DOLLAR GENERAL CORP
Form 424B3
December 10, 2009

Filed Pursuant to Rule 424(b)(3)

Registration Nos. 333-158281 and 333-158281-01 to 333-158281-19

DOLLAR GENERAL CORPORATION

SUPPLEMENT NO. 5 TO

MARKET MAKING PROSPECTUS DATED

APRIL 16, 2009

THE DATE OF THIS SUPPLEMENT IS DECEMBER 10, 2009

On December 10, 2009, Dollar General Corporation filed the attached Quarterly Report on Form 10-Q for the fiscal quarter ended October 30, 2009.

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 30, 2009

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 [X] 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 [X]

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 [X]

The registrant had 340,588,205 shares of common stock outstanding on December 1, 2009.

PART I FINANCIAL INFORMATION

ITEM 1.

FINANCIAL STATEMENTS.

DOLLAR GENERAL CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

October 30, 2009

January 30, 2009

ASSETS

(Unaudited)

(see Note 1)

Current assets:

Cash and cash equivalents	$ 337,019	$ 377,995
Merchandise inventories	1,680,273	1,414,955
Income taxes receivable	31,268	6,392
Deferred income taxes	-	

4,600

Prepaid expenses and other current assets

68,754

66,183

Total current assets

2,117,314

1,870,125

Net property and equipment

1,305,858

1,268,960

Goodwill

4,338,589

4,338,589

Intangible assets, net

1,293,280

1,325,558

Other assets, net

77,491

85,967

Total assets

$

9,132,532

$

8,889,199

LIABILITIES AND SHAREHOLDERS EQUITY

Current liabilities:

Current portion of long-term obligations

$

26,762

$

14,158

Accounts payable

852,988

	678,421
Accrued expenses and other	
	381,346
	375,045
Income taxes payable	
	3,659
	7,611
Deferred income taxes	
	46,178
	-
Total current liabilities	
	1,310,933

	1,075,235
Long-term obligations	
	4,105,252
	4,122,956
Deferred income taxes	
	547,180
	556,101
Other liabilities	
	298,622
	289,288

Redeemable common stock	
	15,131
	13,924
Shareholders equity:	
Preferred stock	
	-
	-

Common stock	278,202	278,114
Additional paid-in capital	2,497,939	2,489,647
Retained earnings	115,878	103,364
Accumulated other comprehensive loss	(36,605)	(39,430)

Total shareholders equity	2,855,414	2,831,695
Total liabilities and shareholders equity	$ 9,132,532	$ 8,889,199

See notes to condensed consolidated financial statements.

DOLLAR GENERAL CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(In thousands, except per share data)

	For the 13 weeks ended		For the 39 weeks ended	
	October 30, 2009	October 31, 2008	October 30, 2009	October 31, 2008
Net sales	$ 2,928,751	$		

2,598,938

$

8,610,595

$

7,611,820

Cost of goods sold

2,025,669

1,826,651

5,946,113

5,388,421

Gross profit

903,082

772,287

2,664,482

2,223,399

Selling, general and administrative expenses

686,843

634,055

1,990,157

1,831,241

Litigation settlement and related costs

-

34,500

-

34,500

Operating profit

216,239

103,732

674,325

357,658

Interest income

(26)

(619)

(135)

(2,793)

Interest expense

87,612

98,393

266,792

298,698

Other (income) expense

513

266

(215)

856

Income before
income taxes

128,140

5,692

407,883

60,897

Income taxes

52,491

12,998

155,638

34,569

Net income (loss)

$

75,649

$

(7,306)

$

252,245

$

26,328

Earnings (loss) per share:

Basic

$

0.24

$

(0.02)

$

0.79

$

0.08

Diluted

$

0.24

$

(0.02)

$

0.79

$

0.08

Weighted average shares outstanding:	
Basic	
	317,945
	317,570
	317,919

317,464

Diluted

320,558

317,570

319,454

317,896

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 30, 2009	October 31, 2008
Cash flows from operating activities:		
Net income	$ 252,245	$ 26,328

Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	
	194,045
	184,155
Deferred income taxes	
	40,298
	30,057
Noncash share-based compensation	

9,249

7,206

Noncash inventory adjustments and asset impairment

2,697

35,587

Tax benefit of stock options

(308)

(576)

Other noncash gains and losses

6,514

3,736

Change in operating assets and liabilities:	
Merchandise inventories	(262,993)
	(364,697)
Prepaid expenses and other current assets	(3,048)
	(7,218)
Accounts payable	162,867

