

DOLLAR GENERAL CORP

FORM 10-Q (Quarterly Report)

Filed 12/05/11 for the Period Ending 10/28/11

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

**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 28, 2011

Commission File Number: 001-11421

DOLLAR GENERAL CORPORATION

(Exact name of Registrant as specified in its charter)

TENNESSEE

(State or other jurisdiction of
incorporation or organization)

61-0502302

(I.R.S. Employer
Identification No.)

**100 MISSION RIDGE
GOODLETTSVILLE, TN 37072**

(Address of principal executive offices, zip code)

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

The registrant had 342,263,844 shares of common stock outstanding on November 30, 2011.

PART I—FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

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

	October 28,	January 28,
	2011	2011
	(Unaudited)	(see Note 1)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 118,580	\$ 497,446
Merchandise inventories	2,089,722	1,765,433
Income taxes receivable	48,807	—
Prepaid expenses and other current assets	135,746	104,946
Total current assets	<u>2,392,855</u>	<u>2,367,825</u>
Net property and equipment	1,716,797	1,524,575
Goodwill	4,338,589	4,338,589
Intangible assets, net	1,240,733	1,256,922
Other assets, net	46,908	58,311
Total assets	<u>\$ 9,735,882</u>	<u>\$ 9,546,222</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term obligations	\$ 763	\$ 1,157
Accounts payable	1,132,544	953,641
Accrued expenses and other	414,977	347,741
Income taxes payable	1,111	25,980
Deferred income taxes	22,826	36,854
Total current liabilities	<u>1,572,221</u>	<u>1,365,373</u>
Long-term obligations	2,721,061	3,287,070
Deferred income taxes	647,329	598,565
Other liabilities	233,950	231,582
Commitments and contingencies		
Redeemable common stock	7,309	9,153
Shareholders' equity:		
Preferred stock	—	—
Common stock	299,514	298,819
Additional paid-in capital	2,957,267	2,945,024
Retained earnings	1,305,107	830,932
Accumulated other comprehensive loss	(7,876)	(20,296)
Total shareholders' equity	<u>4,554,012</u>	<u>4,054,479</u>
Total liabilities and shareholders' equity	<u>\$ 9,735,882</u>	<u>\$ 9,546,222</u>

See notes to condensed consolidated financial statements.

DOLLAR GENERAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(In thousands, except per share amounts)

	For the 13 weeks ended		For the 39 weeks ended	
	October 28, 2011	October 29, 2010	October 28, 2011	October 29, 2010
Net sales	\$ 3,595,224	\$ 3,223,427	\$ 10,622,115	\$ 9,548,896
Cost of goods sold	2,479,422	2,212,759	7,270,574	6,502,493
Gross profit	1,115,802	1,010,668	3,351,541	3,046,403
Selling, general and administrative expenses	804,885	736,334	2,368,977	2,180,589
Operating profit	310,917	274,334	982,564	865,814
Interest income	(10)	(90)	(55)	(128)
Interest expense	38,642	67,235	164,886	208,583
Other (income) expense	53	8,312	60,564	14,983
Income before income taxes	272,232	198,877	757,169	642,376
Income tax expense	101,068	70,757	282,994	237,065
Net income	<u>\$ 171,164</u>	<u>\$ 128,120</u>	<u>\$ 474,175</u>	<u>\$ 405,311</u>
Earnings per share:				
Basic	\$ 0.50	\$ 0.38	\$ 1.39	\$ 1.19
Diluted	\$ 0.50	\$ 0.37	\$ 1.37	\$ 1.18
Weighted average shares outstanding:				
Basic	341,955	341,062	341,670	340,961
Diluted	345,777	344,739	345,598	344,628

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 28, 2011	October 29, 2010
<i>Cash flows from operating activities:</i>		
Net income	\$ 474,175	\$ 405,311
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	204,771	189,739
Deferred income taxes	23,977	31,620
Tax benefit of stock options	(16,101)	(6,413)
Loss on debt retirement, net	60,303	14,576
Non-cash share-based compensation	10,969	11,620
Other non-cash gains and losses	31,656	7,920
Change in operating assets and liabilities:		
Merchandise inventories	(350,932)	(366,903)
Prepaid expenses and other current assets	(30,899)	(26,412)
Accounts payable	164,336	146,933
Accrued expenses and other	89,993	1,091
Income taxes	(57,575)	(4,178)
Other	(174)	(1,108)
Net cash provided by operating activities	<u>604,499</u>	<u>403,796</u>
<i>Cash flows from investing activities:</i>		
Purchases of property and equipment	(363,099)	(259,243)
Proceeds from sale of property and equipment	729	868
Net cash used in investing activities	<u>(362,370)</u>	<u>(258,375)</u>
<i>Cash flows from financing activities:</i>		
Issuance of common stock	177	599
Repayments of long-term obligations	(911,708)	(130,654)
Borrowings under revolving credit agreement	1,485,000	—
Repayments of borrowings under revolving credit agreement	(1,197,200)	—
Repurchases of common stock and settlement of equity awards, net of employee taxes paid	(13,365)	(5,949)
Tax benefit of stock options	16,101	6,413
Net cash used in financing activities	<u>(620,995)</u>	<u>(129,591)</u>
Net increase (decrease) in cash and cash equivalents	(378,866)	15,830
Cash and cash equivalents, beginning of period	497,446	222,076
Cash and cash equivalents, end of period	<u>\$ 118,580</u>	<u>\$ 237,906</u>
<i>Supplemental schedule of non-cash investing and financing activities:</i>		
Purchases of property and equipment awaiting processing for payment, included in Accounts payable	\$ 44,225	\$ 24,046

See notes to condensed consolidated financial statements.

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

1. Basis of presentation

The accompanying unaudited condensed consolidated financial statements of Dollar General Corporation and its subsidiaries (the "Company") have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information and are presented in accordance with the requirements of Form 10-Q and Rule 10-01 of Regulation S-X. Such financial statements consequently do not include all of the disclosures normally required by U.S. GAAP or those normally made in the Company's Annual Report on Form 10-K, including the condensed consolidated balance sheet as of January 28, 2011, which has been derived from the audited consolidated financial statements at that date. Accordingly, the reader of this Quarterly Report on Form 10-Q should refer to the Company's Annual Report on Form 10-K for the fiscal year ended January 28, 2011 for additional information.

The Company's fiscal year ends on the Friday closest to January 31. Unless the context requires otherwise, references to years contained herein pertain to the Company's fiscal year. The Company's 2011 fiscal year will be a 53-week accounting period that will end on February 3, 2012 and the 2010 fiscal year was a 52-week accounting period that ended on January 28, 2011.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the Company's customary accounting practices. In management's opinion, all adjustments (which are of a normal recurring nature) necessary for a fair presentation of the consolidated financial position as of October 28, 2011 and results of operations for the 13-week and 39-week accounting periods ended October 28, 2011 and October 29, 2010 have been made.

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

The Company uses the last-in, first-out (LIFO) method of valuing inventory. An actual valuation of inventory under the LIFO method is made at the end of each year based on the inventory levels and costs at that time. Accordingly, interim LIFO calculations are based on management's estimates of expected year-end inventory levels, sales for the year and the expected rate of inflation/deflation for the year. The interim LIFO calculations are subject to adjustment in the final year-end LIFO inventory valuation. The Company recorded a LIFO provision of \$11.1 million and zero in the respective 13-week periods, and \$25.4 million and \$0.7 million in the respective 39-week periods, ended October 28, 2011 and October 29, 2010. In addition, ongoing estimates of inventory shrinkage and initial markups and markdowns are

included in the interim cost of goods sold calculation. Because the Company's business is moderately seasonal, the results for interim periods are not necessarily indicative of the results to be expected for the entire year.

On June 16, 2011, the FASB issued an accounting standards update which revises the manner in which entities present comprehensive income in their financial statements. The new standard removes the presentation options in current guidance and requires entities to report components of comprehensive income in either a continuous statement of comprehensive income or separate but consecutive statements. The new standard does not change the items that must be reported in other comprehensive income. For public entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The Company is in the process of evaluating the effect of this standard on its consolidated financial statements.

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

2. Comprehensive income

Comprehensive income consists of the following:

(in thousands)	13 Weeks Ended		39 Weeks Ended	
	October 28, 2011	October 29, 2010	October 28, 2011	October 29, 2010
Net income	\$ 171,164	\$ 128,120	\$ 474,175	\$ 405,311
Unrealized net gain on hedged transactions, net of income tax expense of \$1,983, \$1,774, \$7,972, and \$5,240, respectively (see Note 7)	3,105	2,912	12,419	7,412
Comprehensive income	<u>\$ 174,269</u>	<u>\$ 131,032</u>	<u>\$ 486,594</u>	<u>\$ 412,723</u>

3. Earnings per share

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

	13 Weeks Ended October 28, 2011			13 Weeks Ended October 29, 2010		
	Net Income	Shares	Per Share Amount	Net Income	Shares	Per Share Amount
Basic earnings per share	\$ 171,164	341,955	\$ 0.50	\$ 128,120	341,062	\$ 0.38
Effect of dilutive share-based awards		3,822			3,677	
Diluted earnings per share	<u>\$ 171,164</u>	<u>345,777</u>	<u>\$ 0.50</u>	<u>\$ 128,120</u>	<u>344,739</u>	<u>\$ 0.37</u>

	39 Weeks Ended October 28, 2011			39 Weeks Ended October 29, 2010		
	Net Income	Shares	Per Share Amount	Net Income	Shares	Per Share Amount
Basic earnings per share	\$ 474,175	341,670	\$ 1.39	\$ 405,311	340,961	\$ 1.19
Effect of dilutive share-based awards		3,928			3,667	
Diluted earnings per share	\$ 474,175	345,598	\$ 1.37	\$ 405,311	344,628	\$ 1.18

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

Options to purchase shares of common stock that were outstanding at the end of the respective periods, but were not included in the computation of diluted earnings per share because the effect of exercising such options would be antidilutive, were 0.3 million in each of the periods ended October 28, 2011 and October 29, 2010, respectively.

4. Income taxes

Under the accounting standards for income taxes, the asset and liability method is used for computing the future income tax consequences of events that have been recognized in the Company's consolidated financial statements or income tax returns.

Income tax reserves are determined using the methodology established by accounting standards for income taxes which require companies to assess each income tax position taken using a two step approach. A determination is first made as to whether it is more likely than not that the position will be sustained, based upon the technical merits, upon examination by the taxing authorities. If the tax position is expected to meet the more likely than not criteria, the benefit recorded for the tax position equals the largest amount that is greater than 50% likely to be realized upon ultimate settlement of the respective tax position.

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

As of October 28, 2011, the total reserves for uncertain tax benefits, interest expense related to income taxes and potential income tax penalties were \$42.4 million, \$1.0 million and \$0.6 million, respectively, for a total of \$44.0 million. Of this amount, \$0.2 million and \$41.4 million are reflected in current liabilities as Accrued expenses and other and in noncurrent Other liabilities, respectively, in the condensed consolidated balance sheet with the remaining \$2.4 million reducing deferred tax assets related to net operating loss carry forwards.

The Company believes it is reasonably possible that the reserve for uncertain tax positions may be reduced by approximately \$30.4 million in the coming twelve months

principally as a result of the settlement of currently ongoing income tax examinations. The reasonably possible change of \$30.4 million is included in current liabilities in Accrued expenses and other in the amount of \$0.2 million and in noncurrent Other liabilities in the amount of \$30.2 million in the condensed consolidated balance sheet as of October 28, 2011. Also, as of October 28, 2011, approximately \$42.4 million of the reserve for uncertain tax positions would impact the Company's effective income tax rate if the Company were to recognize the tax benefit for these positions.

The effective income tax rates for the respective 13-week and 39-week periods ended October 28, 2011 were 37.1% and 37.4%, compared to rates of 35.6% and 36.9% for the respective 13-week and 39-week periods ended October 29, 2010, a net increase of 1.5% for the 13-week period and 0.5% for the 39-week period. The increase in the income tax expense rates was due principally to a reduction in income tax reserves in the 2010 periods that did not reoccur in the 2011 periods.

5. Current and long-term obligations

On July 15, 2011, the Company redeemed all \$839.3 million outstanding aggregate principal amount of its 10.625% Senior Notes due 2015 (the "Senior Notes") at a redemption price of 105.313% of the principal amount, plus accrued and unpaid interest. The redemption was effected in accordance with the indenture governing the Senior Notes pursuant to a notice dated May 31, 2011. The pretax loss on this transaction of \$58.1 million is reflected in Other (income) expense in the Company's condensed consolidated statement of income for the 39-week period ended October 28, 2011. The Company funded the redemption price for the Senior Notes with cash on hand and borrowings under its senior secured asset-based revolving credit facility (the "ABL Facility"), which had a balance of \$287.8 million at October 28, 2011.

On April 29, 2011, the Company repurchased in the open market \$25.0 million aggregate principal amount of Senior Notes at a price of 107.0% plus accrued and unpaid interest, funded with cash on hand. The pretax loss on this transaction of \$2.2 million is reflected in Other (income) expense in the Company's condensed consolidated statement of income for the 39-week period ended October 28, 2011.

On September 29, 2010, the Company repurchased in the open market \$65.0 million aggregate principal amount of Senior Notes at a price of 110.75% of the principal amount, plus accrued and unpaid interest, funded with cash on hand. The pretax loss on this transaction of \$8.2 million is reflected in Other (income) expense in the Company's condensed consolidated statement of income for the 13-week and 39-week periods ended October 29, 2010.

On May 6, 2010, the Company repurchased in the open market \$50.0 million aggregate principal amount of Senior Notes at a price of 111.0% plus accrued and unpaid interest, funded with cash on hand. The pretax loss on this transaction of \$6.5 million is reflected in Other (income) expense in the Company's condensed consolidated statement of income for the 39-week period ended October 29, 2010.

6. Assets and liabilities measured at fair value

Fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, fair value accounting standards establish a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

The Company has determined that the majority of the inputs used to value its derivative financial instruments using the income approach fall within Level 2 of the fair value hierarchy. However, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by itself and its counterparties. As of October 28, 2011, the Company has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and has determined that the credit valuation adjustments are not significant to the overall valuation of its derivatives. As a result, the Company has classified its derivative valuations, as discussed in detail in Note 7, in Level 2 of the fair value hierarchy. The Company's long-term obligations classified in Level 2 of the fair value hierarchy are valued at cost. The Company does not have any fair value measurements using significant unobservable inputs (Level 3) as of October 28, 2011.

<u>(In thousands)</u>	<u>Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>	<u>Balance at October 28, 2011</u>
Assets:				
Trading securities (a)	\$ 6,741	\$ —	\$ —	\$ 6,741
Liabilities:				
Long-term obligations (b)	2,760,831	19,827	—	2,780,658
Derivative financial instruments (c)	—	15,115	—	15,115
Deferred compensation (d)	18,141	—	—	18,141

- (a) Reflected at fair value in the condensed consolidated balance sheet as Prepaid expenses and other current assets of \$1,756 and Other assets, net of \$4,985.
- (b) Reflected at book value in the condensed consolidated balance sheet as Current portion of long-term obligations of \$763 and Long-term obligations of \$2,721,061.
- (c) Reflected in the condensed consolidated balance sheet as Accrued expenses and other current liabilities of \$7,842 and non-current Other liabilities of \$7,273.
- (d) Reflected at fair value in the condensed consolidated balance sheet as Accrued expenses and other current liabilities of \$1,761 and non-current Other liabilities of \$16,380.

7. Derivatives and hedging activities

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

Risk management objective of using derivatives

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

The Company is exposed to certain risks arising from uncertainties of future market values caused by the fluctuation in the prices of commodities. From time to time the Company may enter into derivative financial instruments to protect against future price changes related to these commodity prices.

Cash flow hedges of interest rate risk

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

The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in Accumulated other comprehensive income (loss) (also referred to as "OCI") and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. During the 13-week and 39-week periods ended October 28, 2011 and October 29, 2010, such derivatives were used to hedge the variable cash flows associated with existing variable-rate debt. The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings.

As of October 28, 2011, the Company had three interest rate swaps with a combined notional value of \$686.7 million that were designated as cash flow hedges of interest rate risk. Amounts reported in Accumulated other comprehensive loss related to derivatives will be reclassified to interest expense as interest payments are made on the Company's variable-rate debt. The Company terminated an interest rate swap in October 2008 due to the bankruptcy declaration of the counterparty bank.

The Company continues to report the net gain or loss related to the discontinued cash flow hedge in OCI, and such net gain or loss is expected to be reclassified into earnings during the original contractual terms of the swap agreement as the hedged interest payments are expected to occur as forecasted. During the next 52-week period, the Company estimates that an additional \$11.5 million will be reclassified as an increase to interest expense for all of its interest rate swaps.

Non-designated hedges of commodity risk

Derivatives not designated as hedges are not speculative and are used to manage the Company's exposure to commodity price risk but do not meet strict hedge accounting requirements. Changes in the fair value of derivatives not designated in hedging relationships are recorded directly in earnings. As of October 28, 2011, and October 29, 2010, the Company had no such non-designated hedges.

