatsoever or any misdemeanor involving moral turpitude.

A termination for Cause shall be effective only if the Company has given Employee written notice of its intention to terminate for Cause, describing Employee's acts or omissions that are believed to constitute Cause.

**8.** **Termination upon Death .** Notwithstanding anything herein to the contrary, this Agreement shall terminate immediately upon Employee's death, and Company shall have no further liability to Employee or his beneficiaries under this Agreement, except for benefits under the Benefits Plans covering Employee to the extent provided by the terms of such Benefits Plans. In addition, upon Employee's death during the Term, all of Employee's stock options and restricted shares shall vest and become fully exercisable. Any such stock options that may be exercised shall remain exercisable as provided under the terms of the Plan.

**9.** **Disability .** If a Disability (as defined below) of Employee occurs during the Term, the Company may notify Employee of the Company's intention to terminate Employee's employment. In that event, employment shall

terminate effective on the date such notice of termination is given to Employee (the "Disability Effective Date") and this Agreement shall terminate without further liability to Employee, except for benefits under the Benefits Plans covering Employee to the extent provided by the terms of such Benefits Plans. In addition, upon the Employee's Disability during the Term, all of Employee's stock options and restricted shares shall vest and become fully exercisable. Any such stock options that may be exercised shall remain exercisable as provided under the terms of the Plan. In this Agreement, "Disability" means:

(a) a long-term disability, as defined in the Company's applicable long-term disability plan as then in effect; or

(b) Employee's inability reasonably to perform his duties under this Agreement because of any medically determinable physical or mental impairment that (i) can reasonably be expected to result in death or (ii) has lasted or can reasonably be expected to last for at least sixty (60) consecutive days. In this circumstance, the existence of a Disability shall be determined by the Company, in its sole and absolute discretion, upon receipt of competent medical advice from a qualified physician selected by or acceptable to the Company. In this circumstance, Employee shall, if there is any question about his Disability, submit to a physical examination by a qualified physician selected by the Company. Nothing in this subsection (b) is intended to nor shall it be deemed to broaden or modify the definition of "disability" in the Company's long-term disability plan.

**10. <u>Employee's Termination of Employment</u> .**

a. Notwithstanding anything herein to the contrary, Employee may terminate his employment and this Agreement at any time, for no reason, with thirty (30) days written notice to Company. Upon such termination, Employee shall be entitled to his pro-rata Base Salary through the date of termination and such other vested benefits under any other plan or agreement covering Employee which shall be governed by the terms of such plan or agreement. Employee shall not be entitled to those payments and benefits listed in paragraph 11, unless he terminates his employment for Good Reason, as defined below.

b. <u>Good Reason</u> shall mean any of the following actions taken by the Company:

(i) a reduction by the Company in the Employee's Base Salary or target bonus level, or the Company's failure to increase (within 12 months of Employee's last increase) the Employee's Base salary, unless such failure is the result of (A) a hiring or salary freeze uniformly applied to all employees or (B) Employee's failure to meet pre-established and objective performance criteria;

(ii) The Company shall fail to continue in effect any significant Company-sponsored compensation plan or benefit (without replacing it with a similar plan or with a compensation equivalent), unless such action is in connection with across-the-board plan changes or terminations similarly affecting at least ninety-five percent (95%) of all executive employees of the Company;

(iii) Company's principal executive offices shall be moved to a location outside the middle-Tennessee area, or Employee is required to be based anywhere other than the Company's principal executive offices;

(iv) Without his written consent, the assignment to the Employee by the Company of duties inconsistent with, or the significant reduction of the title, powers and functions associated with, Employee's position, titles or offices, unless such action is the result of Employee's failure to meet pre-established and objective performance criteria or his termination for Disability or Cause;

(v) Any material breach by the Company of any provision of this Agreement; or

(vi) The failure of any successor to the Company (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to assume expressly and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place.

Good Reason shall not include Employee's death or Disability. The Company shall have the opportunity to cure any claimed event of Good Reason (other than subparagraph (vi) above) within thirty (30) days notice from Employee.

**11.** **Termination without Cause or by Employee for Good Reason .** If Employee's employment is terminated by the Company without Cause which the Company may do at any time prior to the expiration of the Term (it being understood by the Parties that termination by death, Disability or expiration of this Agreement shall not constitute termination without Cause) or Employee terminates for Good Reason (as defined above), then Employee shall be entitled (in lieu of the payments referenced in Paragraph 12 below, and not in addition to), only upon the execution and effectiveness of the Release attached hereto and made a part hereof, to:

(a) continuation of Employee's Base Salary as of the date immediately preceding the termination for 24 months, payable in accordance with the Company's normal payroll cycle and procedures,

(b) an amount equal to two (2) times the annual Employee contribution to participate in the Company's medical, dental and vision benefits programs prorated to be paid over the same twenty-four (24) month period as provided in Paragraph 11(a) above, and

(c) Employee's stock options and restricted shares granted pursuant to Paragraphs 5(c) and 5(d) respectively shall fully vest and shall remain exercisable as provided in the applicable agreement evidencing such awards.

In the event that there is a breach by Employee of any continuing obligations under this Agreement after termination of employment, any unpaid amounts under this Paragraph 11 shall be forfeited. Any payments or reimbursements under this Paragraph 11 shall not be deemed the continuation of Employee's employment for any purpose. The Company's obligations under this Paragraph 11 will not negate or reduce (i) any amounts due but not yet paid to Employee by the Company, or (ii) any other amounts payable to Employee outside this Agreement, or any other rights that Employee may have, under the terms of any of the applicable Benefit Plans in effect on the employment termination date. Further, the Company may, at any time and in its sole discretion, make a lump-sum payment of all amounts, or all remaining amounts, due to Employee under this Paragraph 11.