169,276

Accrued expenses and other

19,427

192,983

Income taxes

(28,828)

(24,606)

Other

(1,038)

8,911

Net cash provided by operating activities

391,127

261,142

Cash flows from investing activities:

Purchases of property and equipment

(186,859)

(159,709)

Purchases of short-term investments

-

(9,903)

Sales of short-term investments	
-	61,547
Proceeds from sale of property and equipment	
682	971
Net cash used in investing activities	
(186,177)	(107,094)
Cash flows from financing activities:	

Issuance of common stock	
	2,018
	2,268
Issuance of long-term obligations	
	1,080
	-
Repayments of borrowings under revolving credit facility	
	-
	(102,500)

Repayments of long-term obligations	
	(7,921)
	(3,223)
Repurchases of common stock and stock options	
	(1,680)
	(788)
Payment of cash dividends and related amounts	
	(239,731)
	-
Tax benefit of stock options	

308

576

Net cash used in financing activities

(245,926)

(103,667)

Net increase (decrease) in cash and cash equivalents

(40,976)

50,381

Cash and cash equivalents, beginning of period

377,995

100,209

Cash and cash equivalents, end of period

$

337,019

$

150,590

Supplemental schedule of noncash investing and financing activities:

Purchases of property and equipment awaiting processing for

payment, included in Accounts payable	$ 19,174	$ 20,259
Expiration of equity repurchase rights	$ -	$ 2,548

See notes to condensed consolidated financial statements.

DOLLAR GENERAL CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

1.

Basis of presentation

The accompanying unaudited condensed consolidated financial statements of Dollar General Corporation and its subsidiaries (the Company) have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) for interim financial information and are presented in accordance with the requirements of Form 10-Q and Rule 10-01 of Regulation S-X. Such financial statements consequently do not include all of the disclosures normally required by U.S. GAAP or those normally made in the Company s Annual Report on Form 10-K. Accordingly, the reader of this Quarterly Report on Form 10-Q should refer to the Company s Annual Report on Form 10-K for the year ended January 30, 2009 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 2009 fiscal year will end on January 29, 2010 and its 2008 fiscal year ended on January 30, 2009.

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 30, 2009 and results of operations for the 13-week and 39-week accounting periods ended October 30, 2009 and October 31, 2008 have been made.

The unaudited condensed consolidated balance sheet as of January 30, 2009 has been derived from the audited consolidated financial statements at that date but does not include all of the information and notes required by U.S. GAAP for complete financial statements.

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

The Company uses the last-in, first-out (LIFO) method of valuing inventory. An actual valuation of inventory under the LIFO method is made at the end of each year based on the inventory levels and costs at that time. Accordingly, interim LIFO calculations are based on management s estimates of expected year-end inventory levels, sales for the year and the expected rate of inflation/deflation for the year. The interim LIFO calculations are subject to adjustment in the final year-end LIFO inventory valuation. The Company recorded LIFO (credit) provisions of $(0.5) million and $31.8 million in the 39-week periods ended October 30, 2009 and October 31, 2008, respectively. 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 September 8, 2009, the Company s Board of Directors declared a special dividend on the Company s outstanding common stock (including shares of restricted stock) of $0.7525 per share, or approximately $239.3 million in the aggregate, which was paid on September 11, 2009 to shareholders of record on September 8, 2009. The special dividend was paid with cash generated from operations. Pursuant to the terms of the Company s stock option plans, holders of stock options received either a pro-rata adjustment to the terms of their share-based awards or a cash payment in substitution for such adjustment as a result of the dividend.

The Company effected a reverse stock split effective October 12, 2009, of 1 share for each 1.75 shares outstanding as of that date. All share and per share amounts presented in the condensed consolidated financial statements have been adjusted to reflect the reverse stock split.

The Company recorded impairment charges included in SG&A expense of approximately $5.0 million and $2.1 million in the 39-week periods of 2009 and 2008, respectively, to reduce the carrying value of certain of its stores leasehold improvement and equipment assets. The Company s impairment analysis indicated that such amounts would not be recoverable primarily due to projected future cash flows at these locations which are less than the carrying values of the assets.

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

In June 2009 the Financial Accounting Standards Board (FASB) issued a new accounting standard which established the FASB Accounting Standards Codification (ASC) as the source of authoritative U.S. GAAP recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the Securities and Exchange Commission (SEC) under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants, including the Company. On September 15, 2009, the effective date of this standard, the ASC superseded all then-existing non-SEC accounting and reporting standards. All other nongrandfathered non-SEC accounting literature not included in the ASC became nonauthoritative. The adoption of this statement did not have a material effect on the Company s financial position or results of operations.