The tables below present the fair value of the Company's derivative financial instruments as well as their classification on the condensed consolidated balance sheets as of October 28, 2011 and January 28, 2011 (in thousands):

<u>(in thousands)</u>	<u>October 28, 2011</u>	<u>January 28, 2011</u>
Derivatives Designated as Hedging Instruments		
Interest rate swaps classified in current liabilities as Accrued expenses and other	\$ 7,842	\$ —
Interest rate swaps classified in noncurrent liabilities as Other liabilities	\$ 7,273	\$ 34,923

The tables below present the pre-tax effect of the Company's derivative financial instruments on the condensed consolidated statement of income (including OCI, see Note 2) for the 13-week and 39-week periods ended October 28, 2011 and October 29, 2010 (in thousands):

(in thousands)	13 Weeks Ended		39 Weeks Ended	
	Oct. 28, 2011	Oct. 29, 2010	Oct. 28, 2011	Oct. 29, 2010
Derivatives in Cash Flow Hedging Relationships				
Loss related to effective portion of derivative recognized in OCI	\$ 482	\$ 5,104	\$ 3,319	\$ 20,540
Loss related to effective portion of derivative reclassified from Accumulated OCI to Interest expense	\$ 5,570	\$ 9,790	\$ 23,710	\$ 33,192
Loss related to ineffective portion of derivative recognized in Other (income) expense	\$ 52	\$ 123	\$ 261	\$ 408

Credit-risk-related contingent features

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

As of October 28, 2011, the fair value of interest rate swaps in a net liability position, which includes accrued interest but excludes any adjustment for nonperformance risk related to these agreements, was \$19.4 million. If the Company had breached any of these provisions at October 28, 2011, it could have been required to post full collateral or settle its obligations under the agreements at an estimated termination value of \$19.4 million. As of October 28, 2011, the Company had not breached any of these provisions or posted any collateral related to these agreements.

8. Commitments and contingencies

Legal proceedings

On August 7, 2006, a lawsuit entitled *Cynthia Richter, et al. v. Dolgencorp, Inc., et al.* was filed in the United States District Court for the Northern District of Alabama (Case No. 7:06-cv-01537-LSC) ("Richter") in which the plaintiff alleges that she and other current and former Dollar General store managers were improperly classified as exempt executive employees under the Fair Labor Standards Act ("FLSA") and seeks to recover overtime pay, liquidated damages, and attorneys' fees and costs. On August 15, 2006, the *Richter* plaintiff filed a motion in which she asked the court to certify a nationwide class of current and former store managers. The Company opposed the plaintiff's motion. On March 23, 2007, the court conditionally certified a nationwide class. On December 2, 2009, notice was mailed to over 28,000 current or former Dollar General store managers, and approximately 3,860 individuals opted into the lawsuit. On September 16, 2011, the court entered an amended scheduling order that governs, among other things, deadlines for fact discovery (December 30, 2011) and any potentially dispositive motions (January 16, 2012) and trial (June 18, 2012). Currently, no filing deadline exists for the Company's anticipated decertification motion.

The Company believes that its store managers are and have been properly classified as exempt employees under the FLSA and that the *Richter* action is not appropriate for collective action treatment. The Company has obtained summary judgment in some, although not all, of its

pending individual or single-plaintiff store manager exemption cases in which it has filed such a motion.

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

On May 18, 2006, the Company was served with a lawsuit entitled *Tammy Brickey, Becky Norman, Rose Rochow, Sandra Cogswell and Melinda Sappington v. Dolgencorp, Inc. and Dollar General Corporation* (Western District of New York, Case No. 6:06-cv-06084-DGL, originally filed on February 9, 2006 and amended on May 12, 2006 ("Brickey")). The *Brickey* plaintiffs sought to proceed collectively under the FLSA and as a class under New York, Ohio, Maryland and North Carolina wage and hour statutes on behalf of, among others, assistant store managers who claim to be owed wages (including overtime wages) under those statutes. On February 22, 2011, the court denied the plaintiffs' class certification motion in its entirety and ordered that the matter proceed only as to the named plaintiffs. On March 22, 2011, the plaintiffs moved the court for reconsideration of its Order denying their class certification motion. On March 30, 2011, the plaintiffs' reconsideration motion was denied, and the plaintiffs did not appeal that ruling. The case will proceed now only as to the named plaintiffs, and the Company does not expect the outcome to be material to its financial statements as a whole.

On March 7, 2006, a complaint was filed in the United States District Court for the Northern District of Alabama (*Janet Calvert v. Dolgencorp, Inc.*, Case No. 2:06-cv-00465-VEH ("Calvert")), in which the plaintiff, a former store manager, alleged that she was paid less than male store managers because of her sex, in violation of the Equal Pay Act and Title VII of the Civil Rights Act of 1964, as amended ("Title VII") (now captioned, *Wanda Womack, et al. v. Dolgencorp, Inc.*, Case No. 2:06-cv-00465-VEH). The complaint subsequently was amended to include additional plaintiffs, who also allege to have been paid less than males because of their sex, and to add allegations that the Company's compensation practices disparately impact females. Under the amended complaint, plaintiffs seek to proceed collectively under the Equal Pay Act and as a class under Title VII, and request back wages, injunctive and declaratory relief, liquidated damages, punitive damages and attorneys' fees and costs.

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

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

The parties agreed to mediate this action, and the court stayed the action pending the results of the mediation. The mediation occurred in March and April, 2011, and the Company has reached an agreement in principle to settle the matter on behalf of the entire putative class. The proposed settlement, which still must be approved by the court, provides for both monetary and equitable relief. Under the proposed terms, the Company will pay \$15.5 million into a fund for the class members that will be apportioned and paid out to individual members (less any additional attorneys' fees or litigation costs approved by the court), upon submission of a valid claim. It will pay an additional \$3.25 million for plaintiffs' legal fees and costs. Of the total \$18.75 million anticipated payment, the Company expects to receive reimbursement from its Employment Practices Liability Insurance ("EPLI") carrier of approximately \$15.9 million, which represents the balance remaining of the \$20 million EPLI policy covering the claims. In addition, the Company has agreed to make certain adjustments to its pay setting policies and procedures for new store managers. If the settlement is approved, the Company expects to implement the new pay policies and practices no later than April 2012. Documents related to the parties' request for preliminary approval of the proposed settlement were filed on October 28, 2011. A hearing on the proposed settlement was conducted on November 29, 2011 and will be continued on a date to be determined by the court. Because it deemed settlement probable and estimable, the Company accrued for the net settlement as well as for certain additional anticipated fees related thereto during the 13-week period ended April 29, 2011, and concurrently recorded a receivable of approximately \$15.9 million from its EPLI carrier.

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

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

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

On August 2, 2011, the court entered a scheduling order that governs, among other things, the deadlines for certification-related discovery (January 31, 2012) and the filing of any motion for conditional certification by the plaintiffs (March 2, 2012). The Company’s response to any conditional certification motion must be filed within 30 days of such motion, or by March 2, 2012, whichever is later.

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

On May 20, 2011, a lawsuit entitled *Winn-Dixie Stores, Inc., et al. v. Dolgencorp, LLC* was filed in the United States District Court for the Southern District of Florida (Case No. 9:11-cv-80601-DMM) (“Winn-Dixie”) in which the plaintiffs allege that the sale of food and other items in approximately 70 of the Company’s stores, each of which allegedly is or was at some time co-located in a shopping center with one of plaintiffs’ stores, violates restrictive covenants that plaintiffs contend are binding on the occupants of the shopping centers. Plaintiffs seek damages and an injunction limiting the sale of food and other items in those stores. Although plaintiffs have not made a demand for any specific amount of damages at this point in the proceeding, documents prepared and produced by plaintiffs during discovery suggest that plaintiffs may seek as much as \$55 million. The Company intends to vigorously defend the *Winn-Dixie* matter and views that sum as wholly without basis and unsupported by the law and the facts currently available. The various leases involved in the matter are unique in their terms and/or the factual circumstances surrounding them, and, in some cases, the stores named by plaintiffs are not now and have never been co-located with plaintiffs’ stores. However, at this time, no assurances can be given that the Company will be successful in its defense of the action on the merits or otherwise. Similarly, at this time, because of certain outstanding threshold issues that have yet to be addressed by the court, the Company is unable to estimate potential

losses; however, if the Company is not successful in defending the *Winn-Dixie* matter, the outcome could have a material adverse effect on the Company's financial statements as a whole.

In October 2008, the Company terminated an interest rate swap as a result of the counterparty's declaration of bankruptcy. This declaration of bankruptcy constituted a default under the contract governing the swap, giving the Company the right to terminate. The Company subsequently settled the swap in November 2008 for approximately \$7.6 million, including interest accrued to the date of termination. On May 14, 2010, the Company received a demand from the counterparty for an additional payment of approximately \$19 million plus interest, claiming that the valuation used to calculate the \$7.6 million was commercially unreasonable, and seeking to invoke the alternative dispute resolution procedures established by the bankruptcy court. The Company participated in the alternative dispute resolution procedures as it believed a reasonable settlement would be in the best interest of the Company to avoid the substantial risk and costs of litigation. In April of 2011, the Company reached a settlement with the counterparty under which the Company paid an additional \$9.85 million in exchange for a full release. The Company accrued the settlement amount along with additional expected fees and costs related thereto in the 13-week period ended April 29, 2011. The settlement was finalized and the payment was made in May 2011.

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

9. Segment reporting

The Company manages its business on the basis of one reportable segment. As of October 28, 2011, all of the Company's operations were located within the United States, with the exception of a Hong Kong subsidiary and a liaison office in India, the collective assets and revenues of which are not material. Net sales grouped by classes of similar products are presented below.

(In thousands)	13 Weeks Ended		39 Weeks Ended	
	October 28, 2011	October 29, 2010	October 28, 2011	October 29, 2010
Classes of similar products:				
Consumables	\$ 2,705,765	\$ 2,378,667	\$ 7,845,905	\$ 6,907,541
Seasonal	433,931	401,544	1,393,557	1,302,780
Home products	236,951	223,026	706,962	670,352
Apparel	218,577	220,190	675,691	668,223
Net sales	<u>\$ 3,595,224</u>	<u>\$ 3,223,427</u>	<u>\$ 10,622,115</u>	<u>\$ 9,548,896</u>

10. Related party transactions

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

Affiliates of KKR and Goldman, Sachs & Co. (among other entities) may be lenders under the Company's senior secured term loan facility ("Term Loan Facility") with a principal balance as of October 28, 2011 of approximately \$1.96 billion. The Company paid approximately \$46.4 million and \$45.5 million of interest on the Term Loan Facility during the 39-week periods ended October 28, 2011 and October 29, 2010, respectively.

Goldman, Sachs & Co. is a counterparty to an amortizing interest rate swap with a \$143.3 million notional amount as of October 28, 2011, entered into in connection with the Term Loan Facility. The Company paid Goldman, Sachs & Co. approximately \$10.6 million and \$12.9 million in the 39-week periods ended October 28, 2011 and October 29, 2010, respectively, pursuant to this swap.

Affiliates of KKR and Goldman, Sachs & Co. served as underwriters in connection with the secondary offerings of the Company's common stock held by certain existing shareholders that were completed in September 2011 and April 2010. The Company did not sell shares of common stock, receive proceeds from such shareholders' sales of shares of common stock or pay any underwriting fees in connection with these secondary offerings. Certain members of the Company's management exercised registration rights in connection with such offerings.

11. Subsequent events

On November 30, 2011, the Company's Board of Directors authorized a \$500 million common stock repurchase program. Under the program, shares of the Company's common stock

may be repurchased from time to time in open market transactions or in privately negotiated purchases, which could include repurchases from the Company's controlling shareholder, Buck Holdings, L.P. (which is controlled by affiliates of KKR and Goldman Sachs & Co), or other related parties if appropriate. The timing and actual number of shares purchased will depend on a variety of factors, such as price, market conditions and other factors. Repurchases under the program may be funded from available cash or borrowings under the ABL Facility. The repurchase authorization has no expiration date. No shares have been repurchased as of the date of this report.

In connection with the repurchase program, on December 4, 2011, the Company entered into an agreement with Buck Holdings, L.P. to repurchase from it approximately \$185 million in common stock concurrent with, and conditional upon, the completion of a contemplated December 2011 underwritten secondary offering of shares by certain selling shareholders at a price per share equal to the price to the public in the secondary offering less underwriting discounts and commissions. The Company expects to fund the purchase price for the share repurchase with borrowings under the ABL Facility.

12. Guarantor subsidiaries

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

October 28, 2011

	DOLLAR GENERAL CORPORATION	GUARANTOR SUBSIDIARIES	OTHER SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTAL
BALANCE SHEET:					
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 767	\$ 94,025	\$ 23,788	\$ —	\$ 118,580
Merchandise inventories	—	2,089,722	—	—	2,089,722
Income taxes receivable	65,785	3,398	—	(20,376)	48,807
Deferred income taxes	8,828	—	6,900	(15,728)	—
Prepaid expenses and other current assets	758,754	4,520,553	9,111	(5,152,672)	135,746
Total current assets	834,134	6,707,698	39,799	(5,188,776)	2,392,855
Net property and equipment	110,458	1,606,084	255	—	1,716,797
Goodwill	4,338,589	—	—	—	4,338,589
Intangible assets, net	1,199,200	41,533	—	—	1,240,733
Deferred income taxes	—	—	49,738	(49,738)	—
Other assets, net	6,173,056	13,998	322,233	(6,462,379)	46,908
Total assets	<u>\$ 12,655,437</u>	<u>\$ 8,369,313</u>	<u>\$ 412,025</u>	<u>\$ (11,700,893)</u>	<u>\$ 9,735,882</u>
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities:					
Current portion of long-term obligations	\$ —	\$ 763	\$ —	\$ —	\$ 763
Accounts payable	4,528,433	1,693,176	50,944	(5,140,009)	1,132,544
Accrued expenses and other	92,826	272,915	61,899	(12,663)	414,977
Income taxes payable	—	—	21,487	(20,376)	1,111
Deferred income taxes	—	38,554	—	(15,728)	22,826
Total current liabilities	4,621,259	2,005,408	134,330	(5,188,776)	1,572,221
Long-term obligations	2,982,075	3,251,852	—	(3,512,866)	2,721,061
Deferred income taxes	430,111	266,956	—	(49,738)	647,329
Other liabilities	60,671	30,896	142,383	—	233,950
Redeemable common stock	7,309	—	—	—	7,309
Shareholders' equity:					
Preferred stock	—	—	—	—	—
Common stock	299,514	23,855	100	(23,955)	299,514
Additional paid-in capital	2,957,267	431,253	19,900	(451,153)	2,957,267
Retained earnings	1,305,107	2,359,093	115,312	(2,474,405)	1,305,107
Accumulated other comprehensive loss	(7,876)	—	—	—	(7,876)
Total shareholders' equity	4,554,012	2,814,201	135,312	(2,949,513)	4,554,012
Total liabilities and shareholders' equity	<u>\$ 12,655,437</u>	<u>\$ 8,369,313</u>	<u>\$ 412,025</u>	<u>\$ (11,700,893)</u>	<u>\$ 9,735,882</u>

January 28, 2011

	DOLLAR GENERAL CORPORATION	GUARANTOR SUBSIDIARIES	OTHER SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTAL
BALANCE SHEET:					
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 111,545	\$ 364,404	\$ 21,497	\$ —	\$ 497,446
Merchandise inventories	—	1,765,433	—	—	1,765,433
Income taxes receivable	13,529	—	—	(13,529)	—
Deferred income taxes	8,877	—	6,825	(15,702)	—
Prepaid expenses and other current assets	741,352	3,698,117	4,454	(4,338,977)	104,946
Total current assets	875,303	5,827,954	32,776	(4,368,208)	2,367,825
Net property and equipment	105,155	1,419,133	287	—	1,524,575
Goodwill	4,338,589	—	—	—	4,338,589
Intangible assets, net	1,199,200	57,722	—	—	1,256,922
Deferred income taxes	—	—	47,690	(47,690)	—
Other assets, net	5,337,522	12,675	304,285	(5,596,171)	58,311
Total assets	<u>\$ 11,855,769</u>	<u>\$ 7,317,484</u>	<u>\$ 385,038</u>	<u>\$ (10,012,069)</u>	<u>\$ 9,546,222</u>
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities:					
Current portion of long-term obligations	\$ —	\$ 1,157	\$ —	\$ —	\$ 1,157
Accounts payable	3,691,564	1,541,593	50,824	(4,330,340)	953,641
Accrued expenses and other	68,398	226,225	61,755	(8,637)	347,741
Income taxes payable	11,922	13,246	14,341	(13,529)	25,980
Deferred income taxes	—	52,556	—	(15,702)	36,854
Total current liabilities	3,771,884	1,834,777	126,920	(4,368,208)	1,365,373
Long-term obligations	3,534,447	3,000,877	—	(3,248,254)	3,287,070
Deferred income taxes	417,874	228,381	—	(47,690)	598,565
Other liabilities	67,932	27,250	136,400	—	231,582
Redeemable common stock	9,153	—	—	—	9,153
Shareholders' equity:					
Preferred stock	—	—	—	—	—
Common stock	298,819	23,855	100	(23,955)	298,819
Additional paid-in capital	2,945,024	431,253	19,900	(451,153)	2,945,024
Retained earnings	830,932	1,771,091	101,718	(1,872,809)	830,932
Accumulated other comprehensive loss	(20,296)	—	—	—	(20,296)
Total shareholders' equity	4,054,479	2,226,199	121,718	(2,347,917)	4,054,479
Total liabilities and shareholders' equity	<u>\$ 11,855,769</u>	<u>\$ 7,317,484</u>	<u>\$ 385,038</u>	<u>\$ (10,012,069)</u>	<u>\$ 9,546,222</u>