**12.** **Effect of Change in Control .**

a. If, during the Term and within one year following a Change in Control (as hereafter defined), the

Company (or any successor to the Company) terminates Employee's employment without Cause or Employee terminates his employment for Good Reason, then upon the execution and the effectiveness of the Release attached hereto and made a part hereof, the Company shall pay to Employee (in lieu of the payments referenced in paragraph 11 above, and not in addition to):

(i) a lump sum payment equal to two times Employee's Base Salary in effect immediately prior to the Change in Control plus two times the amount of Employee's target incentive bonus payment in effect immediately prior to the Change in Control;

(ii) a lump sum payment in an amount equal to two (2) times the annual Employee contribution to participate in the Company's medical, dental and vision benefits program; and

(iii) Employee's stock options and restricted shares granted pursuant to Paragraphs 5(c) and 5(d) respectively shall fully vest and shall remain exercisable in accordance with the terms of the Plan.

b. Excise Tax Gross-Up .

(i) Anything in this Agreement to the contrary notwithstanding and except as set forth below, in the event it shall be determined as provided below that any payment or distribution by the Company to or for the benefit of Employee (whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise, but determined without regard to any additional payments required under this Paragraph 12) (a "Payment") would be subject to the excise tax imposed by Section 4999 of the Code or any interest or penalties are incurred by Employee with respect to such excise tax (such excise tax, together with any such interest and penalties, are hereinafter collectively referred to as the "Excise Tax"), then Employee shall be entitled to receive an additional payment (a "Gross-Up Payment") in an amount such that after payment by Employee of all taxes (including any interest or penalties imposed with respect to such taxes), including, without limitation, any income taxes (and any interest and penalties imposed with respect thereto) and Excise Tax imposed upon the Gross-Up Payment, Employee retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Payments.

(ii) All determinations required to be made under this Paragraph 12, including whether and when a Gross-Up Payment is required and the amount of such Gross-Up Payment and the assumptions to be used in arriving at such determination, shall be made by the tax department of an independent public accounting firm (the "Accounting Firm") which shall be engaged by the Company prior to the time of the first Payment to Employee. The Accounting Firm selected shall not be serving as accountant or auditor for the individual, entity or group effecting the Change in Control. The Accounting Firm shall prepare and provide detailed supporting calculations both to the Company and Employee within fifteen (15) business days of the later of (i) the Accounting Firm's engagement to make the required calculations or (ii) the date the Accounting Firm obtains all information needed to make the required calculation. Any determination by the Accounting Firm shall be binding upon the Company and Employee. All fees and expenses of the Accounting Firm shall be borne solely by the Company.

(iii) Any Gross-Up Payment, as determined pursuant to this Paragraph 12, shall be paid by the

Company to Employee within five (5) days of the receipt of the Accounting Firm's determination if the Payment is then required to satisfy an assessment or other current demand for payment made of the Employee by federal or state taxing authorities. Gross-Up Payments due at a later date shall be paid to the Employee no later than fourteen (14) days prior to the date that the Employee's federal or state payment is due. If required by law, the Company shall treat all or any portion of the Gross-Up Payment as being subject to income tax withholding for federal or state tax purposes. Amounts determined by the Company to be subject to federal or state tax withholding will not be paid directly to Employee but shall be timely paid to the respective taxing authority.

(iv) As a result of the uncertainty in the application of Section 4999 of the Code at the time of the initial determination by the Accounting Firm hereunder, it is possible that Gross-Up Payments which will not have been made by the Company should have been made ("Underpayment"), consistent with the calculations required to be made hereunder. In the event that Employee hereafter is required to make a payment of any Excise Tax, the Accounting Firm shall determine the amount of the Underpayment that has occurred and any such Underpayment shall be promptly paid by the Company to or for the benefit of Employee. Conversely, if it is later determined that the actual required Gross-Up Payment was less than the amount paid to the Employee, the Employee shall refund the excess portion to the Company but only to the extent that the Employee has not yet paid the excess amount to the taxing authorities or is able to obtain a refund from the respective taxing authorities of amounts previously paid. The Company may pursue at its own expense the refund on behalf of the Employee.

c. Change in Control shall mean the date as of which any of the following occurs:

(i) The Consummation of an acquisition after which any individual, entity or group within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended (hereinafter "Exchange Act") shall have beneficial ownership within the meaning of Rule 13d-3 promulgated under the Exchange Act (hereinafter "Beneficial Ownership") of 35% or more of the Voting Securities of the Company; provided, however, that for purposes of the preceding sentence, the following acquisitions of Voting Securities of the Company shall not constitute a Change in Control:

(A) ownership or an acquisition by Cal Turner, James Stephen Turner or a member or members of his or their immediate family or any trust, partnership, foundation or similar entity for the exclusive benefit of any such persons (collectively, the "Turner Family Interests");

(B) any acquisition directly from the Company;

(C) any acquisition by the Company or an affiliate which the Company Controls;

(D) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or a subsidiary of the Company;

(E) any acquisition by a qualified pension plan or publicly held mutual fund;

(F) any acquisition by the Employee or a group within the meaning of Section 14(d) of the Exchange Act that includes the Employee; or

(G) any Business Combination which would not otherwise constitute a Change in Control because of the application of clauses (A), (B) and (C) of Paragraph 12(c)(iii).

(ii) A change in the composition of the Board of Directors of the Company whereby individuals who constitute the Board of Directors of the Company as of the Effective Date of this Agreement (plus any individual who shall become a director subsequent to such date whose election or nomination for election by the shareholders was approved by a vote of at least 75% of the directors then comprising the Board of Directors) (hereinafter "Incumbent Board") cease for any reason to constitute at least a majority of the Board of Directors. Notwithstanding the foregoing, no individual who shall become a director of the Board of Directors subsequent to the Effective Date whose initial assumption of office occurs as a result of an actual or threatened election contest (within the meaning of Rule 14a-11 of the Regulations promulgated under the Exchange Act) with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of an individual, entity or group within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act other than the Board of Directors shall be a member of the Incumbent Board.