In June 2009 the FASB issued a new accounting standard relating to variable interest entities. This standard amends previous standards and requires an enterprise to perform an analysis to determine whether the enterprise s variable interest or interests give it a controlling financial interest in a variable interest entity, specifies updated criteria for determining the primary beneficiary, requires ongoing reassessments of whether an enterprise is the primary beneficiary of a variable interest entity, eliminates the quantitative approach previously required for determining the primary beneficiary of a variable interest entity, amends certain guidance for determining whether an entity is a variable interest entity, requires enhanced disclosures about an enterprise s involvement in a variable interest entity, and includes other provisions. This standard will be effective as of the beginning of the Company s first interim and annual reporting periods that begin after November 15, 2009. Earlier application is prohibited. The Company currently

does not expect the impact of this standard on its consolidated financial statements to be material.

During the second quarter of 2009 the Company adopted the ASC Subsequent Events Topic. The objective of this topic is to establish general standards of accounting for and disclosures of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. In particular, this topic sets forth the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements, and the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. The adoption of these standards has not had a material effect on the Company s consolidated financial statements.

The Company adopted the additional disclosure provisions of the ASC Derivatives and Hedging Topic during the first quarter of 2009 as discussed in Note 6.

As discussed in Note 5, effective January 31, 2009 the Company changed its accounting for fair value of its nonfinancial assets and liabilities in connection with the adoption of certain provisions of the ASC Fair Value Measurements and Disclosures Topic.

2.

Comprehensive income (loss)

Comprehensive income (loss) consists of the following:

	13 Weeks Ended
	39 Weeks Ended
	(in thousands)
	October 30,
	2009

October 31, 2008

October 30, 2009

October 31, 2008

Net income (loss)

$

75,649

$

(7,306)

$

252,245

$

26,328

Unrealized net gain on hedged transactions, net of income tax expense of $45, $117, $1,559, and $14,893,

respectively
(see Note 6)

18

1,276

2,825

26,057

Comprehensive
income (loss)

$

75,667

$

(6,030)

$

255,070

$

52,385

3.

Earnings (loss) per share

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

13 Weeks Ended October 30, 2009

13 Weeks Ended October 31, 2008

Net Income

Shares

Per Share Amount

Net (Loss)

Shares

Per Share Amount

Basic earnings (loss) per share

$

75,649

317,945

$

0.24

$

(7,306)

317,570

$

(0.02)

Effect of dilutive share-based awards

2,613

-

Diluted earnings (loss) per share

$

75,649

320,558

$

0.24

$

(7,306)

317,570

$

(0.02)

7

39 Weeks Ended October 30, 2009

39 Weeks Ended October 31, 2008

Net Income

Shares

Per Share Amount

Net Income

Shares

Per Share Amount

Basic earnings per share

$

252,245

317,919

$

0.79

$

26,328

317,464

$

0.08

Effect of dilutive share-based awards

1,535

432

Diluted earnings per share

$

252,245

319,454

$

0.79

$

26,328

317,896

$

0.08

Basic earnings (loss) per share was computed by dividing net income (loss) by the weighted average number of shares of common stock outstanding during the period. Diluted earnings (loss) per share was determined based on the dilutive effect of stock options using the treasury stock method. For the 13 weeks ended October 31, 2008, the effect of dilutive stock-based awards was approximately 0.4 million shares and, because the Company had a net loss for this period, these incremental shares have been excluded from the computation of diluted earnings per share as the effect of their inclusion would be anti-dilutive.

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.

Subsequent to February 3, 2007, the Company elected to record income tax related interest and penalties as a component of the provision for income tax expense.

The Internal Revenue Service (IRS) is examining the Company s federal income tax return for fiscal year 2005. The 2004 and earlier fiscal years are not open for examination. The 2006, 2007 and 2008 fiscal years, while not currently under examination, are subject to examination at the discretion of the IRS. The Company also has various state income tax examinations in progress. Generally, the Company s 2005 and later tax years remain open for examination by the various state taxing authorities. The results of these examinations could result in changes, which changes could be material, to the Company s income tax liability. The estimated liability related to income tax examinations is included in the Company s reserve for uncertain tax positions.