For the 13-weeks ended October 28, 2011

	DOLLAR GENERAL CORPORATION	GUARANTOR SUBSIDIARIES	OTHER SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTAL
STATEMENTS OF INCOME:					
Net sales	\$ 80,476	\$ 3,595,224	\$ 21,340	\$ (101,816)	\$ 3,595,224
Cost of goods sold	—	2,479,422	—	—	2,479,422
Gross profit	80,476	1,115,802	21,340	(101,816)	1,115,802
Selling, general and administrative expenses	73,160	814,281	19,260	(101,816)	804,885
Operating profit	7,316	301,521	2,080	—	310,917
Interest income	(11,269)	(7,491)	(5,146)	23,896	(10)
Interest expense	54,059	8,465	14	(23,896)	38,642
Other (income) expense	53	—	—	—	53
Income (loss) before income taxes	(35,527)	300,547	7,212	—	272,232
Income tax expense (benefit)	(12,715)	111,788	1,995	—	101,068
Equity in subsidiaries' earnings, net of taxes	193,976	—	—	(193,976)	—
Net income	<u>\$ 171,164</u>	<u>\$ 188,759</u>	<u>\$ 5,217</u>	<u>\$ (193,976)</u>	<u>\$ 171,164</u>

For the 13 weeks ended October 29, 2010

	DOLLAR GENERAL CORPORATION	GUARANTOR SUBSIDIARIES	OTHER SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTAL
STATEMENTS OF INCOME:					
Net sales	\$ 75,020	\$ 3,223,427	\$ 21,888	\$ (96,908)	\$ 3,223,427
Cost of goods sold	—	2,212,759	—	—	2,212,759
Gross profit	75,020	1,010,668	21,888	(96,908)	1,010,668
Selling, general and administrative expenses	68,201	748,432	16,609	(96,908)	736,334
Operating profit	6,819	262,236	5,279	—	274,334
Interest income	(12,244)	(3,843)	(4,898)	20,895	(90)
Interest expense	70,103	18,021	6	(20,895)	67,235
Other (income) expense	8,312	—	—	—	8,312
Income (loss) before income taxes	(59,352)	248,058	10,171	—	198,877
Income tax expense (benefit)	(26,871)	94,555	3,073	—	70,757
Equity in subsidiaries' earnings, net of taxes	160,601	—	—	(160,601)	—
Net income	<u>\$ 128,120</u>	<u>\$ 153,503</u>	<u>\$ 7,098</u>	<u>\$ (160,601)</u>	<u>\$ 128,120</u>

For the 39-weeks ended October 28, 2011

	DOLLAR GENERAL CORPORATION	GUARANTOR SUBSIDIARIES	OTHER SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTAL
STATEMENTS OF INCOME:					
Net sales	\$ 242,397	\$ 10,622,115	\$ 62,735	\$ (305,132)	\$ 10,622,115
Cost of goods sold	—	7,270,574	—	—	7,270,574
Gross profit	242,397	3,351,541	62,735	(305,132)	3,351,541
Selling, general and administrative expenses	220,361	2,394,639	59,109	(305,132)	2,368,977
Operating profit	22,036	956,902	3,626	—	982,564
Interest income	(35,379)	(17,587)	(15,640)	68,551	(55)
Interest expense	198,097	35,312	28	(68,551)	164,886
Other (income) expense	60,564	—	—	—	60,564
Income (loss) before income taxes	(201,246)	939,177	19,238	—	757,169
Income tax expense (benefit)	(73,825)	351,175	5,644	—	282,994
Equity in subsidiaries' earnings, net of taxes	601,596	—	—	(601,596)	—
Net income	<u>\$ 474,175</u>	<u>\$ 588,002</u>	<u>\$ 13,594</u>	<u>\$ (601,596)</u>	<u>\$ 474,175</u>

For the 39-weeks ended October 29, 2010

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

	DOLLAR GENERAL CORPORATION	GUARANTOR SUBSIDIARIES	OTHER SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTAL
STATEMENTS OF CASH FLOWS:					
<i>Cash flows from operating activities:</i>					
Net income	\$ 474,175	\$ 588,002	\$ 13,594	\$ (601,596)	\$ 474,175
Adjustments to reconcile net income to net cash provided by (used in) operating activities:					
Depreciation and amortization	24,008	180,666	97	—	204,771
Deferred income taxes	1,527	24,573	(2,123)	—	23,977
Tax benefit of stock options	(16,101)	—	—	—	(16,101)
Loss on debt retirement, net	60,303	—	—	—	60,303
Non-cash share-based compensation	10,969	—	—	—	10,969
Other non-cash gains and losses	562	31,094	—	—	31,656
Equity in subsidiaries' earnings, net	(601,596)	—	—	601,596	—
Change in operating assets and liabilities:					
Merchandise inventories	—	(350,932)	—	—	(350,932)
Prepaid expenses and other current assets	(17,129)	(13,125)	(645)	—	(30,899)
Accounts payable	21,248	143,080	8	—	164,336
Accrued expenses and other	32,950	50,916	6,127	—	89,993
Income taxes	(48,077)	(16,644)	7,146	—	(57,575)
Other	(2)	(100)	(72)	—	(174)
Net cash provided by (used in) operating activities	(57,163)	637,530	24,132	—	604,499
<i>Cash flows from investing activities:</i>					
Purchases of property and equipment	(20,956)	(342,078)	(65)	—	(363,099)
Proceeds from sale of property and equipment	16	713	—	—	729
Net cash provided by (used in) investing activities	(20,940)	(341,365)	(65)	—	(362,370)
<i>Cash flows from financing activities:</i>					
Issuance of common stock	177	—	—	—	177
Repayments of long-term obligations	(910,677)	(1,031)	—	—	(911,708)
Borrowings under revolving credit agreement	1,485,000	—	—	—	1,485,000
Repayments of borrowings under revolving credit agreement	(1,197,200)	—	—	—	(1,197,200)
Repurchases of common stock and settlement of equity awards, net of employee taxes paid	(13,365)	—	—	—	(13,365)
Tax benefit of stock options	16,101	—	—	—	16,101
Changes in intercompany note balances, net	587,289	(565,513)	(21,776)	—	—
Net cash provided by (used in) financing activities	(32,675)	(566,544)	(21,776)	—	(620,995)
Net increase (decrease) in cash and cash equivalents	(110,778)	(270,379)	2,291	—	(378,866)
Cash and cash equivalents, beginning of period	111,545	364,404	21,497	—	497,446
Cash and cash equivalents, end of period	\$ 767	\$ 94,025	\$ 23,788	\$ —	\$ 118,580

	DOLLAR GENERAL CORPORATION	GUARANTOR SUBSIDIARIES	OTHER SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTAL
STATEMENTS OF CASH FLOWS:					
<i>Cash flows from operating activities:</i>					
Net income	\$ 405,311	\$ 500,177	\$ 18,765	\$ (518,942)	\$ 405,311
Adjustments to reconcile net income to net cash provided by (used in) operating activities:					
Depreciation and amortization	24,906	164,795	38	—	189,739
Deferred income taxes	26,633	16,161	(11,174)	—	31,620
Tax benefit of stock options	(6,413)	—	—	—	(6,413)
Loss on debt retirement, net	14,576	—	—	—	14,576
Non-cash share-based compensation	11,620	—	—	—	11,620
Other non-cash gains and losses	953	6,967	—	—	7,920
Equity in subsidiaries' earnings, net	(518,942)	—	—	518,942	—
Change in operating assets and liabilities:					
Merchandise inventories	—	(366,903)	—	—	(366,903)
Prepaid expenses and other current assets	4,601	(30,332)	(681)	—	(26,412)
Accounts payable	2,301	144,634	(2)	—	146,933
Accrued expenses and other	(969)	2,200	(140)	—	1,091
Income taxes	(39,194)	12,865	22,151	—	(4,178)
Other	7	(1,113)	(2)	—	(1,108)
Net cash provided by (used in) operating activities	(74,610)	449,451	28,955	—	403,796
<i>Cash flows from investing activities:</i>					
Purchases of property and equipment	(16,115)	(242,963)	(165)	—	(259,243)
Proceeds from sale of property and equipment	—	868	—	—	868
Net cash provided by (used in) investing activities	(16,115)	(242,095)	(165)	—	(258,375)
<i>Cash flows from financing activities:</i>					
Issuance of common stock	599	—	—	—	599
Repayments of long-term obligations	(129,217)	(1,437)	—	—	(130,654)
Repurchases of common stock and settlement of equity awards, net of employee taxes paid	(5,949)	—	—	—	(5,949)
Tax benefit of stock options	6,413	—	—	—	6,413
Changes in intercompany note balances, net	166,591	(138,982)	(27,609)	—	—
Net cash provided by (used in) financing activities	38,437	(140,419)	(27,609)	—	(129,591)
Net increase (decrease) in cash and cash equivalents	(52,288)	66,937	1,181	—	15,830
Cash and cash equivalents, beginning of period	97,620	103,001	21,455	—	222,076
Cash and cash equivalents, end of period	<u>\$ 45,332</u>	<u>\$ 169,938</u>	<u>\$ 22,636</u>	<u>\$ —</u>	<u>\$ 237,906</u>

Report of Independent Registered Public Accounting Firm

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

We have reviewed the condensed consolidated balance sheet of Dollar General Corporation and subsidiaries (the Company) as of October 28, 2011, and the related condensed consolidated statements of income for the thirteen and thirty-nine week periods ended October 28, 2011 and October 29, 2010, and the condensed consolidated statements of cash flows for the thirty-nine week periods ended October 28, 2011 and October 29, 2010. These financial statements are the responsibility of the Company's management.

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

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

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Dollar General Corporation as of January 28, 2011 and the related consolidated statements of income, shareholders' equity, and cash flows for the fiscal year then ended (not presented herein) and in our report dated March 22, 2011, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of January 28, 2011, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ Ernst & Young LLP

December 5, 2011
Nashville, Tennessee

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

General

This discussion and analysis is based on, should be read with, and is qualified in its entirety by, the accompanying unaudited condensed consolidated financial statements and related notes, as well as our consolidated financial statements and the related Management's Discussion and Analysis of Financial Condition and Results of Operations as contained in our Annual Report on Form 10-K for the fiscal year ended January 28, 2011. It also should be read in conjunction with the disclosure under "Cautionary Disclosure Regarding Forward-Looking Statements" in this report.

Executive Overview

We are the largest discount retailer in the United States by number of stores, with 9,813 stores in 38 states as of October 28, 2011, primarily in the southern, southwestern, midwestern and eastern United States. Our small-box neighborhood stores are conveniently located to help our customers "Save time. Save money. Every day." In the 2011 third quarter, we opened our first stores in Connecticut, Nevada, and New Hampshire, and in early 2012, we plan to open our first stores in California. Square footage expansion, including new store growth and store relocations, is an integral part of our long-term strategy. We expect total square footage growth of approximately seven percent in each of fiscal 2011 and fiscal 2012. To support this growth, we are currently expanding our merchandise distribution network by adding two new distribution centers, including one we are constructing in Alabama and a second that we plan to lease in California, both of which we expect to begin shipping in the first half of 2012.

Our first priority is driving productive sales growth in our existing stores as well as through the addition of new stores. Most of our success in driving sales growth in 2011 has been from expansion of our consumables offerings. Consumers are spending less on discretionary non-consumable items as they continue to face high rates of unemployment, fluctuating food, gasoline and energy costs, rising medical costs, weakness in the housing and credit markets, and uncertainties regarding the outlook for the future. We are intensely focused on helping our value-conscious customers make the most of their spending dollars. We provide a broad selection of merchandise at everyday low prices, including consumable products such as food, paper and cleaning products; health and beauty products and pet supplies; and non-consumable products such as seasonal merchandise, home decor and domestics, and apparel.

Our second priority is to increase our gross profit rate. In 2011, the macroeconomic environment, including inflation in the cost of many basic commodities, has posed significant challenges to that effort. As discussed above, we have experienced a shift in our mix of sales to more consumables, which generally have a lower gross profit rate, and we have seen product and fuel costs rise. We have been successful in mitigating some of these pressures through selective price increases, improved distribution efficiencies and a keen focus on shrink reduction. However, we expect the pressures on gross profit to continue for the near future. Going forward, we believe we have the potential to directly source a larger portion of our products at savings to current costs, and we expect to make further progress with regard to increasing our sales of

private brands, which generally have lower price points and higher gross profit rates than national brands.

Our third priority is leveraging process improvements and information technology to reduce costs. In 2011, we have made significant progress in holding expense increases to a rate lower than our sales growth. We are committed as an organization to extract costs that do not affect the customer experience. For example, we recently completed the implementation of a workforce management system in all of our stores to assist in ensuring that all necessary tasks are performed in a cost effective manner.

Our fourth priority is to strengthen and expand Dollar General's culture of serving others, including our shareholders, our customers, employees, and the communities where we operate.

Focus on our priorities has resulted in continued improvements in our operating and financial performance. Following are comparisons of our key financial metrics for the third quarter of 2011 over the comparable 2010 period. Basis points amounts referred to below are equal to 0.01% as a percentage of sales.

- Total sales increased 11.5% to \$3.60 billion. Sales in same-stores increased 6.3% driven by increases in customer traffic and average transaction amount. Average sales per square foot for all stores over the 52-week period ended October 28, 2011 were approximately \$207, up from \$200 for the comparable prior 52-week period.
- Gross profit, as a percentage of sales, decreased by 31 basis points to 31.0% compared to 31.4% in the 2010 period. We recorded an increase to our LIFO reserve of \$11 million in the 2011 third quarter versus zero in the 2010 third quarter. In addition, our mix of sales continued to trend toward more consumables, which generally have a lower gross profit rate than non-consumables, and transportation costs were impacted by the higher cost of fuel in 2011. These factors were partially offset by several favorable factors, including a decrease in inventory shrinkage, selective price increases and improved distribution efficiencies.
- Inventory turnover was 5.1 times for the rolling four-quarters through the end of the third quarter in both the 2011 and 2010 periods.
- Selling, general and administrative expenses, or SG&A, as a percentage of sales, was 22.4% compared to 22.8% in the 2010 third quarter. Significant factors contributing to the improvement are significant store labor savings, as a percentage of sales, resulting from new workforce management initiatives, a decrease in incentive compensation, and the impact of increased sales, as well as the net impact of our continued focus on cost reduction initiatives that do not unfavorably impact our customers.
- Operating profit, as a percentage of sales, was 8.6% compared to 8.5% in the 2010 third quarter, an improvement of 14 basis points.
- Interest expense decreased by \$29 million to \$39 million in the 2011 third quarter primarily due to lower average outstanding borrowings resulting from the repurchase

of our senior notes. Total long-term obligations as of October 28, 2011 were \$2.72 billion, a net reduction of \$566 million from the prior year.

- Net income was \$171 million, or \$0.50 per diluted share, compared to net income in the 2010 third quarter of \$128 million, or \$0.37 per diluted share, which included a \$5 million loss, net of income taxes, on the repurchase of long-term obligations.
- 482 new stores were opened and 544 of our existing stores were remodeled or relocated in the 39-week period ended October 28, 2011.

We strategically managed our business in the 2011 third quarter and improved our profitability as we continued to face the challenges of extended economic uncertainties and increased commodity and fuel costs. Our customer traffic and average transaction continued to increase in the quarter, indicating that our customers are relying on us more than ever for their consumables needs. Our small format and conveniently located stores provide an attractive shopping alternative to customers seeking to save time and money.

Due to ongoing economic uncertainty faced by consumers and the impact of such uncertainty on the discretionary spending of our customers, we believe that the increase in sales of consumables will continue to outpace the growth in sale of higher margin non-consumables.

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

Results of Operations

Accounting Periods . We follow the concept of a 52-53 week fiscal year that ends on the Friday nearest to January 31. The following text contains references to years 2011 and 2010, which represent the 53-week fiscal year which will end on February 3, 2012 and the 52-week fiscal year which ended January 28, 2011, respectively. References to quarterly accounting periods for 2011 and 2010 contained herein refer to 13-week accounting periods, except for the fourth quarter of 2011, which will be a 14-week accounting period.