(iii) Consummation of a Business Combination, unless, immediately following such Business Combination, all of the following three conditions are met:

(A) all or substantially all of the individuals and entities who held Beneficial Ownership, respectively, of the Voting Securities of the Company immediately prior to such Business Combination beneficially own, directly or indirectly, 65% or more of the combined voting power of the Voting Securities of the corporation surviving or resulting from such Business Combination, (including, without limitation, a corporation which as a result of such transaction holds Beneficial Ownership of all or substantially all of the Voting Securities of the Company or all or substantially all of the Company's assets) (such surviving or resulting corporation to be referred to as "Surviving Company"), in substantially the same proportions as their ownership, immediately prior to such Business Combination, of the Voting Securities of the Company;

(B) no individual, entity or group within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act (excluding any corporation resulting from such Business Combination, the Turner Family Interests, any qualified pension plan, a publicly held mutual fund, the Employee, a group within the meaning of Section 14(d) of the Exchange Act that includes the Employee, or an employee benefit plan (or related trust) of the Company or Surviving Company) holds Beneficial Ownership, directly or indirectly, of 35% or more of the combined voting power of the then outstanding Voting Securities of Surviving Company except to the extent that such ownership existed immediately prior to the Business Combination; and

(C) at least a majority of the members of the board of directors of the Surviving Company were members of the Incumbent Board at the earlier of the date of execution of the initial agreement, or of the action of the Board of Directors of the Company, providing for such Business Combination.

(iv) For purposes of subparagraphs (i) - (iii) above, the terms below shall have the following meanings:

(A) " Business Combination " shall mean a reorganization, merger or consolidation of the Company or sale or other disposition of all or substantially all of the assets of the Company.

(B) " Consummation " shall mean the completion of the final act necessary to complete a transaction as a matter of law, including, but not limited to, any required approvals by the corporation's shareholders and board of directors, the transfer of legal and beneficial title to securities or assets and the final approval of the transaction by any applicable domestic or foreign governments or governmental agencies.

(C) " Control " shall mean, in the case of a corporation, Beneficial Ownership of more than 50% of the combined voting power of the corporation's Voting Securities, or in the case of any other entity, Beneficial Ownership of more than 50% of such entity's voting equity interests.

(D) " Voting Securities " shall mean the outstanding voting securities of a company entitling the holder thereof to vote generally in the election of such company's directors.

**13.** **Publicity; No Disparaging Statement .** Except as otherwise provided in Paragraph 14 hereof, Employee and the Company covenant and agree that they shall not engage in any communications which shall disparage one another or interfere with their existing or prospective business relationships.

**14.** **Confidentiality and Legal Process .** Employee represents and agrees that he will keep the terms, amount and fact of this Agreement confidential and that he will not hereafter disclose any information concerning this Agreement to any one other than his personal agents. Notwithstanding the foregoing, nothing in this Agreement is intended to prohibit Employee from performing any duty or obligation that shall arise as a matter of law. Specifically, Employee shall continue to be under a duty to truthfully respond to any legal and valid subpoena or other legal process. This Agreement is not intended in any way to proscribe Employee's right and ability to provide information to any federal, state or local government in the lawful exercise of such government's governmental functions.

**15.** **Business Protection Provision Definitions .**

a. Preamble . As a material inducement to the Company to enter into this Agreement, and its recognition of the valuable experience, knowledge and proprietary information Employee will gain from his employment with the Company, Employee warrants and agrees he will abide by and adhere to the business protection provisions in Paragraphs 15, 16, 17, 18 and 19 herein.

b. Definitions . For purposes of Paragraphs 15, 16, 17, 18 and 19 herein, the following terms shall have the following meanings:

(i) "Competitive Position" shall mean any employment, consulting, advisory, directorship, agency, promotional or independent contractor arrangement between the Employee and any person or Entity engaged wholly or in material part in the business in which the Company is engaged including but not limited to such other similar businesses as Family Dollar Stores, Fred's, the 99 Cents Stores and Dollar Tree Stores whereby the Employee is required to or does perform services on behalf of or for the benefit of such

person or Entity which are substantially similar to the services Employee participated in or directed while employed by the Company or any of its affiliates.

(ii) "Confidential Information" shall mean the proprietary or confidential data, information, documents or materials (whether oral, written, electronic or otherwise) belonging to or pertaining to the Company, other than "Trade Secrets" (as defined below), which is of tangible or intangible value to the Company and the details of which are not generally known to the competitors of the Company. Confidential Information shall also include: any items marked "CONFIDENTIAL" or some similar designation or are otherwise identified as being confidential.

(iii) "Entity" or "Entities" shall mean any business, individual, partnership, joint venture, agency, governmental agency, body or subdivision, association, firm, corporation, limited liability company or other entity of any kind.

(iv) "Restricted Period" shall mean two (2) years following the Employee's termination date.

(v) "Territory" shall include those states in which the Company maintains stores at Employee's termination date.

(vi) "Trade Secrets" shall mean information or data of or about the Company, including, but not limited to, technical or non-technical data, formulas, patterns, compilations, programs, devices, methods, techniques, drawings, processes, financial data, financial plans, product plans or lists of actual or potential customers or suppliers that: (A) derives economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use; (B) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy; and (C) any other information which is defined as a "trade secret" under applicable law.

(vii) "Work Product" shall mean all tangible work product, property, data, documentation, "know-how," concepts or plans, inventions, improvements, techniques and processes relating to the Company that were conceived, discovered, created, written, revised or developed by Employee during the term of his employment with the Company.

**16.** **<u>Nondisclosure: Ownership of Proprietary Property</u> .**

a. In recognition of the need of the Company to protect its legitimate business interests, Confidential Information and Trade Secrets, Employee hereby covenants and agrees that Employee shall regard and treat Trade Secrets and all Confidential Information as strictly confidential and wholly-owned by the Company and shall not, for any reason, in any fashion, either directly or indirectly, use, sell, lend, lease, distribute, license, give, transfer, assign, show, disclose, disseminate, reproduce, copy, misappropriate or otherwise communicate any such item or information to any third party or Entity for any purpose other than in accordance with this Agreement or as required by applicable law: (i) with regard to each item constituting a Trade Secret, at all times such information remains a "trade secret" under applicable law, and (ii) with regard to any Confidential Information, for the Restricted Period.

b. Employee shall exercise best efforts to ensure the continued confidentiality of all Trade Secrets and Confidential Information, and he shall immediately notify the Company of any unauthorized disclosure or use of any