As of October 30, 2009, the total reserves for uncertain tax benefits, interest expense related to income taxes and potential income tax penalties were $47.1 million, $8.8 million and $1.4 million, respectively, for a total of $57.3

million. Of this amount, $3.3 million and $53.0 million are reflected in current liabilities as Accrued expenses and other and in noncurrent Other liabilities, respectively, in the condensed consolidated balance sheet with the remaining $1.0

million reducing deferred tax assets related to net operating loss carry forwards. The reserve for uncertain tax positions decreased during the 39-week period ended October 30, 2009 by $12.0 million due principally to settlements with taxing authorities and the reduction of a liability associated with an accounting method utilized by the Company for income tax return filing purposes. Further, the Company believes it is reasonably possible that the reserve for uncertain tax positions may be reduced by approximately $16.2 million in the coming twelve months principally as a result of the expected filing of an income tax accounting method change request that is expected to resolve certain uncertainties related to accounting methods employed by the Company for income tax return filing purposes. The reasonably possible change of $16.2 million is included in both current liabilities ($2.4 million) and other noncurrent liabilities ($13.8 million) in the condensed consolidated balance sheet as of October 30, 2009. Also, as of October 30, 2009, approximately $32.8 million of the reserve for uncertain tax positions would impact the Company s effective income tax rate if the Company were to recognize the tax benefit for these positions.

The effective income tax rates for the periods ended October 30, 2009 and October 31, 2008 were 41.0% and 228.4%, respectively, for the 13-week periods, and 38.2% and 56.8%, respectively, for the 39-week periods. The 39-week period ended October 30, 2009 benefited from a reduction in a deferred tax valuation allowance related to state income tax credits that did not occur in 2008. In addition, relative to the 2009 periods, the 2008 periods were negatively impacted by the non-deductible settlement of shareholder litigation related to the 2007 merger that was recorded in the 13-week period ended October 31, 2008.

5.

Assets and liabilities measured at fair value

On January 31, 2009, the Company adopted components of the accounting standards for fair value, which define fair value, establish a framework for measuring fair value, and expand disclosures about fair value measurements. These standards apply to reported balances that are required or permitted to be measured at fair value under existing accounting pronouncements; accordingly, the standard does not require any new fair value measurements of reported balances.

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 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 30, 2009, 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 determined that its derivative valuations in their entirety, as discussed in detail in Note 6, are classified in Level 2 of the fair value hierarchy. The Company does not have any fair value measurements using significant unobservable inputs (Level 3) as of October 30, 2009.

(In thousands)
Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1)
Significant Other Observable Inputs (Level 2)
Significant Unobservable Inputs (Level 3)
Balance at October 30, 2009
Assets:

Trading securities (a)	$ 8,643	$ -	$ -	$ 8,643
Derivative financial instruments (b)		-		

1,400

-

1,400

Liabilities:

Long-term obligations (c)

4,217,997

16,317

-

4,234,314

Derivative financial instruments (d)

-

60,163

-

60,163

(a)

Reflected in the condensed consolidated balance sheet as Prepaid expenses and other current assets of $1,044 and Other assets, net of $7,599.

(b)

Reflected in the condensed consolidated balance sheet as Prepaid expenses and other current assets.

(c)

Reflected in the condensed consolidated balance sheet as Current portion of long-term obligations of $24,822 and Long-term obligations of $4,098,295.

(d)

Reflected in the condensed consolidated balance sheet as Other liabilities.

6.

Derivatives and hedging activities

Disclosure requirements for derivative instruments and hedging activities are intended to provide users of financial statements with an enhanced understanding of: (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under the relevant accounting standards, and (c) how derivative instruments and related hedged items affect an entity s financial position, financial performance, and cash flows. Qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about the fair value of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative instruments are required.

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 primarily by interest rates. The Company s derivative financial instruments are used to manage differences in the amount, timing, and duration of the Company s known or expected cash receipts and its known or expected cash payments principally related to the Company s borrowings.

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

Cash flow hedges of interest rate risk

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

The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in Accumulated other comprehensive income (loss) (also referred to as OCI) and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. During the 13-week and 39-week periods ended October 30, 2009, such derivatives were used to hedge the variable cash flows associated with existing variable-rate debt. The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings.