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

The following table contains results of operations data for the most recent 13-week and 39-week periods of each of 2011 and 2010, and the dollar and percentage variances among those periods:

(amounts in millions, except per share amounts)	13 Weeks Ended		2011 vs. 2010		39 Weeks Ended		2011 vs. 2010	
	Oct. 28, 2011	Oct. 29, 2010	Amount change	% change	Oct. 28, 2011	Oct. 29, 2010	Amount change	% change
Net sales by category:								
Consumables	\$ 2,705.8	\$ 2,378.7	\$ 327.1	13.8 %	\$ 7,845.9	\$ 6,907.5	\$ 938.4	13.6 %
% of net sales	75.26 %	73.79 %			73.86 %	72.34 %		
Seasonal	433.9	401.5	32.4	8.1	1,393.6	1,302.8	90.8	7.0
% of net sales	12.07 %	12.46 %			13.12 %	13.64 %		
Home products	237.0	223.0	13.9	6.2	707.0	670.4	36.6	5.5
% of net sales	6.59 %	6.92 %			6.66 %	7.02 %		
Apparel	218.6	220.2	(1.6)	(0.7)	675.7	668.2	7.5	1.1
% of net sales	6.08 %	6.83 %			6.36 %	7.00 %		
Net sales	\$ 3,595.2	\$ 3,223.4	\$ 371.8	11.5 %	\$ 10,622.1	\$ 9,548.9	\$ 1,073.2	11.2 %
Cost of goods sold	2,479.4	2,212.8	266.7	12.1	7,270.6	6,502.5	768.1	11.8
% of net sales	68.96 %	68.65 %			68.45 %	68.10 %		
Gross profit	1,115.8	1,010.7	105.1	10.4	3,351.5	3,046.4	305.1	10.0
% of net sales	31.04 %	31.35 %			31.55 %	31.90 %		
Selling, general and administrative expenses	804.9	736.3	68.6	9.3	2,369.0	2,180.6	188.4	8.6
% of net sales	22.39 %	22.84 %			22.30 %	22.84 %		
Operating profit	310.9	274.3	36.6	13.3	982.6	865.8	116.8	13.5
% of net sales	8.65 %	8.51 %			9.25 %	9.07 %		
Interest income	(0.0)	(0.1)	0.1	(88.9)	(0.1)	(0.1)	0.1	(57.0)
% of net sales	(0.00) %	(0.00) %			(0.00) %	(0.00) %		
Interest expense	38.6	67.2	(28.6)	(42.5)	164.9	208.6	(43.7)	(20.9)
% of net sales	1.07 %	2.09 %			1.55 %	2.18 %		
Other (income) expense	0.1	8.3	(8.3)	(99.4)	60.6	15.0	45.6	304.2
% of net sales	0.00 %	0.26 %			0.57 %	0.16 %		
Income before income taxes	272.2	198.9	73.4	36.9	757.2	642.4	114.8	17.9
% of net sales	7.57 %	6.17 %			7.13 %	6.73 %		
Income taxes	101.1	70.8	30.3	42.8	283.0	237.1	45.9	19.4
% of net sales	2.81 %	2.20 %			2.66 %	2.48 %		
Net income	\$ 171.2	\$ 128.1	\$ 43.0	33.6 %	\$ 474.2	\$ 405.3	\$ 68.9	17.0 %
% of net sales	4.76 %	3.97 %			4.46 %	4.24 %		
Diluted earnings per share	\$ 0.50	\$ 0.37	\$ 0.13	35.1 %	\$ 1.37	\$ 1.18	\$ 0.19	16.1 %

13 WEEKS ENDED OCTOBER 28, 2011 AND OCTOBER 29, 2010

Net Sales. The net sales increase in the 2011 third quarter reflects a same-store sales increase of 6.3% compared to the 2010 quarter. Same-stores include stores that have been open at least 13 months and remain open at the end of the reporting period. For the 2011 quarter, there were 9,104 same-stores which accounted for sales of \$3.38 billion. The remainder of the sales increase was attributable to new stores, partially offset by sales from closed stores. Consumables sales increased at a higher rate than non-consumables, with the most significant growth related to changes in and further expansion of our candy and snacks, packaged food, and perishables

offerings. Sales growth in our home, basic apparel and seasonal categories continued to be impacted by weakness and uncertainties in the macroeconomic environment during the quarter.

Gross Profit. Our gross profit rate as a percentage of sales was 31.0% in the 2011 third quarter compared to 31.4% in the 2010 third quarter, a decline of 31 basis points. We recorded an increase in our LIFO provision of \$11.1 million in the 2011 third quarter compared to zero in the 2010 third quarter as the result of increased purchase costs. In addition, consumables, which generally have lower markups than non-consumables, have continued to increase as a percentage of sales, and our transportation costs were impacted by higher rates for fuel. These factors were partially offset by decreased inventory shrinkage, selective price increases and lower distribution center costs, as a percentage of sales.

SG&A Expense. SG&A expense was 22.4% as a percentage of sales in the 2011 period compared to 22.8% in the 2010 period, a decrease of 45 basis points. Retail salaries increased at a rate lower than our increase in sales, partially due to the completed rollout of our workforce management system. A decrease in incentive compensation also contributed to the overall decrease in SG&A as a percentage of sales. Utilities increased at a rate lower than the increase in sales, primarily due to lower electricity and waste management costs reflecting our recycling efforts, partially offset by increased data transmission costs related to store computers. SG&A, as a percentage of sales, was also favorably impacted by other cost reduction and productivity initiatives as well as the 11.5% increase in sales. These improvements were partially offset by depreciation and amortization expense and increased use of debit cards. Depreciation and amortization expense increased at a higher rate than the increase in sales primarily due to investments in store data communications technology, increased investment in store fixtures and equipment resulting from recent merchandising initiatives, and store properties purchased.

Interest Expense. The decrease in interest expense in the 2011 period from the 2010 period is due to lower outstanding borrowings, resulting from our repurchases of indebtedness in 2011 and 2010 and lower all-in interest rates on our term loan primarily due to reduced notional amounts on interest rate swaps. During the first two quarters of 2011, we redeemed or repurchased the entire \$864.3 million outstanding aggregate principal amount of our 10.625% senior notes utilizing excess cash and borrowings under our revolving credit facility.

Other (Income) Expense. Other (income) expense in the 2010 period includes a pretax loss of \$8.2 million resulting from the repurchase of \$65.0 million principal amount of our 10.625% senior notes.

Income Taxes. The effective income tax rate increased to 37.1% for the 2011 period compared to 35.6% for the 2010 period. The increase in the income tax expense rate was due principally to a reduction in income tax reserves in the 2010 period that did not reoccur in the 2011 period.

39 WEEKS ENDED OCTOBER 28, 2011 AND OCTOBER 29, 2010

Net Sales. The net sales increase in the 2011 period reflects a same-store sales increase of 5.9% compared to the 2010 period. Same-stores include stores that have been open at least 13 months and remain open at the end of the reporting period. For 2011, there were 9,104 same-

stores which accounted for sales of \$9.97 billion. The remainder of the sales increase was attributable to new stores, partially offset by sales from closed stores. Consumables sales increased at a higher rate than non-consumables, with the most significant growth related to our candy and snacks, packaged food, and perishables offerings. Sales growth in our home, basic apparel and seasonal categories has been impacted by weakness and uncertainties in the macroeconomic environment.

Gross Profit. The gross profit rate as a percentage of sales was 31.6% in the 2011 period compared to 31.9% in the 2010 period, a decline of 35 basis points. Consumables, which generally have lower markups than non-consumables, represented a greater percentage of sales in the 2011 period than in the 2010 period. Our purchase costs increased primarily due to increased commodity costs, we incurred higher markdowns to sell through certain home and apparel products, and our transportation costs were impacted by higher fuel rates. Our LIFO provision increased to \$25.4 million in the 2011 period compared to \$0.7 million in the 2010 period. These factors were partially offset by selective price increases as well as lower inventory shrinkage and distribution center costs, as a percentage of sales.

SG&A Expense. SG&A expense was 22.3% as a percentage of sales in the 2011 period compared to 22.8% in the 2010 period, a decrease of 54 basis points. Retail salaries increased at a rate lower than our increase in sales, partially due to the completed rollout of our workforce management system. A decrease in incentive compensation also contributed to the overall decrease in SG&A as a percentage of sales. SG&A, as a percentage of sales, was also favorably impacted by other cost reduction and productivity initiatives as well as the 11.2% increase in sales. These improvements were partially offset by depreciation and amortization expense, which increased at a higher rate than the increase in sales, primarily due to investments in store data communications technology, increased investment in store fixtures and equipment resulting from recent merchandising initiatives, and store properties purchased. SG&A in the 2011 period includes expenses totaling \$13.1 million for payments and accruals related to the settlement and expected settlement of two legal matters while SG&A in the 2010 period includes expenses totaling \$15.0 million primarily relating to share-based compensation incurred in connection with a secondary offering of our common stock.

Interest Expense. The decrease in interest expense in the 2011 period from the 2010 period is due to lower outstanding borrowings, resulting from our repurchases of indebtedness in 2011 and 2010 and lower all-in interest rates on our term loan primarily due to reduced notional amounts on interest rate swaps. During the 2011 period, we redeemed or repurchased the entire \$864.3 million outstanding aggregate principal amount of our 10.625% senior notes utilizing excess cash and borrowings under our revolving credit facility.

Other (Income) Expense. Other (income) expense includes pretax losses totaling \$60.3 million in the 2011 period and \$14.7 million in the 2010 period resulting from the repurchase of our 10.625% senior notes.

Income Taxes. The effective income tax rate increased to 37.4% for the 2011 period compared to 36.9% for 2010 period. The increase in the income tax expense rate was due principally to a reduction in income tax reserves in the 2010 period that did not reoccur in the 2011 period.

Liquidity and Capital Resources

Credit Facilities

We have two senior secured credit facilities (the “Credit Facilities”) which provide financing of up to \$2.995 billion as of October 28, 2011. The Credit Facilities consist of a \$1.964 billion senior secured term loan facility (“Term Loan Facility”) and a senior secured asset-based revolving credit facility (“ABL Facility”). Total commitments under the ABL Facility are equal to \$1.031 billion (of which up to \$350.0 million is available for letters of credit), subject to borrowing base availability. The ABL Facility includes borrowing capacity available for letters of credit and for short-term borrowings referred to as swingline loans.

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

Borrowings under the Credit Facilities bear interest at a rate equal to an applicable margin plus, at our option, either (a) LIBOR or (b) a base rate (which is usually equal to the prime rate). The applicable margin for borrowings is (i) under the Term Loan Facility, 2.75% for LIBOR borrowings and 1.75% for base-rate borrowings (ii) as of October 28, 2011, under the ABL Facility (except in the last out tranche described above), 1.25% for LIBOR borrowings and 0.25% for base-rate borrowings; and for any last out borrowings, 2.25% for LIBOR borrowings and 1.25% for base-rate borrowings. The applicable margins for borrowings under the ABL Facility (except in the case of last out borrowings) are subject to adjustment each quarter based on average daily excess availability under the ABL Facility. We are also required to pay a commitment fee to the lenders under the ABL Facility for any unutilized commitments at a rate of 0.375% per annum. We also must pay customary letter of credit fees.

Under the Term Loan Facility we are required to prepay outstanding term loans, subject to certain exceptions, with up to 50% of our annual excess cash flow (as defined in the credit agreement) which will be reduced to 25% and 0% if we achieve and maintain a total net leverage ratio of 6.0 to 1.0 and 5.0 to 1.0, respectively; the net cash proceeds of certain non-ordinary course asset sales or other dispositions of property; and the net cash proceeds of any incurrence of debt other than proceeds from debt permitted under the senior secured credit agreement. Through October 28, 2011, no prepayments have been required under the prepayment provisions listed above. The Term Loan Facility can be prepaid in whole or in part at any time.

We voluntarily prepaid \$325 million of the Term Loan Facility in January 2010 and, as a result, no further principal payments will be required prior to its maturity on July 6, 2014, assuming no mandatory prepayment provisions are triggered before such date. There is no amortization under the ABL Facility. The entire principal amount (if any) outstanding under the ABL Facility is due and payable in full at maturity on July 6, 2013.

In addition, we are required to prepay the ABL Facility, subject to certain exceptions, with the net cash proceeds of all non-ordinary course asset sales or other dispositions of revolving facility collateral (as defined in the senior secured credit agreement); and to the extent

such extensions of credit exceed the then current borrowing base. Through October 28, 2011, no prepayments have been required under any prepayment provisions.

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

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

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

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

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

The senior secured credit agreements contain a number of covenants that, among other things, restrict, subject to certain exceptions, our ability to: incur additional indebtedness; sell assets; pay dividends and distributions or repurchase our capital stock; make investments or acquisitions; repay or repurchase subordinated indebtedness (including the Senior Subordinated Notes discussed below) and the Senior Notes discussed below; amend material agreements governing our subordinated indebtedness (including the Senior Subordinated Notes discussed below) or our Senior Notes discussed below; or change our lines of business. The senior secured credit agreements also contain certain customary affirmative covenants and events of default.

At October 28, 2011, we had borrowings of \$287.8 million, \$16.8 million of commercial letters of credit, and \$21.7 million of standby letters of credit outstanding under our ABL Facility. We anticipate potential borrowings under the ABL Facility in fiscal 2011 up to a maximum of \$400 million outstanding at any one time.

On April 29, 2011, we repurchased in the open market \$25.0 million outstanding aggregate principal amount of our 10.625% senior notes due 2015 (the “Senior Notes”) at a redemption price of 107.0% of the principal amount, plus accrued and unpaid interest, resulting in a pretax loss of \$2.2 million. On July 15, 2011, we redeemed the remaining \$839.3 million outstanding aggregate principal amount of the Senior Notes (which had been scheduled to mature on July 15, 2015) at a redemption price of 105.313% of the principal amount, plus accrued and unpaid interest, resulting in a pretax loss of \$58.1 million. The redemption was effected in accordance with the indenture dated as of July 6, 2007 governing the Senior Notes pursuant to a notice dated May 31, 2011. The pretax losses on these transactions are reflected in Other (income) expense in our condensed consolidated statement of income in the 39-week period ended October 28, 2011. We funded the redemption price for the Senior Notes with cash on hand and borrowings under the ABL Facility. The redemption is a significant factor in the reduction of our cash balances at the end of the third quarter compared to the prior year end.

As of October 28, 2011, we had \$450.7 million aggregate principal amount of 11.875%/12.625% senior subordinated toggle notes due 2017 (the “Senior Subordinated Notes”) outstanding, which mature on July 15, 2017, pursuant to an indenture dated as of July 6, 2007 (the “senior subordinated indenture”).

Interest on the Senior Subordinated Notes is payable on January 15 and July 15 of each year. Cash interest on the Senior Subordinated Notes accrues at a rate of 11.875% per annum. We previously had the ability to elect to pay interest by increasing the principal amount of the Senior Subordinated Notes or issuing new Senior Subordinated Notes (“PIK interest”) instead of paying cash interest. Due to the expiration of the notification period for such option, all interest on the Senior Subordinated Notes has been paid or will be payable in cash.

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

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

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

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

Adjusted EBITDA

Under the agreements governing the Credit Facilities and the senior subordinated indenture, certain limitations and restrictions could arise if we are not able to satisfy and remain in compliance with specified financial ratios. Management believes the most significant of such ratios is the senior secured incurrence test under the Credit Facilities. This test measures the ratio of the senior secured debt to Adjusted EBITDA. This ratio would need to be no greater than 4.25 to 1 to avoid such limitations and restrictions. As of October 28, 2011, this ratio was 1.3 to 1. Senior secured debt is defined as our total debt secured by liens or similar encumbrances less cash and cash equivalents. EBITDA is defined as income (loss) from continuing operations before cumulative effect of change in accounting principles plus interest and other financing costs, net, provision for income taxes, and depreciation and amortization. Adjusted EBITDA is defined as EBITDA, further adjusted to give effect to adjustments required in calculating this covenant ratio under our Credit Facilities. EBITDA and Adjusted EBITDA are not presentations made in accordance with U.S. GAAP, are not measures of financial performance or condition, liquidity or profitability, and should not be considered as an alternative to (1) net income, operating income or any other performance measures determined in accordance with U.S. GAAP or (2) operating cash flows determined in accordance with U.S. GAAP. Additionally, EBITDA and Adjusted EBITDA are not intended to be measures of free cash flow for management's discretionary use, as they do not consider certain cash requirements such as interest payments, tax payments and debt service requirements and replacements of fixed assets.

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

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

(in millions)	13-weeks ended		39-weeks ended		52-weeks ended	
	Oct. 28, 2011	Oct. 29, 2010	Oct. 28, 2011	Oct. 29, 2010	Oct. 28, 2011	Jan. 28, 2011
Net income	\$ 171.2	\$ 128.1	\$ 474.2	\$ 405.3	\$ 696.8	\$ 627.9
Add (subtract):						
Interest income	(0.0)	(0.1)	(0.0)	(0.1)	(0.1)	(0.2)
Interest expense	38.6	67.2	164.9	208.5	230.5	274.1
Depreciation and amortization	66.3	60.4	196.0	180.3	258.0	242.3
Income taxes	101.1	70.8	283.0	237.1	403.0	357.1
EBITDA	<u>377.2</u>	<u>326.4</u>	<u>1,118.1</u>	<u>1,031.1</u>	<u>1,588.2</u>	<u>1,501.2</u>
Adjustments:						
Loss on debt retirement, net	—	8.2	60.3	14.6	60.3	14.6
Loss on hedging instruments	0.1	0.1	0.3	0.3	0.4	0.4
Advisory and consulting fees to affiliates	—	—	—	0.1	—	0.1
Non-cash expense for share-based awards	4.2	3.3	11.0	12.8	14.2	16.0
Litigation settlement and related costs, net	—	—	13.1	—	13.1	—
Indirect costs related to merger and stock offering	0.4	0.2	0.4	1.0	0.7	1.3
Other non-cash charges (including LIFO)	13.1	1.4	30.7	6.6	35.6	11.5
Total Adjustments	<u>17.8</u>	<u>13.2</u>	<u>115.8</u>	<u>35.4</u>	<u>124.3</u>	<u>43.9</u>
Adjusted EBITDA	<u>\$ 395.0</u>	<u>\$ 339.6</u>	<u>\$ 1,233.9</u>	<u>\$ 1,066.5</u>	<u>\$ 1,712.5</u>	<u>\$ 1,545.1</u>

Current Financial Condition / Recent Developments

At October 28, 2011, we had total outstanding debt (including the current portion of long-term obligations) of approximately \$2.72 billion. We had \$704.8 million available for borrowing under our ABL Facility at that date. Our liquidity needs are significant, primarily due to our debt service and other obligations. However, we believe our cash flow from operations and existing cash balances, combined with availability under the Credit Facilities, will provide sufficient liquidity to fund our current obligations, projected working capital requirements and capital spending for a period that includes the next 12 months as well as the next several years.