Trade Secrets or Confidential Information of which Employee becomes aware. Employee shall assist the Company, to the extent necessary, in the protection of or procurement of any intellectual property protection or other rights in any of the Trade Secrets or Confidential Information.

c. All Work Product shall be owned exclusively by the Company. To the greatest extent possible, any Work Product shall be deemed to be "work made for hire" (as defined in the Copyright Act, 17 U.S.C.A. § 101 et seq., as amended), and Employee hereby unconditionally and irrevocably transfers and assigns to the Company all right, title and interest Employee currently has or may have by operation of law or otherwise in or to any Work Product, including, without limitation, all patents, copyrights, trademarks (and the goodwill associated therewith), trade secrets, service marks (and the goodwill associated therewith) and other intellectual property rights. Employee agrees to execute and deliver to the Company any transfers, assignments, documents or other instruments which the Company may deem necessary or appropriate, from time to time, to protect the rights granted herein or to vest complete title and ownership of any and all Work Product, and all associated intellectual property and other rights therein, exclusively in the Company.

**17.** **Non-Interference with Employees .** Employee covenants and agrees that during the Restricted Period he will not, either directly or indirectly, alone or in conjunction with any other person or Entity: (a) actively recruit, solicit, attempt to solicit, or induce any person who, during such Restricted Period, or within one year prior to the Employee's termination date, was an exempt employee of the Company or any of its subsidiaries, or was an officer of any of the other DG Entities to leave or cease such employment for any reason whatsoever; or (b) hire or engage the services of any such person described in Paragraph 17(a) above in any business substantially similar or competitive with that in which the Company was engaged during his employment.

**18.** **Non-Interference with Customers .**

a. Employee acknowledges that in the course of employment, he will learn about Company's business, services, materials, programs and products and the manner in which they are developed, marketed, serviced and provided. Employee knows and acknowledges that the Company has invested considerable time and money in developing its programs, agreements, offices, representatives, services, products and marketing techniques and that they are unique and original. Employee further acknowledges that the Company must keep secret all pertinent information divulged to Employee and Company's business concepts, ideas, programs, plans and processes, so as not to aid Company's competitors. Accordingly, Company is entitled to the following protection, which Employee agrees is reasonable:

b. Employee covenants and agrees that for a period of two (2) years following his termination date, he will not, on his own behalf or on behalf of any person or Entity, solicit, direct, appropriate, call upon, or initiate communication or contact with any person or entity or any representative of any person or entity, with whom Employee had contact during his employment, with a view toward the sale or the providing of any product, equipment or service sold or provided or under development by Company during the period of two (2) years immediately preceding the date of Employee's termination. The restrictions set forth in this section shall apply only to persons or entities with whom Employee had actual contact during the two (2) years prior to termination of employment with a view toward the sale or providing of any product, equipment or service sold or provided or under

development by Company.

**19.** **Non-Interference with Business .**

a. Employee and Company expressly covenant and agree that the scope, territorial, time and other restrictions contained in this entire Agreement constitute the most reasonable and equitable restrictions possible to protect the business interest of the Company given: (i) the business of the Company; (ii) the competitive nature of the Company's industry; and (iii) that Employee's skills are such that he could easily find alternative, commensurate employment or consulting work in his field which would not violate any of the provisions of this Agreement. The Employee further acknowledges that the payments described in Paragraphs 5, 11 and 12 are also in consideration of his covenants and agreements contained in Paragraphs 15 through 19 hereof.

b. Employee covenants and agrees not to obtain or work in a Competitive Position within the Territory for the Restricted Period.

**20.** **Return of Materials .** Upon the Employee's termination, or at any point after that time, upon the specific request of the Company, Employee shall return to the Company all written or descriptive materials of any kind belonging or relating to the Company or its affiliates, including, without limitation, any originals, copies and abstracts containing any Work Product, intellectual property, Confidential Information and Trade Secrets in Employee's possession or control.

**21.** **General Provisions .**

a. Amendment . This Agreement may be amended or modified only by a writing signed by both of the parties hereto.

b. Binding Agreement . This Agreement shall inure to the benefit of and be binding upon Employee, his heirs and personal representatives, and the Company and its successors and assigns.

c. Waiver Of Breach; Specific Performance . The waiver of a breach of any provision of this Agreement shall not operate or be construed as a waiver of any other breach. Each of the parties to this Agreement will be entitled to enforce its or his rights under this Agreement, specifically, to recover damages by reason of any breach of any provision of this Agreement and to exercise all other rights existing in its or his favor. The parties hereto agree and acknowledge that money damages may not be an adequate remedy for any breach of the provisions of this Agreement and that any party may in its or his sole discretion apply to any court of law or equity of competent jurisdiction for specific performance or injunctive relief in order to enforce or prevent any violations of the provisions of this Agreement.

d. Unsecured General Creditor . The Company shall neither reserve nor specifically set aside funds for the payment of its obligations under this Agreement, and such obligations shall be paid solely from the general assets of the Company.

e. No Effect On Other Arrangements . It is expressly understood and agreed that the payments made in accordance with this Agreement are in addition to any other benefits or compensation to which Employee may be entitled or for which he may be eligible, whether funded or unfunded, by reason of his employment with the Company.

f. Tax Withholding . There shall be deducted from each payment under this Agreement the amount of

any tax required by any governmental authority to be withheld and paid over by the Company to such governmental authority for the account of Employee.

g. Notices.

(i) All notices and all other communications provided for herein shall be in writing and delivered personally to the other designated party, or mailed by certified or registered mail, return receipt requested, or delivered by a recognized national overnight courier service, or sent by facsimile, as follows:

If to Company to: Dollar General Corporation
Attn: General Counsel
1 Mission Ridge
Goodlettsville, TN 37072-2171
Facsimile: (615)855-5180

If to Employee to: Permanent address to be provided with copy to
Charisse R. Lillie, Esquire
Ballard Spahr Andrews & Ingersoll, LLP
1735 Market Street, 51st Floor
Philadelphia, PA 19103-7599

(ii) All notices sent under this Agreement shall be deemed given twenty-four (24) hours after sent by facsimile or courier, seventy-two (72) hours after sent by certified or registered mail and when delivered if personal delivery.