As of October 30, 2009, the Company had four interest rate swaps with a combined notional value of $1.45 billion that were designated as cash flow hedges of interest rate risk. Amounts reported in Accumulated other comprehensive loss related to derivatives will be reclassified to interest expense as interest payments are made on the Company s variable-rate debt. The Company terminated an interest rate swap in October 2008 due to the bankruptcy declaration of the counterparty bank. The Company continues to report the net gain or loss related to the discontinued cash flow hedge in OCI and such net gain or loss is expected to be reclassified into earnings during the original contractual terms of the swap agreement as the hedged interest payments are expected to occur as forecasted. During the next 52-week period, the Company estimates that an additional $43.8 million will be reclassified as an increase to interest expense for all of its interest rate swaps.

Non-designated hedges of commodity risk

Derivatives not designated as hedges are not speculative and are used to manage the Company s exposure to commodity price risk but do not meet strict hedge accounting requirements. In February 2009, the Company entered into a commodity hedge related to diesel fuel to limit its exposure to variability in diesel fuel prices and their effect on transportation costs. Changes in the fair value of derivatives not designated in hedging relationships are recorded directly in earnings. As of October 30, 2009, the Company had one diesel fuel commodity swap hedging monthly usage of diesel fuel through January 2010 with a total 3.7 million gallons notional during the remaining term that was not designated as a hedge in a qualifying hedging relationship.

The table below presents the fair value of the Company s derivative financial instruments as well as their classification on the condensed consolidated balance sheet as of October 30, 2009:

	Tabular Disclosure of Fair Values of Derivative Instruments
	Asset Derivatives
	Liability Derivatives
	(in thousands)
	As of October 30, 2009

As of October 30, 2009
Balance Sheet Classification
Fair Value
Balance Sheet Classification
Fair Value
Derivatives designated as hedging instruments
Interest rate swaps

Other liabilities

$

60,163

Derivatives not designated as hedging instruments

Commodity hedges	Prepaid expenses and other current assets
	$
	1,400

12

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 30, 2009:

Tabular Disclosure of the Effect of Derivative Instruments on the Consolidated Statement of Income For the 13-weeks ended October 30, 2009
(in thousands)
Derivatives in Cash Flow Hedging Relationships
Amount of (Gain) or Loss Recognized in OCI on Derivative (Effective Portion)
Location of Gain or Loss Reclassified from Accumulated OCI into Income

(Effective Portion)	Amount of (Gain) or Loss Reclassified from Accumulated OCI into Income (Effective Portion)	Location of Gain or Loss Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of (Gain) or Loss Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Interest Rate Swaps			

$

12,993

Interest expense

$

13,056

Other (income) expense

$

154

Derivatives Not Designated as

Hedging Instruments	**Location of Gain or Loss Recognized in Income on Derivative**	**Amount of (Gain) or Loss Recognized in Income on Derivative**
Commodity Hedges	Other (income) expense	$ 360

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

(in thousands)

Derivatives in Cash Flow Hedging Relationships

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

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

Amount of (Gain) or Loss Reclassified

from Accumulated OCI into Income (Effective Portion)
Location of Gain or Loss Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Amount of (Gain) or Loss Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Interest Rate Swaps
$
32,462
Interest expense

$

36,845

Other (income) expense

$

468

Derivatives Not Designated as Hedging Instruments

Location of Gain or Loss Recognized in Income on Derivative

	Amount of (Gain) or Loss Recognized in Income on Derivative
Commodity Hedges	Other (income) expense
	$ (683)

Credit-risk-related contingent features

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

As of October 30, 2009, 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 $62.9 million. As of October 30, 2009, the Company had not posted any collateral related to these agreements. If the Company had breached any of these provisions at October 30, 2009, it would have been required to settle its obligations under the agreements at their termination value of $62.9 million.

As of October 30, 2009, the fair value of commodity hedges in a net asset position was $1.4 million, which excludes any adjustment for nonperformance risk related to the agreements.

7.

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 of individuals who worked for Dollar General as store managers since August 7, 2003. The number of persons who will be included in the class has not been determined.

On May 30, 2007, the court stayed all proceedings in the case, including the sending of a notice to the class, to evaluate, among other things, certain appeals pending in the Eleventh Circuit involving claims similar to those raised in this action. That stay has been extended on several occasions, most recently through October 31, 2009. Those appeals have been resolved, and the court has ordered that a list of potential class members be prepared and notice to those individuals be issued. During the stay, the statute of limitations was tolled for the potential class members.

The Company believes that its store managers are and have been properly classified as exempt employees under the FLSA and that this action is not appropriate for collective action treatment. The Company intends to vigorously defend this action. However, at this time, it is not possible to predict whether the court ultimately will permit this action to proceed collectively, and no assurances can be given that the Company will be successful in the defense on the merits or otherwise. If the Company is not successful in its efforts to defend this action, the resolution could have a material adverse effect on its financial statements as a whole.