Our inventory balance represented approximately 50% of our total assets exclusive of goodwill and other intangible assets as of October 28, 2011. Our proficiency in managing our inventory balances can have a significant impact on our cash flows from operations during a given fiscal year. Inventory purchases are often somewhat seasonal in nature, such as the purchase of warm-weather or Christmas-related merchandise. Efficient management of our inventory continues to be an area of focus for us.

As described in Note 8 to the condensed consolidated financial statements, we are involved in a number of legal actions and claims, some of which could potentially result in material cash payments. Adverse developments in those actions could materially and adversely affect our liquidity. We also have certain income tax-related contingencies as more fully

described below under “Critical Accounting Policies and Estimates” and in Note 4 to the condensed consolidated financial statements. Future negative developments could have a material adverse effect on our liquidity.

In July 2011, Standard & Poor’s upgraded our corporate rating to BB+ with a stable outlook, and Moody’s raised our corporate rating to Ba2 with a stable outlook. Our current credit ratings, as well as future rating agency actions, could (i) impact our ability to obtain financings to finance our operations on satisfactory terms; (ii) affect our financing costs; and (iii) affect our insurance premiums and collateral requirements necessary for our self-insured programs. There can be no assurance that we will be able to maintain or improve our current credit ratings.

Cash flows from operating activities . Cash flows from operating activities were \$604.5 million in the 2011 period, an increase of \$200.7 million over the 2010 period. Cash flows from operating activities in the 2011 period compared to the 2010 period were positively impacted by our strong operating performance due to greater sales and increased net income, as described in more detail above under “Results of Operations.” Significant components of the increase in cash flows from operating activities in the 2011 period as compared to the 2010 period were related to working capital in general and Accrued expenses and other in particular. Items affecting Accrued expenses and other include increased accruals for income tax reserves, increased accruals for legal settlements and taxes exclusive of taxes on income, and lower incentive compensation payments in the 2011 period compared to the 2010 period, partially offset by reduced interest accruals due primarily to the redemption of the Senior Notes. In addition, inventory purchases are a significant component of cash flows from operating activities, and our inventory balances may fluctuate from period to period based on new store openings, the timing of purchases, and other factors. During the 2011 period, merchandise inventories increased by 18% compared to a 24% overall increase during the 2010 period. Inventory levels in our four inventory categories in the 2011 period compared to the respective 2010 period were as follows: the consumables category increased 21% compared to a 23% increase; the seasonal category increased by 13% compared to a 31% increase; the home products category increased by 22% compared to a 23% increase; and apparel increased by 12% compared to a 17% increase. Underlying these increases are the effects of commodity cost increases (net of LIFO charges) and the addition of new items to our merchandise offerings.

Cash flows from investing activities . Significant components of property and equipment purchases in the 2011 period included the following approximate amounts: \$79 million for new leased stores; \$73 million for distribution centers, including our new center under construction in Alabama; \$68 million for improvements and upgrades to existing stores; \$59 million for stores purchased or built by us; \$59 million for remodels and relocations of existing stores; and \$20 million for systems-related capital projects. The timing of new, remodeled and relocated store openings along with other factors may affect the relationship between such openings and the related property and equipment purchases in any given period. During the 2011 period, we opened 482 new stores and remodeled or relocated 544 stores.

Significant components of property and equipment purchases in the 2010 period included the following approximate amounts: \$95 million for new leased stores and store purchases; \$85 million for improvements and upgrades to existing stores; \$44 million for remodels and

relocations of existing stores; \$18 million for distribution and transportation related purchases; and \$17 million for systems-related capital projects. During the 2010 period, we opened 491 new stores and remodeled or relocated 458 stores.

Capital expenditures for the 2011 fiscal year are projected to be in the range of \$550-\$600 million. We anticipate funding our 2011 capital requirements with cash flows from operations and if necessary, we also have significant availability under our ABL Facility.

Cash flows from financing activities . On July 15, 2011, we redeemed \$839.3 million aggregate principal amount of Senior Notes at a redemption price of 105.313% of the principal amount thereof, resulting in a cash outflow of \$883.9 million. On April 29, 2011, we repurchased in the open market \$25.0 million aggregate principal amount of Senior Notes at a price of 107.0% of the principal amount thereof, resulting in a cash outflow of \$26.8 million. A portion of the July 2011 redemption of Senior Notes was financed by borrowings under the ABL Facility. Net borrowings under the ABL Facility were \$287.8 million at October 28, 2011.

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

Common Stock Repurchase Program

On November 30, 2011, our Board of Directors authorized a \$500 million common stock repurchase program. Under the program, shares of our common stock may be repurchased from time to time in open market transactions or in privately negotiated purchases, which could include repurchases from our controlling shareholder, Buck Holdings, L.P. (which is controlled by affiliates of KKR and Goldman Sachs & Co), or other related parties if appropriate. The timing and actual number of shares purchased will depend on a variety of factors, such as price, market conditions and other factors. Repurchases under the program may be funded from available cash or borrowings under the ABL Facility. The repurchase authorization has no expiration date. No shares have been repurchased as of the date of this report.

In connection with the repurchase program, on December 4, 2011, we entered into an agreement with Buck Holdings, L.P. to repurchase from it approximately \$185 million in common stock concurrent with, and conditional upon, the completion of a contemplated December 2011 underwritten secondary offering of shares by certain selling shareholders at a price per share equal to the price to the public in the secondary offering less underwriting discounts and commissions. The amount of this repurchase approximates our current capacity for repurchases of common stock under the ABL Facility. We expect to fund the purchase price for this share repurchase with borrowings under the ABL Facility.

Critical Accounting Policies and Estimates

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect reported amounts and related disclosures. In addition to the estimates presented below, there are other items within our

financial statements that require estimation, but are not deemed critical as defined below. We believe these estimates are reasonable and appropriate. However, if actual experience differs from the assumptions and other considerations used, the resulting changes could have a material effect on the financial statements taken as a whole.

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

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

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

- applying the RIM to a group of products that is not fairly uniform in terms of its cost and selling price relationship and turnover;
- applying the RIM to transactions over a period of time that include different rates of gross profit, such as those relating to seasonal merchandise;
- inaccurate estimates of inventory shrinkage between the date of the last physical inventory at a store and the financial statement date; and
- inaccurate estimates of LCM and/or LIFO reserves.

Factors that reduce potential distortion include the use of historical experience in estimating the shrink provision (see discussion below) and an annual LIFO analysis whereby all SKUs are considered in the index formulation. An actual valuation of inventory under the LIFO method is made at the end of each year based on the inventory levels and costs at that time. Accordingly, interim LIFO calculations are based on management’s estimates of expected year-end inventory levels, sales for the year and the expected rate of inflation/deflation for the year and are thus subject to adjustment in the final year-end LIFO inventory valuation. We also perform interim inventory analysis for determining obsolete inventory. Our policy is to write

down inventory to an LCM value based on various management assumptions including estimated markdowns and sales required to liquidate such inventory in future periods. Inventory is reviewed on a quarterly basis and adjusted to reflect write-downs as appropriate.

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

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

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

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

Under accounting standards for goodwill and other intangible assets, we are required to test such assets with indefinite lives for impairment annually, or more frequently if impairment indicators occur. The goodwill impairment test is a two-step process that requires management to make judgments in determining what assumptions to use in the calculation. The first step of the process consists of estimating the fair value of our reporting unit based on valuation techniques (including a discounted cash flow model using revenue and profit forecasts) and comparing that

estimated fair value with the recorded carrying value, which includes goodwill. If the estimated fair value is less than the carrying value, a second step is performed to compute the amount of the impairment by determining an “implied fair value” of goodwill. The determination of the implied fair value of goodwill would require us to allocate the estimated fair value of our reporting unit to its assets and liabilities. Any unallocated fair value represents the implied fair value of goodwill, which would be compared to its corresponding carrying value.

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

We completed testing on our goodwill and indefinite lived trade name intangible assets during the third quarter of 2011. No indicators of impairment were evident and no adjustment to these assets was required. We are not currently projecting a decline in cash flows that could be expected to have an adverse effect such as a violation of debt covenants or future impairment charges.

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

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

Insurance Liabilities . We retain a significant portion of the risk for our workers’ compensation, employee health, property loss, automobile and general liability. These represent significant costs primarily due to the large employee base and number of stores. Provisions are made to these liabilities on an undiscounted basis based on actual claim data and estimates of

incurred but not reported claims developed using actuarial methodologies based on historical claim trends, which have been and are anticipated to continue to be materially accurate. If future claim trends deviate from recent historical patterns, we may be required to record additional expenses or expense reductions, which could be material to our future financial results.

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

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

Lease Accounting and Excess Facilities . Many of our stores are subject to build-to-suit arrangements with landlords, which typically carry a primary lease term of 10-15 years with multiple renewal options. We also have stores subject to shorter-term leases (usually with initial or current terms of 3 to 5 years), and many of these leases have multiple renewal options. As of January 28, 2011, approximately 35% of our stores had provisions for contingent rentals based upon a percentage of defined sales volume. We recognize contingent rental expense when the achievement of specified sales targets is considered probable. We recognize rent expense over the term of the lease. We record minimum rental expense on a straight-line basis over the base, non-cancelable lease term commencing on the date that we take physical possession of the property from the landlord, which normally includes a period prior to store opening to make necessary leasehold improvements and install store fixtures. When a lease contains a predetermined fixed escalation of the minimum rent, we recognize the related rent expense on a straight-line basis and record the difference between the recognized rental expense and the amounts payable under the lease as deferred rent. Tenant allowances, to the extent received, are recorded as deferred incentive rent and amortized as a reduction to rent expense over the term of the lease. We reflect as a liability any difference between the calculated expense and the amounts

actually paid. Improvements of leased properties are amortized over the shorter of the life of the applicable lease term or the estimated useful life of the asset.

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

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

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

Our fair value measurements are primarily associated with our derivative financial instruments, intangible assets, property and equipment, and to a lesser degree our investments. The values of our derivative financial instruments are determined using widely accepted

valuation techniques, including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves. The fair values of interest rate swaps are determined using the market standard methodology of netting the discounted future fixed cash payments (or receipts) and the discounted expected variable cash receipts (or payments). The variable cash receipts (or payments) are based on an expectation of future interest rates (forward curves) derived from observable market interest rate curves. In recent years, these methodologies have produced materially accurate valuations.

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

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

There have been no material changes to the disclosures relating to this item from those set forth in our Annual Report on Form 10-K for the fiscal year ended January 28, 2011.

ITEM 4. CONTROLS AND PROCEDURES.

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

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

PART II—OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

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

ITEM 1A. RISK FACTORS.

There have been no material changes to the disclosures relating to this item from those set forth in our Annual Report on Form 10-K for the fiscal year ended January 28, 2011.

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

The following table contains information regarding purchases of our common stock made during the quarter ended October 28, 2011 by or on behalf of Dollar General or any “affiliated purchaser,” as defined by Rule 10b-18(a)(3) of the Securities Exchange Act of 1934:

Period	Total Number of Shares Purchased (a)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
07/30/11-08/31/11	609	\$ 24.92	—	—
09/01/11-09/30/11	—	\$ —	—	—
10/01/11-10/28/11	—	\$ —	—	—
Total	609	\$ 24.92	—	—

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

ITEM 5. OTHER INFORMATION

See the disclosure under “Liquidity and Capital Resources—Common Stock Repurchase Program” set forth above under Item 2—Management’s Discussion and Analysis of Financial Condition and Results of Operations, which disclosure is incorporated by reference as if fully set forth herein. The Share Repurchase Agreement entered into between Buck Holdings, L.P., and Dollar General Corporation is attached as Exhibit 10.3 hereto.

On November 30, 2011, the Company entered into a new employment agreement (the “Employment Agreement”) with Todd Vasos, Executive Vice President, Division President & Chief Merchandising Officer, effective December 1, 2011. The initial term of the Employment Agreement extends until March 31, 2015 unless earlier terminated in accordance with the provisions of the Employment Agreement. The Employment Agreement replaces the employment agreement that was in place between the Company and Mr. Vasos which was due to expire on December 1, 2011.

Upon the end of the initial term, the Employment Agreement will be automatically extended from month to month, for up to six months, unless the Company gives written notice within the time frame set forth in the Employment Agreement of the intent not to extend the term, or unless the Company replaces the Employment Agreement with a new agreement or, in writing, extends or renews the term for a period that is longer than six months from the expiration of the original term.

The Employment Agreement provides for a minimum annual base salary of \$ 639,188, and provides that incentive compensation for Mr. Vasos shall be determined and paid under the Company's annual bonus program for officers at Mr. Vasos' applicable grade level, as it may be amended from time to time, based on criteria established by the Board, its Compensation Committee and/or the CEO, as applicable, in accordance with the terms and conditions of the annual bonus program for officers. The Employment Agreement also provides that Mr. Vasos shall be entitled to receive such other executive perquisites, fringe and other benefits as are provided to officers at the same grade level under any of the Company's plans and/or programs in effect from time to time, that Mr. Vasos (and, where applicable, his eligible dependents) shall be eligible to participate in those various Company welfare benefit plans, practices and policies in place during the term of the Employment Agreement (including, without limitation, medical, pharmacy, dental, vision, disability, employee life, accidental death and travel accident insurance plans and other programs, if any) to the extent allowed under and in accordance with the terms of those plans, and that Mr. Vasos shall be eligible to participate (with limited exceptions), pursuant to their terms, in any other benefit plans the Company offers to similarly-situated officers or other employees from time to time during the term of the Employment Agreement.

The Employment Agreement specifies the payments and benefits to be provided if Mr. Vasos' employment is terminated voluntarily or involuntarily under various scenarios described in the Employment Agreement, including death, disability, termination with or without cause, and termination with or without good reason. The Employment Agreement also provides for various customary business protection provisions, including non-competition, non-solicitation, non-interference, non-disparagement, and confidentiality and non-disclosure provisions.

Prior to March 31, 2015, if Mr. Vasos becomes entitled to receive payments and benefits (such payments and benefits, the "Total Payments") that are considered "parachute payments" under Section 280G of the Internal Revenue Code of 1986, as amended (the "Code") and such Total Payments are therefore subject to the excise tax imposed by Section 4999 of the Code (such tax, an "Excise Tax"), the Employment Agreement provides that Mr. Vasos will be entitled to receive a gross-up payment in an amount such that, after paying all taxes (including the excise tax), Mr. Vasos retains an amount of the gross-up payment equal to the excise tax (such final amount, the "Take Home Amount"). However, if (i) the Total Payments can be reduced to an amount which maximizes the present value of the Total Payments, but would not trigger the imposition of the Excise Tax (such amount, the "Reduced Amount") and (ii) the net after-tax benefit to Mr. Vasos of the Take Home Amount is less than \$50,000 greater than the net after-tax benefit of the Reduced Amount, Mr. Vasos will not receive the gross-up payment and will instead receive the Reduced Amount. During any term of the Employment Agreement after March 31, 2015, if any Total Payments that become due to Mr. Vasos constitute "parachute

payments” and would be subject to an Excise Tax, Mr. Vasos will not receive a gross-up payment and such Total Payments will instead be reduced such that no Excise Tax would be imposed.

The foregoing description of the terms of the Employment Agreement is not a complete summary of such terms, and reference is made to the complete text of the Employment Agreement which is filed herewith as Exhibit 10.2 and incorporated by reference herein.

ITEM 6. EXHIBITS.

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

CAUTIONARY DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

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

Forward-looking statements are subject to risks and uncertainties that may change at any time, so our actual results may differ materially from those that we expected. We derive many of these statements from our operating budgets and forecasts, which are based on many detailed assumptions that we believe are reasonable. However, it is very difficult to predict the effect of known factors, and we cannot anticipate all factors that could affect our actual results. Important factors that could cause actual results to differ materially from the expectations expressed in our forward-looking statements include, without limitation:

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

- the impact of changes in, or noncompliance with, governmental laws and regulations (including, but not limited to, product safety, healthcare and unionization) and developments in or outcomes of legal proceedings, investigations or audits;
- disruptions, unanticipated expenses or operational failures in our supply chain including, without limitation, a decrease in transportation capacity for overseas shipments or work stoppages or other labor disruptions that could impede our receipt of imported merchandise;
- delays or unanticipated expenses in constructing new distribution centers;
- damage or interruption to our information systems;
- changes in the competitive environment in our industry and the markets where we operate;
- natural disasters, unusual weather conditions, pandemic outbreaks, boycotts, war and geo-political events;
- the incurrence of material uninsured losses, excessive insurance costs, or accident costs;
- our failure to protect our brand name;
- our loss of key personnel or our inability to hire additional qualified personnel;
- interest rate and currency exchange fluctuations;
- a data security breach;
- our failure to maintain effective internal controls;
- changes to income tax expense due to changes in or interpretation of tax laws, or as a result of federal or state income tax examinations;
- changes to or new accounting guidance, such as changes to lease accounting guidance or a requirement to convert to international financial reporting standards;
- factors disclosed under “Risk Factors” in Part I, Item 1A of our Form 10-K for the fiscal year ended January 28, 2011; and
- factors disclosed elsewhere in this document (including, without limitation, in conjunction with the forward-looking statements themselves and under the heading “Critical Accounting Policies and Estimates”) and other factors.

All forward-looking statements are qualified in their entirety by these and other cautionary statements that we make from time to time in our other SEC filings and public communications. You should evaluate forward-looking statements in the context of these risks and uncertainties. These factors may not contain all of the material factors that are important to you. We cannot assure you that we will realize the results or developments we anticipate or, even if substantially realized, that they will result in the consequences or affect us or our operations in the way we expect. The forward-looking statements included in this report are made only as of the date hereof. We undertake no obligation to publicly update or revise any forward-looking statement as a result of new information, future events or otherwise, except as otherwise required by law.