(iii) Either party hereto may change the address to which notice is to be sent hereunder by written notice to the other party in accordance with the provisions of this Paragraph.

h. Governing Law . This Agreement shall be governed by and construed in accordance with the laws of the State of Tennessee (without giving effect to conflict of laws).

i. Entire Agreement . This Agreement contains the full and complete understanding of the parties hereto with respect to the subject matter contained herein and this Agreement supersedes and replaces any prior agreement, either oral or written, which Employee may have with Company that relates generally to the same subject matter.

j. Assignment . This Agreement may not be assigned by Employee, and any attempted assignment shall be null and void and of no force or effect.

k. Severability . If any one or more of the terms, provisions, covenants or restrictions of this Agreement shall be determined by a court of competent jurisdiction to be invalid, void or unenforceable, then the remainder of the terms, provisions, covenants and restrictions of this Agreement shall remain in full force and effect, and to that end the provisions hereof shall be deemed severable.

l. Paragraph Headings . The paragraph headings set forth herein are for convenience of reference only and shall not affect the meaning or interpretation of this Agreement whatsoever.

m. Interpretation . Should a provision of this Agreement require judicial interpretation, it is agreed that the judicial body interpreting or construing the Agreement shall not apply the assumption that the terms hereof shall be more strictly construed against one party by reason of the rule of construction that an instrument is to be

construed more strictly against the party which itself or through its agents prepared the agreement, it being agreed that all parties and/or their agents have participated in the preparation hereof.

n. Voluntary Agreement . Employee and Company represent and agree that each has reviewed all aspects of this Agreement, has carefully read and fully understands all provisions of this Agreement, and is voluntarily entering into this Agreement. Each party represents and agrees that such party has had the opportunity to review any and all aspects of this Agreement with legal, tax or other adviser(s) of such party's choice before executing this Agreement.

IN WITNESS WHEREOF, the parties hereto have executed, or caused their duly authorized representative to execute, this Agreement effective the 22 nd day of September, 2003.

"COMPANY"

DOLLAR GENERAL CORPORATION

By: /s/ David A. Perdue

Its: Chairman and CEO

"EMPLOYEE"

/s/ Lawrence V. Jackson

Lawrence V. Jackson

Witnessed By:

/s/ Brenda Brown Price

**Addendum to Employment**
**Agreement with Lawrence V. Jackson**

## RELEASE AGREEMENT

THIS RELEASE ("Release") is made and entered into by and between Lawrence V. Jackson ("Employee") and **DOLLAR GENERAL CORPORATION** , and its successor or assigns ("Company").

WHEREAS, Employee and Company have agreed that Employee's employment with Dollar General Corporation shall terminate on _____;

WHEREAS, Employee and the Company have previously entered into that certain Employment Agreement, effective September 22, 2003 ("Agreement"), that this Release is incorporated therein by reference;

WHEREAS, Employee and Company desire to delineate their respective rights, duties and obligations attendant to

such termination and desire to reach an accord and satisfaction of all claims arising from Employee's employment, and his termination of employment, with appropriate releases, in accordance with the Agreement;

WHEREAS, the Company desires to compensate Employee in accordance with the Agreement for service he has provided or will provide for the Company;

NOW, THEREFORE, in consideration of the premises and the agreements of the parties set forth in this Release, and other good and valuable consideration the receipt and sufficiency of which are hereby acknowledged, the parties hereto, intending to be legally bound, hereby covenant and agree as follows:

**1. <u>Claims Released Under This Agreement</u> .**

In exchange for receiving the benefits described in Paragraph 11 or 12 of the Agreement, I hereby voluntarily and irrevocably waive, release, dismiss with prejudice, and withdraw all claims, complaints, suits or demands of any kind whatsoever (whether known or unknown) which I ever had, may have, or now have against Company and other current or former subsidiaries or affiliates of the Company and their past, present and future officers, directors, employees, agents, insurers and attorneys (collectively, the "Releasees"), arising from or relating to (directly or indirectly) my employment or the termination of my employment or other events occurred as of the date of execution of this Agreement, including but not limited to:

(a) claims for violations of Title VII of the Civil Rights Act of 1964, the Age Discrimination in Employment Act, the Fair Labor Standards Act, the Civil Rights Act of 1991, the Americans With Disabilities Act, the Equal Pay Act, the Family and Medical Leave Act, 42 U.S.C. § 1981, the Sarbanes Oxley Act of 2002, the National Labor Relations Act, the Labor Management Relations Act, Executive Order 11246, Executive Order 11141, the Rehabilitation Act of 1973, or the Employee Retirement Income Security Act;

(b) claims for violations of any other federal or state statute or regulation or local ordinance;

(c) claims for lost or unpaid wages, compensation, or benefits, defamation, intentional or negligent infliction of emotional distress, assault, battery, wrongful or constructive discharge, negligent hiring, retention or supervision, fraud, misrepresentation, conversion, tortious interference, breach of contract, or breach of fiduciary duty;

(d) claims to benefits under any bonus, severance, workforce reduction, early retirement, outplacement, or any other similar type plan sponsored by the Company (except for benefits specifically provided for under the Benefits Plans as specified in Section 2, below); or

(e) any other claims under state law arising in tort or contract.

**2. <u>Claims Not Released Under This Agreement</u> .**

In signing this Agreement, I am not releasing any claims that may arise under the terms of this Agreement or which may arise out of events occurring after the date I execute this Agreement.

I am also not releasing claims to benefits that I am already entitled to receive under the Benefits Plans. However, I understand and acknowledge that nothing herein is intended to or shall be construed to require the Company to institute or continue in effect any particular plan or benefit sponsored by the Company and the Company hereby reserves the right to amend or terminate any of its benefit programs at any time in accordance with the procedures set forth in such plans.

Nothing in this Agreement shall prohibit me from engaging in protected activities under applicable law or from communicating, either voluntarily or otherwise, with any governmental agency concerning any potential violation of the law.