SIGNATURES

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

DOLLAR GENERAL CORPORATION

Date: December 5, 2011

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

EXHIBIT INDEX

10.1	Summary of Non-Employee Director Compensation as amended on August 24, 2011 (incorporated by reference to Exhibit 10.3 to Dollar General Corporation's Quarterly Report on Form 10-Q for the quarter ended July 29, 2011, filed with the SEC on August 30, 2011 (file no. 001-11421))
10.2	Employment Agreement effective December 1, 2011 by and between Dollar General Corporation and Todd J. Vasos
10.3	Share Repurchase Agreement dated as of December 4, 2011 by and among Buck Holdings, L.P. and Dollar General Corporation
15	Letter re unaudited interim financial information
31	Certifications of CEO and CFO under Exchange Act Rule 13a-14(a)
32	Certifications of CEO and CFO under 18 U.S.C. 1350
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (“Agreement”), effective December 1, 2011 (“Effective Date”), is made and entered into by and between **DOLLAR GENERAL CORPORATION** (the “Company”), and Todd J. Vasos (“Employee”).

WITNESSETH:

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:

- 1. Employment**. Subject to the terms and conditions of this Agreement, the Company agrees to employ Employee as Executive Vice President, Division President & Chief Merchandising Officer of the Company.
 - 2. Term**. The term of this Agreement shall be until March 31, 2015 (“Term”), unless otherwise terminated pursuant to Sections 7, 8, 9, 10 or 11 hereof. The Term shall be automatically extended from month to month, for up to six (6) months, unless the Company gives written notice to Employee at least one month prior to the expiration of the original or any extended Term that no extension or further extension, as applicable, will occur or unless the Company replaces this Agreement with a new agreement or, in writing, extends or renews the Term of this Agreement for a period that is longer than six months from the expiration of the original Term. Unless otherwise noted, all references to the “Term” shall be deemed to refer to the original Term and any extension or renewal thereof.
 - 3. Position, Duties and Administrative Support**.
 - a. Position. Employee shall perform the duties of the position noted in Section 1 above and shall perform such other duties and responsibilities as Employee’s supervisor or the Company’s CEO may reasonably direct.
 - b. Full-Time Efforts. Employee shall perform and discharge faithfully and diligently such duties and responsibilities and shall devote Employee’s full-time efforts to the business and affairs of Company. Employee agrees to promote the best interests of the Company and to take no action that is likely to damage the public image or reputation of the Company, its subsidiaries or its affiliates.
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c. Administrative Support. Employee shall be provided with office space and administrative support.

d. No Interference With Duties. Employee shall not devote time to other activities which would inhibit or otherwise interfere with the proper performance of Employee's duties and shall not be directly or indirectly concerned or interested in any other business occupation, activity or interest 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 (subject to any limitations in the Company's Code of Business Conduct and Ethics). 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, without the express approval of the CEO and the Board (or an authorized Board committee). Under no circumstances may Employee serve on more than one other board of a for-profit company.

4. Work Standard. Employee agrees to comply with all terms and conditions set forth in this Agreement, as well as all applicable Company work policies, procedures and rules. Employee also agrees to comply with all federal, state and local statutes, regulations and public ordinances governing Employee's performance hereunder.

5. Compensation .

a. Base Salary. Subject to the terms and conditions set forth in this Agreement, the Company shall pay Employee, and Employee shall accept, an annual base salary ("Base Salary") of no less than Six Hundred Thirty-Nine Thousand One Hundred Eighty-Eight Dollars (\$639,188.00). The Base Salary shall be paid in accordance with Company's normal payroll practices (but no less frequently than monthly) and may be increased from time to time at the sole discretion of the Company.

b. Incentive Bonus. Employee's incentive compensation for the Term of this Agreement shall be determined under the Company's annual bonus program for officers at Employee's grade level, as it may be amended from time to time. The actual bonus paid pursuant to this Section 5(b), if any, shall be based on criteria established by the Board, its Compensation Committee and/or the CEO, as applicable, in accordance with the terms and conditions of the annual bonus program for officers. Any bonus payments due hereunder shall be payable to the Employee no later than 2 1/2 months after the end of the Company's taxable year or the calendar year, whichever is later, in which Employee is first vested in

such bonus payments for purposes of Section 409A of the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code").

c. **Vacation**. Employee shall be entitled to three weeks paid vacation time within the first year of employment. After five years of employment, Employee shall be entitled to four weeks paid vacation. Vacation time is granted on the anniversary of Employee's hire date each year. Any available but unused vacation as of the annual anniversary of employment date or at Employee's termination date shall be forfeited.

d. **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 procedures. In no event will any such reimbursement be made later than the last day of Employee's taxable year following Employee's taxable year in which Employee incurs the reimbursable expense.

e. **Perquisites**. Employee shall be entitled to receive such other executive perquisites, fringe and other benefits as are provided to officers at the same grade level under any of the Company's plans and/or programs in effect from time to time.

6. Benefits. During the Term, Employee (and, where applicable, Employee's eligible dependents) shall be eligible to participate in those various Company welfare benefit plans, practices and policies in place during the Term (including, without limitation, medical, pharmacy, dental, vision, disability, employee life, accidental death and travel accident insurance plans and other programs, if any) to the extent allowed under and in accordance with the terms of those plans. In addition, Employee shall be eligible to participate, pursuant to their terms, in any other benefit plans offered by the Company to similarly-situated officers or other employees from time to time during the Term (excluding plans applicable solely to certain officers of the Company in accordance with the express terms of such plans). Collectively the plans and arrangements described in this Section 6, as they may be amended or modified in accordance with their terms, are hereinafter referred to as the "Benefits Plans." Notwithstanding the above, Employee understands and acknowledges that Employee is not eligible for benefits under any other severance plan, program, or policy maintained by the Company, if any exists, and that the only severance benefits Employee is entitled to are set forth in this Agreement.

7. Termination for Cause. This Agreement is not intended to change the at-will nature of Employee's employment with Company, and it may be terminated at any time by either party, with or without cause. If this Agreement and Employee's employment are terminated by Company

for "Cause" (Termination for Cause) as that term is defined below, it will be without any liability owing to Employee or Employee's dependents and beneficiaries under this Agreement, (recognizing, however, that benefits covered by or owed under any other plan or agreement covering Employee shall be governed by the terms of such plan or agreement). Any one of the following conditions or Employee conduct shall constitute "Cause":

- a. Any act involving fraud or dishonesty, or any material act of misconduct relating to Employee's performance of his or her duties hereunder;
- b. Any material breach of any SEC or other law or regulation or any Company policy governing trading or dealing with stocks, securities, public debt instruments, bonds, or investments and the like or with inappropriate disclosure or "tipping" relating to any stock, security, public debt instrument, bond or investment;
- c. Any material violation of the Company's Code of Business Conduct and Ethics (or the equivalent code in place at the time);
- d. Other than as required by law, the carrying out of any activity or the making of any public 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 public contempt or ridicule;
- e. Attendance at work in a state of intoxication or being found with any drug or substance possession of which would amount to a criminal offense;
- f. Assault or other act of violence;
- g. Conviction of or plea of guilty or nolo contendere to any felony whatsoever or any misdemeanor that would preclude employment under the Company's hiring policy; or
- h. Willful or repeated refusal or failure substantially to perform Employee's material obligations and duties hereunder or those reasonably directed by Employee's supervisor, the CEO and/or the Board (except in connection with a Disability).

A termination for Cause shall be effective when the Company has given Employee written notice of its intention to terminate for Cause, describing those acts or omissions that are believed to constitute Cause, and has given Employee ten days to respond.

8. Termination upon Death. Notwithstanding anything herein to the contrary, this Agreement shall terminate immediately upon Employee's death, and the Company shall have no further liability to Employee or Employee's dependents and 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.

9. Disability. If a Disability (as defined below) of Employee occurs during the Term, unless otherwise prohibited by law, the Company may notify Employee of the Company's intention to terminate Employee's employment. In that event, employment shall terminate effective on the termination date provided in such notice of termination (the "Disability Effective Date"), and this Agreement shall terminate without further liability to Employee, Employee's dependents and beneficiaries, 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. 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, if any; or

b. Employee's inability to perform the duties under this Agreement in accordance with the Company's expectations because of a 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 longer than ninety (90) consecutive days. Under this Section 9(b), unless otherwise required by law, the existence of a Disability shall be determined by the Company, only upon receipt of a written medical opinion from a qualified physician selected by or acceptable to the Company. In this circumstance, to the extent permitted by law, Employee shall, if reasonably requested by the Company, submit to a physical examination by that qualified physician. Nothing in this Section 9 (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. Employee's Termination of Employment.

a. Notwithstanding anything herein to the contrary, Employee may terminate employment and this Agreement at any time, for no reason, with thirty (30) days written notice to Company (and in the event that Employee is providing notice of termination for Good Reason, Employee must provide such notice within 30 days after the event purported to give rise to Employee's claim for Good Reason first occurs). In such event, Employee shall not be entitled to those payments and benefits listed in Sections 11 or 12 below unless Employee terminates employment for Good Reason, as defined below, or unless Section 11(a)(iii) applies.

b. Upon any termination of employment, Employee shall be entitled to any earned but unpaid 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. Notwithstanding anything to the contrary herein, such unpaid Base Salary shall be paid to Employee as soon as practicable after the effective date of termination in accordance with the Company's usual payroll practices (not less frequently than monthly); provided, however, that if payment at such time would result in a prohibited acceleration under Section 409A of the Internal Revenue Code, then such amount shall be paid at the time the amount would otherwise have been paid absent such prohibited acceleration.

c. Good Reason shall mean any of the following actions taken by the Company:

(i) A reduction by the Company in Employee's Base Salary or target bonus level;

(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 95 percent of all officers of the Company or 100 percent of officers at the same grade level;

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

(iv) Without Employee's written consent, the assignment to Employee by the Company of duties inconsistent with, or the significant reduction of the title, powers and functions associated with, Employee's position, title or office as described in Section 3 above, unless such action is the result of a restructuring or realignment of duties and responsibilities by the Company, for business reasons, that leaves Employee at the same rate of Base Salary, annual target bonus opportunity, and officer level (i.e., Executive Vice President, etc.) and with a similar level of responsibility, or unless such action is the result of Employee's failure to meet pre-established and objective performance criteria;

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

(vi) The failure of any successor (whether direct or indirect, by purchase, merger, assignment, 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, Disability or Termination for Cause or Employee's termination for *any* reason other than Good Reason as defined above.

d. Prior to Employee being entitled to the payments or benefits described in Sections 11 or 12 below, the Company shall have the opportunity to cure any claimed event of Good Reason within thirty (30) days after receiving written notice from Employee specifying the same.

11. Termination without Cause or by Employee for Good Reason.

a. The continuation of Base Salary and other payments and benefits described in Section 11(b) shall be triggered *only* upon one or more of the following circumstances:

(i) The Company terminates Employee (as it may do at any time) without Cause; it being understood that termination by death or Disability does not constitute termination without Cause;

(ii) Employee terminates for Good Reason;

(iii) The Company fails to offer to renew, extend or replace this Agreement before, at, or within six (6) months after, the end of its original three-year Term (or any term provided for in a written renewal or extension of the original Term), and Employee resigns from employment with the Company within sixty (60) days after such failure, unless such failure is accompanied by a mutually agreeable severance arrangement between the Company and Employee or is the result of Employee's retirement or other termination from the Company other than for Good Reason notwithstanding the Company's offer to renew, extend or replace this Agreement.

b. In the event of one of the triggers referenced in Sections 11(a)(i) through (iii) above, then, on the sixtieth (60th) day after Employee's termination of employment, but contingent upon the execution and effectiveness of the Release attached hereto and made a part hereof, and subject to Section 22(n) below, Employee shall be entitled to the following:

(i) Continuation of Employee's Base Salary as of the date immediately preceding the termination (or, if the termination of employment is for Good Reason due to the reduction of Employee's Base Salary, then such rate of Base Salary as in effect immediately prior to such reduction) for 24 months, payable in accordance with the Company's normal payroll cycle and procedures (but not less frequently than monthly) with a lump sum payment on the sixtieth (60th) day after Employee's termination of the amounts Employee would otherwise have received during the sixty (60) days after Employee's termination had the payments begun immediately after Employee's termination of employment. Notwithstanding anything to the contrary in this Agreement, the amount of any payment or entitlement to payment of the aforesaid Base Salary continuation shall be forfeited or, if paid, subject to recovery by the Company in the event and to the extent of any base salary earned by the Employee as a result of subsequent employment during the 24 months after Employee's termination of employment. In no event shall Employee be obligated to seek other employment or take any other action by way of mitigation of such amounts payable to Employee and, except as provided in the preceding sentence, such amounts shall not be reduced whether or not the Employee obtains other employment.

(ii) A lump sum payment of two times the amount of the average percentage of target bonus paid or to be paid to employees at the same job grade level of Employee (if any) under the annual bonus programs for officers in respect of the Company's two fiscal years immediately preceding the fiscal year in which the termination date occurs.

(iii) A lump sum payment in an amount equal to two times the annual contribution that would have been made by the Company in respect of the plan year in which such termination of employment occurs for Employee's participation in the Company's medical, pharmacy, dental and vision benefits programs.

(iv) Reasonable outplacement services, as determined and provided by the Company, for one year or until other employment is secured, whichever comes first.

All payments and benefits otherwise provided to Employee pursuant to this Section 11 shall be forfeited if a copy of the Release attached hereto executed by Employee is not provided to the Company within twenty-one (21) days after Employee's termination date (unless

otherwise required by law) or if the Release is revoked; and no payment or benefit hereunder shall be provided to Employee prior to the Company's receipt of the Release and the expiration of the period of revocation provided in the Release. For the avoidance of doubt, this Section 11(b) shall not permit the Company to delay the provision of any payments or benefits beyond the 60th day after Employee's termination date, and consistent with applicable law, the only deferral thereof may be made pursuant to Section 22(n) below in a manner that is compliant with applicable law.

c. In the event that there is a material breach by Employee of any continuing obligations under this Agreement or the Release after termination of employment, any unpaid amounts under this Section 11 shall be forfeited and Company shall retain any other rights available to it under law or equity. Any payments or reimbursements under this Section 11 shall not be deemed the continuation of Employee's employment for any purpose. Except as specifically enumerated in the Release, the Company's payment obligations under this Section 11 will not negate or reduce (i) any amounts otherwise due but not yet paid to Employee by the Company, or (ii) any other amounts payable to Employee outside this Agreement, or (iii) those benefits owed under any other plan or agreement covering Employee which shall be governed by the terms of such plan or agreement. The Company may, at any time and in its sole discretion, make a lump-sum payment of any or all amounts, or any or all remaining amounts, due to Employee under this Section 11 if, or to the extent, the payment is not subject to Section 409A of the Internal Revenue Code.

12. Effect of 280G.

a. Subject to Section 22(n) and contingent upon Employee's timely execution and the effectiveness of the Release attached hereto and made a part hereof as provided in Section 11 hereof, if, prior to, or on March 31, 2015, any payments and benefits become payable 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 Section 12 (such payments and benefits, the "Payments") and such Payments constitute "parachute payments" within the meaning of Section 280G of the Internal Revenue Code ("Code Section 280G") so that Employee would be subject to the excise tax imposed by Section 4999 of the Internal Revenue Code or any interest or penalties with respect to such tax (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 Employee pays all taxes (including any

interest or penalties imposed with respect to such taxes), including, without limitation, any Excise Tax, income tax or other tax (and any interest and penalties imposed with respect thereto), Employee retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Payments. Notwithstanding the foregoing, if the Net After-tax Benefit to Employee resulting from receiving the Gross-Up Payment is less than \$50,000 greater than the Net After-tax Benefit to Employee resulting from having the Payments reduced to the Reduced Amount, then no Gross-Up Payment shall be made and the Payments shall be reduced to the Reduced Amount. Unless Employee and the Company shall otherwise agree (provided such agreement does not cause any payment or benefit hereunder which is deferred compensation covered by Section 409A of the Internal Revenue Code to be in non-compliance with Section 409A of the Internal Revenue Code), in the event the Payments are to be reduced, the Company shall reduce or eliminate the payments or benefits to Employee by first reducing or eliminating those payments or benefits which are not payable in cash and then by reducing or eliminating cash payments, in each case in reverse order beginning with payments or benefits which are to be paid the farthest in time from the date of the “change in ownership or control” (within the meaning of Code Section 280G) (a “Change in Control”). Any reduction pursuant to the preceding sentence shall take precedence over the provisions of any other plan, arrangement or agreement governing Employee’s rights and entitlements to any benefits or compensation. For purposes hereof:

(i) “Net After-tax Benefit” shall mean the Present Value of a Payment net of all taxes (including any Excise Tax imposed on Employee) with respect thereto, determined by applying the highest marginal rate(s) applicable to an individual for Employee’s taxable year in which the Change in Control occurs.

(ii) “Present Value” shall mean such value determined in accordance with Section 280G(d)(4) of the Internal Revenue Code.