**3.** **No Assignment of Claim .** Employee represents that he has not assigned or transferred, or purported to assign or transfer, any claims or any portion thereof or interest therein to any party prior to the date of this Release.

**4.** **Compensation .** In accordance with the Agreement, the Company agrees to pay the Employee, or if he becomes eligible for payments under Paragraph 11 or 12 but dies before receipt thereof, his spouse or his estate, as the case may be, the amount provided in Paragraph 11 or 12 of the Agreement.

**5.** **Publicity; No Disparaging Statement .** Except as otherwise provided in Paragraph 14 of the Agreement, Employee and the Company covenant and agree that they shall not engage in any communications which shall disparage one another or interfere with their existing or prospective business relationships.

**6.** **No Admission Of Liability .** This Release shall not in any way be construed as an admission by the Company or Employee of any improper actions or liability whatsoever as to one another, and each specifically disclaims any liability to or improper actions against the other or any other person, on the part of itself or himself, its or his employees or agents.

**7.** **Voluntary Execution .** Employee warrants, represents and agrees that he has been encouraged in writing to seek advice from anyone of his choosing regarding this Release, including his attorney and accountant or tax advisor prior to his signing it; that this Release represents written notice to do so; that he has been given the opportunity and sufficient time to seek such advice; and that he fully understands the meaning and contents of this Release. He further represents and warrants that he was not coerced, threatened or otherwise forced to sign this Release, and that his signature appearing hereinafter is voluntary and genuine. EMPLOYEE UNDERSTANDS THAT HE MAY TAKE UP TO TWENTY-ONE (21) DAYS TO CONSIDER WHETHER OR NOT HE DESIRES TO ENTER INTO THIS RELEASE.

**8.** **Ability to Revoke Agreement . EMPLOYEE UNDERSTANDS THAT HE MAY REVOKE THIS RELEASE BY NOTIFYING THE COMPANY IN WRITING OF SUCH REVOCATION WITHIN SEVEN (7) DAYS OF HIS EXECUTION OF THIS RELEASE AND THAT THIS RELEASE IS NOT EFFECTIVE UNTIL**

**THE EXPIRATION OF SUCH SEVEN (7) DAY PERIOD. HE UNDERSTANDS THAT UPON THE EXPIRATION OF SUCH SEVEN (7) DAY PERIOD THIS RELEASE WILL BE BINDING UPON HIM AND HIS HEIRS, ADMINISTRATORS, REPRESENTATIVES, EXECUTORS, SUCCESSORS AND ASSIGNS AND WILL BE IRREVOCABLE.**

Acknowledged and Agreed To:

**"COMPANY"**

**DOLLAR GENERAL CORPORATION**

By: _____

Its: _____

**I UNDERSTAND THAT BY SIGNING THIS RELEASE, I AM GIVING UP RIGHTS I MAY HAVE. I UNDERSTAND THAT I DO NOT HAVE TO SIGN THIS RELEASE.**

**"EMPLOYEE"**

_____

Date _____

WITNESSED BY:

_____

Date _____

# SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN FOR LAWRENCE V. JACKSON

## SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN FOR LAWRENCE V. JACKSON

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# SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN FOR LAWRENCE V. JACKSON

Pursuant to the terms of the Employment Agreement with Lawrence V. Jackson, Dollar General Corporation (the "Company") has adopted the Supplemental Executive Retirement Plan (the "SERP"), effective September 22, 2003, in order to attract, retain and motivate the executive to excel as President and Chief Operating Officer of the Company.

The Company intends the SERP to be an unfunded plan maintained primarily for the purpose of providing deferred compensation within the meaning of Sections 201, 301, and 401 of the Employee Retirement Income Security Act of 1974 ("ERISA").

## SECTION 1
## DEFINITIONS

When used herein, the following words and phrases and any derivatives thereof shall have the meanings below unless the context clearly indicates otherwise. Definitions of other words and phrases are set forth throughout the SERP. Section references indicate Sections of the SERP unless otherwise stated.

1.1 "Actuarial Equivalent" means equal value computed on the basis of (i) the UP-94 Mortality Table (sex-distinct), and (ii) a discount rate of 6.0%, compounded annually.

1.2 "Agreement" means the Employee's Employment Agreement effective September 22, 2003.

1.3 "Base Salary" has the meaning set forth in the Agreement.

1.4 "Board of Directors" means the Board of Directors of the Company.

1.5 "Change in Control" has the meaning set forth in the Agreement.

1.6 “Code” means the Internal Revenue Code of 1986 as amended from time to time, and regulations and rulings issued under the Code.

1.7 “Company” means Dollar General Corporation and any successor thereto.

1.8 “Compensation” means the Employee’s Base Salary plus annual incentive “team share” bonus paid for a fiscal year whether or not deferred under any deferred compensation plan or arrangement, if any, maintained by the Company.

1.9 “Compensation Committee” means the Compensation Committee of the Board of Directors of the Company.

1.10 “Disability” and “Disability Effective Date” have the meanings set forth in the Agreement.

1.11 “Early Retirement Factor” means 100% minus 0.41667% times the number of months the Employee’s age at his Early Retirement Date precedes his Normal Retirement Date.

1.12 “Employee” means Lawrence V. Jackson.

1.13 “Final Average Compensation” means the average of the Employee’s Compensation for the three (3) out of the last ten (10) consecutive fiscal years of service preceding retirement or termination of employment (or such fewer years of consecutive fiscal years of service if the Employee does not have ten consecutive fiscal years of service) in which the executive’s Compensation was the highest.

1.14 “Joint and 50% Survivor Annuity” means an annuity payable for the life of the Employee, and, if the Employee predeceases his spouse, his Surviving Spouse shall receive a reduced benefit payable for her lifetime. The Surviving Spouse’s benefit is the Actuarial Equivalent of a straight life annuity of 50% of the Employee’s benefit payable to a woman not more than twelve (12) years younger than the Employee at his death.

1.15 “SERP” means the Supplemental Executive Retirement Plan.

1.16 “Supplemental Plan Benefit” means the benefit payable in accordance with the SERP.

1.17 “Surviving Spouse” means the person to whom the Employee is legally married on his date of death.

1.18 “Termination for Cause” or “Cause” has the meaning set forth in the Agreement.

1.19 “Years of Credited Service” means a twelve (12) consecutive month period commencing on executive’s effective date of employment and any subsequent twelve (12) consecutive month period of employment commencing on an annual anniversary of such employment date. Paid and authorized leaves of absence do not cause a break in consecutive employment periods. Years of Credited Service shall be utilized for purposes of determining eligibility for Normal and Early Retirement, vesting percentages, and for calculating the Supplemental Plan Benefit.

## SECTION 2
## ELIGIBILITY TO PARTICIPATE

Only the Employee shall be eligible to participate in the SERP. In the event Employee elects a Joint and 50% Survivor Annuity and predeceases his Surviving Spouse, she shall also participate as a beneficiary until her death. If Employee is Terminated for Cause, Employee shall forfeit all rights to a Supplemental Plan Benefit.

## SECTION 3
## ELIGIBILITY FOR AND AMOUNT OF BENEFITS

3.1 Normal Retirement Benefit. The Normal Retirement Benefit of the Employee upon his attainment of his Normal Retirement Date shall be a Supplemental Plan Benefit equal to 2% of Final Average Compensation for each Year of Credited Service up to a maximum of 25% payable as a Joint and 50% Survivor Annuity.

3.2 Early Retirement Benefit. The Early Retirement Benefit of the Employee who attains his Early Retirement Date shall be a Supplemental Plan Benefit payable as a Joint and 50% Survivor Annuity equal to his Normal Retirement Benefit multiplied by the Early Retirement Factor.

3.3 Late Retirement Benefit . The Late Retirement Benefit of the Employee shall be the Supplemental Plan Benefit calculated as set forth in Section 3.1 above and based on his Final Average Compensation as of his Late Retirement Date.

3.4 Disability . In the event the Employee incurs a Disability, the Employee will receive a benefit calculated as set forth in Section 3.1 above based on his Final Average Compensation and Years of Credited Service determined as of his Disability Effective Date.

3.5 Death Prior to Termination of Employment . If the Employee dies after he is eligible for an Early or Normal Retirement Benefit, but prior to termination of employment with the Company, his Surviving Spouse, if any, shall be entitled to a Supplemental Plan Benefit determined in accordance with Section 3.1 and 3.2 based on the Employee's Years of Credited Service and Final Average Compensation as of his date of death. The Surviving Spouse shall receive the Surviving Spouse's benefit under a Joint and 50% Survivor Annuity as if the Employee had retired on his date of death.

3.6 Change in Control. If the Company terminates Employee for reasons other than Cause at any time during the one-year period following a Change in Control, the Employee shall be treated for purposes of the SERP as being immediately vested in his Supplemental Plan Benefit accrued to Employee's termination date.

## SECTION 4
## VESTING

The Employee's Supplemental Plan Benefit will become 100% vested after five (5) Years of Credited Service. Notwithstanding that the Employee's benefit becomes 100% vested under the terms of this Article, no payment of the benefit may be made unless and until the Employee retires from employment with the Company, dies or becomes disabled as contemplated in Section 5.2.

## SECTION 5
## FORM AND COMMENCEMENT OF BENEFITS

5.1 Form of Benefits . Supplemental Plan Benefits payable to the Employee or Surviving Spouse pursuant to Section 3 may be paid in any annuity form that is the Actuarial Equivalent of the Supplemental Plan Benefit payable as a Joint and 50% Survivor Annuity. In addition, the Employee may elect a lump sum distribution of his Supplemental Plan Benefits calculated as the Actuarial Equivalent of his

Normal Retirement Benefit. His election of an optional form of benefit must be in writing and must be received by the Company no later than twelve (12) months prior to the date on which he actually begins to receive the benefit. If not received by said date, any such election shall have no effect. Should there be a final determination by a court of competent jurisdiction or through a binding agreement or settlement, prior to the receipt of all benefits hereunder, that a subsequent election to defer is a violation of the constructive receipt doctrine or any other legal doctrine or theory which would preclude the continued deferral of recognition of income, then this provision will be null and void, and the Employee will be deemed to have elected a lump sum benefit as the form of distribution effective as of such final determination.

5.2 Commencement .

a) The Employee shall commence receipt of a Supplemental Plan Benefit upon his retirement from the Company beginning on one of the following dates:

1) "Normal Retirement Date," which is the first day of the month coincident with or next following the month in which Employee terminates from the Company having attained age sixty-three (63) and accrued ten (10) Years of Credited Service,

2) "Early Retirement Date," which is the first day of any month coincident with or next following the month in which the Employee terminates from the Company having at least five (5) Years of Credited Service, and

3) "Late Retirement Date," which is the first day of the month coincident with or next following the Employee's termination of employment with the Company after his Normal Retirement Date.

(b) The Employee shall commence receipt of a Supplemental Plan Benefit upon incurring a Disability upon what would have been Employee's Normal Retirement Date if he had continued to work for the Company but for such Disability until such date. If the Employee recovers from a Disability prior to commencement of receipt of a benefit, and the Employee does not return to work for the Company, or if the Employee's period of Disability ceases by reason of death prior to commencement of a benefit, employment with the Employer will be deemed terminated as of the day of recovery or death and in such event the Employee or Surviving Spouse, as the case may be, will be entitled only to the benefit otherwise provided under Sections 3 and 5.

(c) The Employee shall commence receipt of a Supplemental Plan Benefit upon a termination for reasons other than Cause at his Early, Normal or Late Retirement Date.

(d) The Employee shall commence receipt of a Supplemental Plan Benefit upon a termination for reasons other than Cause within the one (1) year period following a Change in Control at this Early, Normal or Late Retirement Date.

(e) The Surviving Spouse shall commence receipt of a Joint and 50% Survivor Annuity on the first day of the month following the Employee's death provided that no such benefit shall commence if Employee has prior to his death received a lump sum distribution of the Supplemental Plan Benefit.