(iii) “Reduced Amount” shall be an amount expressed as a Present Value which maximizes the aggregate Present Value of Payments without causing any Payment to be subject to excise tax under Section 4999 of the Internal Revenue Code or the deduction limitation of Section 280G of the Internal Revenue Code.

b. All determinations required to be made under this Section 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") or, at Company's discretion, by a recognized compensation consulting firm (the "Consulting Firm") which shall be engaged by the Company prior to the time of the first Payment to Employee. The Accounting Firm or Consulting Firm selected shall not be serving as accountant or auditor for the individual, entity or group effecting the Change in Control. The Accounting Firm or Consulting 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 or Consulting Firm's engagement to make the required calculations or (ii) the date the Accounting Firm or Consulting Firm obtains all information needed to make the required calculation. Any determination by the Accounting Firm or Consulting Firm shall be binding upon the Company and Employee. All fees and expenses of the Accounting Firm or Consulting Firm shall be borne solely by the Company.

c. Any Gross-Up Payment, as determined pursuant to this Section 12, shall be paid by the Company to Employee within five (5) days of the receipt of the Accounting Firm's or Consulting Firm's determination if the Gross-Up Payment is then required to satisfy an assessment or other current demand for payment made of Employee by federal or state taxing authorities. Gross-Up Payments due at a later date shall be paid to Employee no later than fourteen (14) days prior to the date that 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.

d. As a result of the uncertainty in the application of Section 4999 of the Internal Revenue Code at the time of the initial determination by the Accounting Firm or Consulting 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 Firm shall determine the amount of the Underpayment that has occurred and any such Underpayment shall be promptly paid by the Company (or any successor or assign) 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 Employee, Employee shall refund the excess portion to the Company but only to the extent that 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 Employee, and, if requested by the Company, Employee shall reasonably cooperate in such refund effort.

e. All Gross-Up Payments to be made under this Section 12 (other than the Underpayment described in Section 12(d)) must be made no later than the end of the Employee's taxable year next following the Employee's taxable year in which the applicable related taxes are remitted. Any right to reimbursement incurred due to a tax audit or litigation addressing the existence or amount of a tax liability must be made no later than the end of the Employee's taxable year following the Employee's taxable year in which the taxes that are the subject of the audit or litigation are remitted to the taxing authorities or, where no such taxes are remitted, the end of the Employee's taxable year following the year in which the audit is completed or there is a final and non-appealable settlement or the resolution of the litigation.

f. If, during any Term of this Agreement which extends beyond March 31, 2015, any Payments constituting "parachute payments", within the meaning of Code Section 280G, become payable to Employee, no Gross-Up Payment shall be made to Employee and such Payments shall instead be limited to the Capped Amount. The "Capped Amount" shall be the amount otherwise payable, reduced in such amount and to such extent so that no amount of the Payments would constitute an "excess parachute payment" under Code Section 280G. Notwithstanding the preceding sentence but contingent upon Employee's timely execution and the effectiveness of the Release attached hereto and made a part hereof as provided in Section 11 hereof, the Employee's Payments shall not be limited to the Capped Amount if it is determined that Employee would receive at least \$50,000 in greater after-tax proceeds if no such reduction is made. The calculation of the Capped Amount and all other determinations relating to the applicability of Code Section 280G (and the rules and regulations promulgated thereunder) to the payments contemplated by this Agreement shall be made by the tax department of an independent public accounting firm, or, at Company's discretion, by a compensation consulting firm, and such determinations shall be binding upon Employee and the Company. Unless Employee and the Company shall otherwise agree (provided such agreement does not cause any payment or benefit hereunder which is deferred compensation covered by Code Section 409A to be in non-compliance with Code Section 409A), in the event the Payments are to be reduced, the Company shall reduce or eliminate the payments or benefits to Employee by first reducing or eliminating those payments or

benefits which are not payable in cash and then by reducing or eliminating cash payments, in each case in reverse order beginning with payments or benefits which are to be paid the farthest in time from the date of the Change in Control. Any reduction pursuant to the preceding sentence shall take precedence over the provisions of any other plan, arrangement or agreement governing Employee's rights and entitlements to any benefits or compensation.

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

14. Confidentiality and Legal Process . Employee agrees to keep the proprietary terms, of this Agreement confidential and to refrain from disclosing any information concerning this Agreement to anyone other than Employee's immediate family and personal agents or advisors. Notwithstanding the foregoing, nothing in this Agreement is intended to prohibit Employee or the Company from performing any duty or obligation that shall arise as a matter of law. Specifically, Employee and the Company 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 or the Company's right and ability to provide information to any federal, state or local agency in response or adherence to the lawful exercise of such agency's authority.

15. Business Protection Provision Definitions .

a. Preamble . As a material inducement to the Company to enter into this Agreement, and in recognition of the valuable experience, knowledge and proprietary information Employee has gained or will gain while employed, Employee agrees to abide by and adhere to the business protection provisions in Sections 15, 16, 17, 18 and 19 herein.

b. Definitions . For purposes of Sections 15, 16, 17, 18, 19 and 20 herein:

(i) "Competitive Position" shall mean any employment, consulting, advisory, directorship, agency, promotional or independent contractor arrangement between Employee and (x) any person or Entity engaged wholly or in material part in the business in which the Company is engaged (i.e., the discount consumable basic or general merchandise retail business), including but not limited to such other similar businesses as Wal-Mart, Sam's, Target, Costco, K-Mart, Big Lots, BJs Wholesale, Walgreen's, Rite-Aid, CVS, Family Dollar Stores, Fred's, the 99 Cents Stores, Casey's General Stores, Inc., Circle K, 7-11 Stores, Pantry, Inc. and Dollar Tree

Stores, or (y) any person or Entity then attempting or planning to enter the discount consumable basics retail business, whereby Employee is required to perform services on behalf of or for the benefit of such person or Entity which are substantially similar to the services Employee provided or directed at any time 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 which 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 Employee’s termination date.

(v) “Territory” shall include individually and as a total area those states in the United States in which the Company maintains stores at Employee’s termination date or those states in which the Company has specific and demonstrable plans to open stores within six months of 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 while employed by the Company.

16. Nondisclosure: Ownership of Proprietary Property .

a. In recognition of the Company's need to protect its legitimate business interests, Employee hereby covenants and agrees that, for the Term and thereafter (as described below), Employee shall regard and treat Trade Secrets and 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 Trade Secrets or Confidential Information to any person or Entity for any purpose other than in accordance with Employee's duties under this Agreement or as required by applicable law. This provision shall apply to each item constituting a Trade Secret at all times it remains a "trade secret" under applicable law and shall apply to any Confidential Information, during employment and for the Restricted Period thereafter.

b. Employee shall exercise best efforts to ensure the continued confidentiality of all Trade Secrets and Confidential Information and 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 reasonably requested, in the protection 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 . Through employment and thereafter through the Restricted Period, Employee will not, either directly or indirectly, alone or in conjunction with any other person or Entity: actively recruit, solicit, attempt to solicit, induce or attempt to induce any person who is an exempt employee of the Company or any of its subsidiaries or affiliates (or has been within the last 6 months) to leave or cease such employment for any reason whatsoever;

18. Non-Interference with Business Relationships .

a. Employee acknowledges that, in the course of employment, Employee 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 product sales and real estate development programs and relationships, vendor and other service provider relationships and agreements, store layouts and fixtures, and marketing techniques and that those things are unique and original. Employee further acknowledges that the Company has a strong business reason to keep secret information relating to Company's business concepts, ideas, programs, plans and processes, so as not to aid Company's competitors. Accordingly, Employee acknowledges and agrees that the protection outlined in (b) below is necessary and reasonable.

b. During the Restricted Period, Employee will not, on Employee's own behalf or on behalf of any other person or Entity, solicit, contact, call upon, or communicate with any person or entity or any representative of any person or entity who has a business relationship with Company and with whom Employee had contact while employed, if such contact or communication would likely interfere with Company's business relationships or result in an unfair competitive advantage over Company.

19. Agreement Not to Work in Competitive Position . Employee covenants and agrees not to accept, obtain or work in a Competitive Position for a company or entity that operates anywhere within the Territory for the Restricted Period.

20. Acknowledgements Regarding Sections 15 – 19.

a. Employee and Company expressly covenant and agree that the scope, territorial, time and other restrictions contained in Sections 15 through 19 of this Agreement

constitute the most reasonable and equitable restrictions possible to protect the business interests 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 Employee could easily find alternative, commensurate employment or consulting work in Employee's field which would not violate any of the provisions of this Agreement.

b. Employee acknowledges that the compensation and benefits described in Sections 5, 11 and 12 are also in consideration of his/her covenants and agreements contained in Sections 15 through 19 hereof and that a breach by Employee of the obligations contained in Sections 15 through 19 hereof shall forfeit Employee's right to such compensation and benefits.

c. Employee acknowledges and agrees that a breach by Employee of the obligations set forth in Sections 15 through 19 will likely cause Company irreparable injury and that, in such event, the Company shall be entitled to injunctive relief in addition to such other and further relief as may be proper.

d. The parties agree that if, at any time, a court of competent jurisdiction determines that any of the provisions of Section 15 through 19 are unreasonable under Tennessee law as to time or area or both, the Company shall be entitled to enforce this Agreement for such period of time or within such area as may be determined reasonable by such court.

21. Return of Materials. Upon Employee's termination, Employee shall return to the Company all written, electronic, recorded or graphic materials of any kind belonging or relating to the Company or its affiliates, including any originals, copies and abstracts in Employee's possession or control.

22. 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/her 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 this Agreement, specifically, to recover damages by reason of any breach of this Agreement, and to exercise all other rights existing in that party's 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 apply to any court of law or equity of competent jurisdiction for specific performance or injunctive relief 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 Employee may be eligible.

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
100 Mission Ridge
Goodlettsville, TN 37072-2171
Facsimile: (615) 855-5517

If to Employee to: (Last address of Employee known to Company unless otherwise directed in writing by Employee)

(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 by 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 Section.

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, unless specifically provided herein, 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. Section Headings. The Section headings set forth herein are for convenience of reference only and shall not affect the meaning or interpretation of this Agreement whatsoever.

m. 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.

n. Deferred Compensation Omnibus Provision. It is intended that any payment or benefit which is provided pursuant to or in connection with this Agreement which is considered to be deferred compensation subject to Section 409A of the Internal Revenue Code ("Code Section 409A") shall be paid and provided in a manner, and at such time, including without limitation payment and provision of benefits only in connection with the

occurrence of a permissible payment event contained in Code Section 409A (e.g. death, disability, separation from service from the Company and its affiliates as defined for purposes of Code Section 409A), and in such form, as complies with the applicable requirements of Code Section 409A to avoid the unfavorable tax consequences provided therein for non-compliance. In connection with effecting such compliance with Code Section 409A, the following shall apply:

(i) Notwithstanding any other provision of this Agreement, the Company is authorized to amend this Agreement, to void or amend any election made by Employee under this Agreement and/or to delay the payment of any monies and/or provision of any benefits in such manner as may be determined by it to be necessary or appropriate to comply, or to evidence or further evidence required compliance, with Code Section 409A (including any transition or grandfather rules thereunder).

(ii) Neither Employee nor the Company shall take any action to accelerate or delay the payment of any monies and/or provision of any benefits in any manner which would not be in compliance with Code Section 409A (including any transition or grandfather rules thereunder).

(iii) If Employee is a specified employee for purposes of Code Section 409A(a)(2)(B)(i), any payment or provision of benefits in connection with a separation from service payment event (as determined for purposes of Code Section 409A) shall not be made until six months after Employee's separation from service (the "409A Deferral Period"). In the event such payments are otherwise due to be made in installments or periodically during the 409A Deferral Period, the payments which would otherwise have been made in the 409A Deferral Period shall be accumulated and paid in a lump sum as soon as the 409A Deferral Period ends, and the balance of the payments shall be made as otherwise scheduled. In the event benefits are required to be deferred, any such benefit may be provided during the 409A Deferral Period at Employee's expense, with Employee having a right to reimbursement from the Company once the 409A Deferral Period ends, and the balance of the benefits shall be provided as otherwise scheduled.

(iv) If a Change in Control occurs but the Change in Control does not constitute a change in control event within the meaning of Code Section 409A (a "409A Change in Control"), then payment of any amount or provision of any benefit

under this Agreement which is considered to be deferred compensation subject to Code Section 409A shall be deferred until another permissible payment event contained in Code Section 409A occurs (e.g., death, disability, separation from service from the Company and its affiliated companies as defined for purposes of Code Section 409A), including any deferral of payment or provision of benefits for the 409A Deferral Period as provided above.

(v) For purposes of this Agreement, all rights to payments and benefits hereunder shall be treated as rights to receive a series of separate payments and benefits to the fullest extent allowed by Code Section 409A. If under this Agreement, an amount is to be paid in two or more installments, for purposes of Code Section 409A, each installment shall be treated as a separate payment. In the event any payment payable upon termination of employment would be exempt from Code Section 409A under Treas. Reg. § 1.409A-1(b)(9)(iii) but for the amount of such payment, the determination of the payments to Employee that are exempt under such provision shall be made by applying the exemption to payments based on chronological order beginning with the payments paid closest in time on or after such termination of employment.

(vi) For purposes of determining time of (but not entitlement to) payment or provision of deferred compensation under this Agreement under Code Section 409A in connection with a termination of employment, termination of employment will be read to mean a “separation from service” within the meaning of Code Section 409A where it is reasonably anticipated that no further services would be performed after that date or that the level of bona fide services Employee would perform after that date (whether as an employee or independent contractor) would permanently decrease to less than 50% of the average level of bona fide services performed over the immediately preceding thirty-six (36) month period.

(vii) For purposes of this Agreement, a key employee for purposes of Code Section 409A(a)(2)(B)(i) shall be determined on the basis of the applicable 12—month period ending on the specified employee identification date designated by the Company consistently for purposes of this Agreement and similar agreements or, if no such designation is made, based on the default rules and regulations under Code Section 409A(a)(2)(B)(i).

(viii) Notwithstanding any other provision of this Agreement, the Company shall not be liable to Employee if any payment or benefit which is to be provided pursuant to this Agreement and which is considered deferred compensation subject to Code Section 409A otherwise fails to comply with, or be exempt from, the requirements of Code Section 409A.

(ix) With regard to any provision herein that provides for reimbursement of expenses or in-kind benefits that are subject to Code Section 409A, except as permitted by Code Section 409A, (x) the right to reimbursement or in-kind benefits is not subject to liquidation or exchange for another benefit, and (y) the amount of expenses eligible for reimbursement, or in-kind benefits, provided during any taxable year of Employee shall not affect the expenses eligible for reimbursement, or in-kind benefits to be provided, in any other taxable year of Employee, provided that the foregoing clause (y) shall not be violated with regard to expenses reimbursed under any arrangement covered by Code Section 105(b) solely because such expenses are subject to a limit related to the period the arrangement is in effect. All reimbursements shall be reimbursed in accordance with the Company's reimbursement policies but in no event later than Employee's taxable year following Employee's taxable year in which the related expense is incurred.

(x) When, if ever, a payment under this Agreement specifies a payment period with reference to a number of days (e.g., "payment shall be made within ten (10) days following the date of termination"), the actual date of payment within the specified period shall be within the sole discretion of the Company.

IN WITNESS WHEREOF, the parties hereto have executed, or caused their duly authorized representative to execute this Agreement to be effective as of the Effective Date.

Date: 11/30/11

DOLLAR GENERAL CORPORATION

By: /s/ Bob Ravener

Name: Bob Ravener

Title: EVP, Chief People Officer

“EMPLOYEE”

/s/ Todd Vasos
Todd J. Vasos

Date: 11/30/11

Witnessed By:

/s/ Nancy Abbott
[Name of Witness]

Addendum to Employment Agreement with Todd J. Vasos

RELEASE AGREEMENT

THIS RELEASE (“Release”) is made and entered into by and between **GENERAL CORPORATION**, and its successor or assigns (“Company”) (“Employee”) and **DOLLAR**

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 (“Agreement”), in which the form of this Release is incorporated 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 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 Employee has provided and/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. Claims Released Under This Agreement.

In exchange for receiving the payments and benefits described in Section 11 and 12 of the Agreement, Employee hereby voluntarily and irrevocably waives, releases, dismisses with prejudice, and withdraws all claims, complaints, suits or demands of any kind whatsoever (whether known or unknown) which Employee ever had, may have, or now has 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) Employee’s employment or the termination of employment or other events that have 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, the Genetic Information Nondiscrimination Act, the Uniformed Services Employment and Reemployment Rights 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 those benefits owed under any other plan or agreement covering Employee which shall be governed by the terms of such plan or agreement); or
- e. any other claims under state law arising in tort or contract.

2. Claims Not Released Under This Agreement.

In signing this Release, Employee is not releasing any claims that may arise under the terms of this Release or which may arise out of events occurring after the date Employee executes this Release.

Employee also is not releasing claims to benefits that Employee is already entitled to receive under any other plan or agreement covering Employee which shall be governed by the terms of such plan or agreement. However, Employee understands and acknowledges 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. Employee further understands and acknowledges that any continuing obligation under a Company incentive-based plan, program or arrangement or pursuant to any Company policy

or provision regarding recoupment of compensation is not altered by this Release and nothing herein is intended to nor shall be construed otherwise.

Nothing in this Release shall prohibit Employee from engaging in activities required or protected 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 Employee 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 Employee or, if Employee becomes eligible for payments and benefits under Section 11 and 12 but dies before receipt thereof, Employee's spouse or estate, as the case may be, the amounts provided in Section 11 and 12 of the Agreement.

5. Publicity; No Disparaging Statement . Except as otherwise provided in Section 14 of the Agreement, Section 2 of this Release, and as privileged by law, Employee and the Company covenant and agree that they shall not engage in any communications with persons outside the Company 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.