(f) If the Agreement requires that Employee effectuate a Release prior to commencement of payments such as for payment of benefits in the event of a Change in Control, then such requirement must also be met prior to commencement of payments under this Section 5.

## SECTION 6
## AMENDMENT AND TERMINATION

The SERP may be amended or terminated only by a writing signed by both the Company and Employee. The SERP is based on the current provisions of the law applicable to such types of plan. If there is a material change in the law, the Company will work with Employee in good faith to provide a comparable plan taking into account any such changes in the law.

## SECTION 7
## MISCELLANEOUS

7.1 No Effect on Employment Rights . Nothing contained herein will confer upon the Employee the right to be retained in the service of the Company nor limit the right of the Company to discharge or otherwise deal with the Employee without regard to the existence of the SERP.

7.2 Funding . The SERP at all times shall be unfunded such that Supplemental Plan Benefits shall be paid solely from the general assets of the Company. Neither the Employee nor his Surviving Spouse shall have any interest in any particular assets of the Company by reason of the right to receive a benefit under the SERP and the Employee or his Surviving Spouse shall have only the rights of a general unsecured creditor of the Company with respect to any rights under the SERP. Nothing contained in the SERP shall constitute a guaranty by the Company or any other entity or person that the assets of the Company will be sufficient to pay any benefit hereunder.

7.3 Administration . The Compensation Committee shall administer the SERP. The Compensation Committee shall be entitled to rely conclusively upon all tables, valuations, certificates, opinions and reports furnished by any actuary, accountant, controller, counsel or other person employed or engaged by the Company with respect to the SERP.

7.4 Disclosure . The Employee shall be a signatory to and shall receive a copy of the SERP.

7.5 State Law . The SERP is established under and will be construed according to the laws of the State of Tennessee, to the extent that such laws are not preempted by ERISA and valid regulations published thereunder.

7.6 Spendthrift Provisions. No benefit payable under the SERP will be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, or charge prior to actual receipt thereof by the payee. Any attempt so to anticipate, alienate, sell, transfer, assign, pledge, encumber or charge prior to such receipt will be void. The Company will not be liable in any manner for or subject to the debts, contracts, liabilities, engagements or torts of any person entitled to any benefit under the SERP. The amounts payable under this SERP will be exempt from the claims of the Employee's creditors to the fullest extent permitted by law.

7.7 Incapacity of Recipient . In the event the Employee or Surviving Spouse is declared incompetent and a conservator or other person legally charged with the care of his person or of his estate is appointed, any benefits under the SERP to which such person is entitled shall be paid to such conservator or other person legally charged with the care of this person or his estate. Except as provided above in this paragraph, when the Compensation Committee in its sole discretion, determines that a Employee or Surviving Spouse is unable to manage his or her financial affairs, the Compensation Committee may direct the Company to make distributions to a duly authorized person for the benefit of such Employee or Surviving Spouse.

7.8 Unclaimed Benefit . The Employee shall keep the Compensation Committee informed of his current address and the current

address of his spouse. The Compensation Committee shall not be obligated to search for the whereabouts of any person. If the location of the Employee is not made known to the Compensation Committee within three (3) years after the date on which any payment of the Employee's Supplemental Plan Benefit may be made, payment may be made as though the Employee had died at the end of the three-year period. If, within one additional year after such three-year period has elapsed, or, within three years after the actual death of a Employee, the Compensation Committee is unable to locate any Surviving Spouse of the Employee, then the Company shall have no further obligation to pay any benefit hereunder to such Employee or Surviving Spouse or any other person and such benefit shall be irrevocably forfeited.

7.9 Limitations on Liability . Notwithstanding any of the preceding provisions of the SERP, except for payment of Supplemental Plan Benefits due under the SERP by the Company, neither the Company nor any individual acting as an agent of the Company or as a member of the Compensation Committee shall be liable to the Employee, Surviving Spouse or any other person for any claim, loss, liability or expense incurred in connection with the SERP.

7.10 Claims Procedure. The Compensation Committee has full discretion and the exclusive right to determine eligibility for benefits under the SERP pursuant to its terms. The determination of the Compensation Committee may only be appealed to the Board of Directors.

7.11 No Enlargement of Rights. The Employee will have no right to or interest in any portion of the SERP except as specifically provided in the SERP.

7.12 Withholding for Taxes. Payment under the SERP will be subject to withholding for payroll taxes as required by law, including state and federal income taxes and FICA taxes.

7.13 All Prior Agreements Superseded. The SERP, as set forth in this document, is intended to provide the benefit described in Exhibit A of the Agreement. As such, the Agreement and the SERP should be read together to determine Employee's rights to a Supplemental Plan Benefit. The Agreement and the SERP constitute the sole and complete understanding between the Company and the Employee with respect to all issues arising from the Company's obligation under the Agreement. Except with respect to the terms of the Agreement, the SERP replaces and supersedes all previous written documents and all oral agreements, of any nature whatsoever, regarding the Company's obligation to provide such supplemental retirement benefits (but only such benefits) to the Employee, and the Employee has indicated his acknowledgement of said fact by signing this agreement in the space below.

IN WITNESS WHEREOF Dollar General Corporation has caused this Supplemental Employee Retirement Plan to be executed by its authorized officer effective the 22nd day of September, 2003.

DOLLAR GENERAL CORPORATION

By: /s/ Jeff Rice

Its: V.P. Human Resources

"EMPLOYEE"

/s/ Lawrence V. Jackson

Lawrence V. Jackson

Witnessed By: /s/ Brenda Brown Price

**CERTIFICATIONS**

I, David A. Perdue, 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)) 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;

   (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 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 4, 2003

/s/ David A. Perdue

David A. Perdue
Chief Executive Officer

I, James J. Hagan, 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)) 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;

   (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 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 4, 2003

/s/ James J. Hagan

James J. Hagan
Chief Financial Officer

**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 31, 2003 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/ David A. Perdue

Name: David A. Perdue

Title: Chief Executive Officer
Date: December 4, 2003

/s/ James J. Hagan

Name: James J. Hagan
Title: Chief Financial Officer
Date: December 4, 2003

**End of Filing**

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