7. Voluntary Execution . Employee warrants, represents and agrees that Employee has been encouraged in writing to seek advice regarding this Release from an attorney and tax advisor prior to signing it; that this Release represents written notice to do so; that Employee has been given the opportunity and sufficient time to seek such advice; and that Employee fully understands the meaning and contents of this Release. Employee further represents and warrants that Employee was not coerced, threatened or otherwise forced to sign this Release, and that Employee's signature appearing hereinafter is voluntary and genuine. EMPLOYEE UNDERSTANDS THAT EMPLOYEE MAY TAKE UP TO TWENTY-ONE (21) DAYS (OR, IN THE CASE OF AN EXIT INCENTIVE OR OTHER EMPLOYMENT TERMINATION PROGRAM OFFERED TO A GROUP OR CLASS OF EMPLOYEES, UP TO FORTY-FIVE (45) DAYS) TO CONSIDER WHETHER TO ENTER INTO THIS RELEASE.

8. Ability to Revoke Agreement . EMPLOYEE UNDERSTANDS THAT THIS RELEASE MAY BE REVOKED BY EMPLOYEE BY NOTIFYING THE COMPANY IN WRITING OF SUCH REVOCATION WITHIN SEVEN (7) DAYS OF EMPLOYEE’S EXECUTION OF THIS RELEASE AND THAT THIS RELEASE IS NOT EFFECTIVE UNTIL THE EXPIRATION OF SUCH SEVEN (7) DAY PERIOD. EMPLOYEE UNDERSTANDS THAT UPON THE EXPIRATION OF SUCH SEVEN (7) DAY PERIOD THIS RELEASE WILL BE BINDING UPON EMPLOYEE AND EMPLOYEE’S 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 _____

SHARE REPURCHASE AGREEMENT

THIS SHARE REPURCHASE AGREEMENT (this “Agreement”) is made and entered into as of this 4th day of December, 2011, by and among BUCK HOLDINGS, L.P., a Delaware limited partnership (the “Seller”), and DOLLAR GENERAL CORPORATION, a Tennessee corporation (the “Purchaser”).

RECITALS

WHEREAS, on November 21, 2011, the Seller delivered a demand registration notice to the Purchaser regarding the offer and sale of shares of Common Stock, par value \$0.875 per share, of the Purchaser (the “Common Stock”), to the public in a registered underwritten public offering, on the terms and conditions set forth in such demand registration notice (the “Secondary Offering”).

WHEREAS, concurrently with and subject to completion of the Secondary Offering, the Seller desires to sell to the Purchaser, and the Purchaser desires to purchase from the Seller, a number of shares of Common Stock having an aggregate value of \$185,000,000, on the terms and conditions set forth in this Agreement (the “Repurchase Transaction”).

WHEREAS, the board of directors of the Purchaser (the “Board”) has approved an ongoing share repurchase program to purchase shares of Common Stock having an aggregate value of up to \$500,000,000, from time to time in the open market or in privately negotiated transactions or a combination thereof as may be approved by the Board.

WHEREAS, the Board formed a special committee of the Board (the “Special Committee”) comprised solely of independent directors to determine whether or not to authorize and to negotiate the terms of the Repurchase Transaction.

WHEREAS, the Special Committee has approved the Repurchase Transaction and related transactions that may be required in connection with the Repurchase Transaction.

NOW, THEREFORE, in consideration of the premises and the agreements set forth below, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

ARTICLE I
SALE AND PURCHASE OF SHARES

Section 1.1 Purchase. Subject to the terms and conditions of this Agreement, at the Closing (as defined below), the Seller shall sell, assign, transfer, convey and deliver to the Purchaser, and the Purchaser shall purchase, acquire and accept from the Seller, the number of shares of Common Stock (the “Shares”) equal to \$185,000,000.00 divided by the Purchase Price (as defined below), rounded down to the nearest whole share. The purchase price for each Share shall be equal to the initial price to the public per share of Common Stock in the Secondary Offering *less* all applicable underwriting discounts and commissions (the “Purchase Price”), in each case as set forth on the cover of the final Prospectus Supplement prepared in connection with the Secondary Offering and filed by the Purchaser pursuant to Rule 424(b) of the rules and regulations of the Securities and Exchange Commission.

Section 1.2 Closing. The closing of the Repurchase Transaction (the “Closing”) will take place at the Purchaser’s offices in Goodlettsville, Tennessee concurrently with the closing of the Secondary Offering and the delivery to the underwriters of the shares purchased in the Secondary

Offering (the “Closing Date”). At the Closing, (a) the Seller shall deliver or cause to be delivered to the Purchaser all of the Seller’s right, title and interest in and to the Shares (including delivery by electronic book entry form through the facilities of the Depository Trust Company), together with all documentation reasonably necessary to transfer to Purchaser right, title and interest in and to the Shares and (b) the Purchaser shall pay to the Seller the aggregate Purchase Price in respect of the Shares in cash by wire transfer of immediately available funds in accordance with the wire transfer instructions provided by the Seller to the Purchaser.

Section 1.3 Conditions. The obligations of each party to consummate the Repurchase Transaction and to effectuate the Closing are subject to the concurrent completion of the Secondary Offering. In addition, the obligations of Purchaser to consummate the Repurchase Transaction and to effectuate the Closing are subject to the satisfaction, in the reasonable judgment of management of the Purchaser, of the following conditions at the time of the Closing: (i) the Repurchase Transaction will be made in accordance with, and not be in contravention of, the terms of applicable federal and state securities laws and regulations or any other applicable laws or regulations; (ii) the Repurchase Transaction will not render the Company unable to pay its debts as they become due in the usual course of business and will not otherwise violate Section 48-16-401(c) of the Tennessee Business Corporation Act; (iii) the Repurchase Transaction is expected to be accretive to the Company’s earnings per share, after giving effect to the Repurchase Transaction and any related transactions; and (iv) the Purchase Price is expected to be less than the underlying intrinsic value of the Shares, calculated based upon expected future cash flows of the Company.

ARTICLE II **REPRESENTATIONS AND WARRANTIES OF THE SELLER**

The Seller hereby makes the following representations and warranties to the Purchaser as to itself, each of which is true and correct on the date hereof and the Closing Date and shall survive the Closing Date.

Section 2.1 Power; Authorization and Enforceability.

(a) Seller is a limited partnership duly formed, validly existing and in good standing under the laws of the State of Delaware and has the power, authority and capacity to execute and deliver this Agreement, to perform its obligations hereunder, and to consummate the transactions contemplated hereby. All consents, orders, approvals and other authorizations, whether governmental, corporate or otherwise, necessary for such execution, delivery and performance by Seller of this Agreement and the transactions contemplated hereby have been obtained and are in full force and effect.

(b) This Agreement has been duly executed and delivered by Seller and constitutes a legal, valid and binding obligation of Seller, enforceable against Seller in accordance with its terms, except as limited by applicable bankruptcy, insolvency, reorganization and other similar laws of general applicability relating to or affecting creditors’ rights and to general equity principles.

Section 2.2 No Conflicts. The execution and delivery of this Agreement by Seller and the consummation by Seller of the transactions contemplated hereby does not and will not constitute or result in a breach, violation or default under (i) any agreement or instrument, whether written or oral, express or implied, to which Seller is a party, (ii) Seller’s limited partnership agreement or (iii) any statute, law, ordinance, decree, order, injunction, rule, directive, judgment or regulation of any court, administrative or regulatory body, governmental authority, arbitrator, mediator or similar body on the part of Seller, except, in each case, as would not reasonably be expected to have a material adverse effect upon the ability of Seller to consummate the Repurchase Transaction and perform its obligations under this Agreement.

Section 2.3 Title to Shares. Seller is the sole legal and beneficial owner of and has good and valid title to the Shares and upon delivery to the Purchaser of the Shares to be sold by Seller to the Purchaser, against payment made pursuant to this Agreement, good and valid title to such Shares, free and clear of any lien, pledge, charge, security interest, mortgage, or other encumbrance or adverse claim, will pass to the Purchaser.

Section 2.4 Sophistication of Seller. Seller (either alone or together with its advisors) has such knowledge and experience in financial or business matters that it is capable of evaluating the merits and risks of the Repurchase Transaction. Seller has had the opportunity to ask questions and receive answers concerning the terms and conditions of the Repurchase Transaction and the Shares and has had full access to such other information concerning the Shares and the Purchaser as it has requested. Seller has received all information that it believes is necessary or appropriate in connection the Repurchase Transaction. Seller is an informed and sophisticated party and has engaged, to the extent Seller deems appropriate, expert advisors experienced in the evaluation of transactions of the type contemplated hereby. Seller acknowledges that Seller has not relied upon any express or implied representations or warranties of any nature made by or on behalf of the Purchaser, whether or not any such representations, warranties or statements were made in writing or orally, except as expressly set forth for the benefit of Seller in this Agreement.

ARTICLE III **REPRESENTATIONS AND WARRANTIES OF THE PURCHASER**

The Purchaser hereby makes the following representations and warranties to the Seller, each of which is true and correct on the date hereof and the Closing Date and shall survive the Closing Date.

Section 3.1 Power; Authorization and Enforceability.

(a) The Purchaser is a corporation duly organized, validly existing and in good standing under the laws of the State of Tennessee and has the power, authority and capacity to execute and deliver this Agreement, to perform the Purchaser's obligations hereunder, and to consummate the transactions contemplated hereby. All consents, orders, approvals and other authorizations, whether governmental, corporate or otherwise, necessary for such execution, delivery and performance by the Purchaser of this Agreement and the transactions contemplated hereby have been obtained and are in full force and effect.

(b) This Agreement has been duly executed and delivered by the Purchaser and constitutes a legal, valid and binding obligation of the Purchaser, enforceable against the Purchaser in accordance with its terms, except as limited by applicable bankruptcy, insolvency, reorganization and other similar laws of general applicability relating to or affecting creditors' rights and to general equity principles.

Section 3.2 No Conflicts. The execution and delivery of this Agreement by the Purchaser and the consummation by the Purchaser of the transactions contemplated hereby does not and will not constitute or result in a breach, violation or default under (i) any agreement or instrument, whether written or oral, express or implied, to which the Purchaser is a party, (ii) the Purchaser's certificate of incorporation or bylaws or (iii) any statute, law, ordinance, decree, order, injunction, rule, directive, judgment or regulation of any court, administrative or regulatory body, governmental authority, arbitrator, mediator or similar body on the part of the Purchaser, except, in each case, as would not reasonably be expected to have a material adverse effect upon the ability of Purchaser to consummate the Repurchase Transaction and perform its obligations under this Agreement.

Section 3.3 Sophistication of Purchaser. Purchaser has such knowledge and experience in financial or business matters that it is capable of evaluating the merits and risks of the Repurchase Transaction. Purchaser is an informed and sophisticated party and has engaged, to the extent Purchaser deems appropriate, expert advisors experienced in the evaluation of transactions of the type contemplated hereby. Purchaser acknowledges that Purchaser has not relied upon any express or implied representations or warranties of any nature made by or on behalf of the Seller, whether or not any such representations, warranties or statements were made in writing or orally, except as expressly set forth for the benefit of Purchaser in this Agreement.

ARTICLE IV
MISCELLANEOUS PROVISIONS

Section 4.1 Notice. All notices, requests, certificates and other communications to any party hereunder shall be in writing and given to each other party hereto and shall be deemed given or made (i) as of the date delivered, if delivered personally, (ii) on the date the delivering party receives confirmation, if delivered by facsimile or electronic mail (iii) three business days after being mailed by registered or certified mail (postage prepaid, return receipt requested); or (iv) one business day after being sent by overnight courier (providing proof of delivery), to the parties at the following addresses (or at such other address for a party as shall be specified in a notice given in accordance with this Section 4.1).

If delivered to the Purchaser, to:

Dollar General Corporation
100 Mission Ridge
Goodlettsville, Tennessee 37072
Attention: Susan Lanigan, Esq.
Facsimile No.: (615) 855-5517

with a copy to:

Baker, Donelson, Bearman, Caldwell & Berkowitz, P.C.
Baker Donelson Center
Suite 800
Nashville, Tennessee 37219
Attention: Sam Chafetz, Esq.
Facsimile No.: (901) 577-0854

if to the Seller, to:

Buck Holdings, L.P.
c/o Kohlberg Kravis Roberts & Co. L.P.
2800 Sand Hill Road

Suite 200
Menlo Park, California 94025
Attention: Michael Calbert
Facsimile No.: (650) 233-6500

with a copy to:

Simpson Thacher & Bartlett LLP
425 Lexington Avenue
New York, NY 10017
Attention: Marni Lerner, Esq.
Facsimile No.: (212) 455-2502

Section 4.2 Entire Agreement. This Agreement and the other documents and agreements executed in connection with the Repurchase Transaction shall constitute the entire agreement between the parties with respect to the subject matter hereof and shall supersede all prior agreements and understandings, both written and oral, between the parties with respect to the subject matter of this Agreement.

Section 4.3 Assignment; Binding Agreement. Neither this Agreement nor any of the rights, interests or obligations hereunder shall be assigned, in whole or in part, by any of the parties without the prior written consent of the other party. Subject to the preceding sentence, this Agreement shall be binding upon, inure to the benefit of, and be enforceable by, the parties hereto and their respective successors and permitted assigns. Any purported assignment not permitted under this Section 4.3 shall be null and void.

Section 4.4 Counterparts. This Agreement may be executed and delivered (including by facsimile transmission) in one or more counterparts, and by the different parties in separate counterparts, each of which when executed and delivered shall be deemed to be an original but all of which taken together shall constitute one and the same agreement. Copies of executed counterparts transmitted by telecopy, telefax or electronic transmission shall be considered original executed counterparts for purposes of this Section 4.4.

Section 4.5 Governing Law; Waiver of Jury Trial. THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF TENNESSEE APPLICABLE TO CONTRACTS MADE AND TO BE PERFORMED IN THE STATE OF TENNESSEE, REGARDLESS OF THE LAWS THAT MIGHT OTHERWISE GOVERN UNDER APPLICABLE PRINCIPLES OF CONFLICTS OF LAWS. EACH OF THE PARTIES TO THIS AGREEMENT IRREVOCABLY WAIVES ANY AND ALL RIGHTS TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATED TO THIS AGREEMENT.

Section 4.6 No Third Party Beneficiaries or Other Rights. This Agreement is for the sole benefit of the parties and their successors and permitted assigns and nothing herein express or implied shall give or shall be construed to confer any legal or equitable rights or remedies to any person other than the parties to this Agreement and such successors and permitted assigns.

Section 4.7 Amendments; Waivers. This Agreement and its terms may not be changed, amended, waived, terminated, augmented, rescinded or discharged (other than in accordance with its terms), in whole or in part, except by a writing executed by the parties hereto.

Section 4.8 Further Assurances. Each party hereto shall use its reasonable best efforts to do and perform or cause to be done and performed all such further acts and things and shall execute and deliver all such other agreements, certificates, instruments, and documents as any other party hereto

reasonably may request in order to carry out the intent and accomplish the purposes of this Agreement and the consummation of the transactions contemplated hereby.

Section 4.9 Severability. In the event any one or more of the provisions contained in this Agreement should be held invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein and therein shall not in any way be affected or impaired thereby. The parties shall endeavor in good faith negotiations to replace the invalid, illegal or unenforceable provisions with valid provisions, the economic effect of which comes as close as possible to that of the invalid, illegal or unenforceable provisions.

Section 4.10 Termination. This Agreement may be terminated and the Repurchase Transaction abandoned at any time prior to the Closing (a) by mutual written consent of each party or (b) by either party if the Secondary Offering has not been completed by December 20, 2011.

(Signatures appear on the next page.)

IN WITNESS WHEREOF, each of the parties hereto has caused this Agreement to be executed as of the date first above written.

THE PURCHASER:

DOLLAR GENERAL CORPORATION

By: /s/ David M. Tehle
Name: David M. Tehle
Title: Executive Vice President, Chief Financial
Officer

[Signature Page to Share Repurchase Agreement]

THE SELLER:

BUCK HOLDINGS, L.P.

By: Buck Holdings, LLC, its general partner

By: /s/ Raj Agarwal

Name: Raj Agarwal

Title: Authorized Person

[Signature Page to Share Repurchase Agreement]

December 5, 2011
The Board of Directors and Shareholders
Dollar General Corporation

We are aware of the incorporation by reference in the Registration Statements (Nos. 333-151047, 333-151049, 333-151655, 333-151661 and 333-163200 on Form S-8 and 333-165799 and 333-165800 on Form S-3) of Dollar General Corporation of our report dated December 5, 2011 relating to the unaudited condensed consolidated interim financial statements of Dollar General Corporation that are included in its Form 10-Q for the quarter ended October 28, 2011.

/s/ Ernst & Young LLP
Nashville, Tennessee

CERTIFICATIONS

I, Richard W. Dreiling, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Dollar General Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 5, 2011

/s/ Richard W. Dreiling

Richard W. Dreiling
Chief Executive Officer

I, David M. Tehle, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Dollar General Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 5, 2011

/s/ David M. Tehle
David M. Tehle
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 28, 2011 of Dollar General Corporation (the "Company") filed with the Securities and Exchange Commission on the date hereof fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in such report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Richard W. Dreiling

Name: Richard W. Dreiling
Title: Chief Executive Officer
Date: December 5, 2011

/s/ David M. Tehle

Name: David M. Tehle
Title: Chief Financial Officer
Date: December 5, 2011