On May 18, 2006, the Company was served with a lawsuit entitled *Tammy Brickey, Becky Norman, Rose Rochow, Sandra Cogswell and Melinda Sappington v. Dolgencorp, Inc. and Dollar General Corporation* (Western District of New York, Case No. 6:06-cv-06084-DGL, originally filed on February 9, 2006 and amended on May 12, 2006 ("Brickey")). The Brickey plaintiffs seek to proceed collectively under the FLSA and as a class under New York, Ohio, Maryland and North Carolina wage and hour statutes on behalf of, among others, assistant store managers who claim to be owed wages (including overtime wages) under those statutes. At this time, it is not possible to predict whether the court will permit this action to proceed collectively or as a class. However, the Company believes that this action is not appropriate for either collective or class treatment and that its wage and hour policies and practices comply with both federal and state law. The Company plans to vigorously defend this action; however, no assurances can be given that the Company will be successful in the defense on the merits or otherwise, and, if it is not successful, the resolution of this action could have a material adverse effect on the Company s financial statements as a whole.

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

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

The plaintiffs have not yet moved for class certification relating to their Title VII claims. The Company expects such motion to be filed within the next several months and will strenuously oppose such a motion.

At this time, it is not possible to predict whether the court ultimately will permit the Calvert action to proceed collectively under the Equal Pay Act or as a class under Title VII. However, the Company believes that the case is not appropriate for class or collective treatment and that its policies and practices comply with the Equal Pay Act and Title VII. The Company intends to vigorously defend the action; however, no assurances can be given that the Company will be successful in the defense on the merits or otherwise. If the Company is not successful in defending the Calvert action, its resolution could have a material adverse effect on the Company s financial statements as a whole.

On July 30, 2008, the Company was served with a complaint filed in the District Court for Dallas County, Iowa (*Julie Cox, et al. v. Dolgencorp, Inc., et al* Case No. LACV-034423 ("Cox")) in which the plaintiff, a former store manager, alleges that the Company discriminates

15

against pregnant employees on the basis of sex and retaliates against employees in violation of the Iowa Civil Rights Act. Cox seeks to represent a class of "all current, former and future employees from the State of Iowa who are employed by Dollar General who suffered from, are currently suffering from or in the future may suffer from" alleged sex/pregnancy discrimination and retaliation and seeks declaratory and injunctive relief as well as equitable, compensatory and punitive damages and attorneys' fees and costs.

At this time, it is not possible to predict whether the court ultimately will permit the Cox action to proceed as a class. However, the Company believes that the case is not appropriate for class treatment and that its policies and practices comply with the Iowa Civil Rights Act. The Company intends to vigorously defend the action; however, no assurances can be given that the Company will be successful in the defense on the merits or otherwise. If the Company is not successful in defending this action, its resolution could have a material adverse effect on the Company s financial statements as a whole.

Subsequent to the announcement of the agreement relating to the Company s 2007 merger, the Company and its directors were named in seven putative class actions alleging claims for breach of fiduciary duty arising out of the Company s proposed sale to investment funds affiliated with KKR. Each of the complaints alleged, among other things, that the Company s directors engaged in "self-dealing" by agreeing to recommend the transaction to the Company s shareholders and that the consideration available to such shareholders in the transaction is unfairly low. On motion of the plaintiffs, each of these cases was transferred to the Sixth Circuit Court for Davidson County, Twentieth Judicial District, at Nashville. By order dated April 26, 2007, the seven lawsuits were consolidated in the court under the caption, "In re: Dollar General," Case No. 07MD-1. On June 13, 2007, the court denied the Plaintiffs' motion for a temporary injunction to block the shareholder vote that was then held on June 21, 2007. On June 22, 2007, the Plaintiffs filed their amended complaint making claims substantially similar to those outlined above. The court on November 6, 2008 certified a class of all persons who held stock in the Company on the date of the merger. The defendants filed for summary judgment.

On November 24, 2008, all defendants, including the Company, reached an agreement in principle to settle this lawsuit, subject to final documentation and court approval. The Company determined that the agreement would be in the best interest of the Company to avoid costly and time-consuming litigation. Based on the agreement in principle, the Company recorded a charge, net of anticipated insurance proceeds, of $34.5 million in the third quarter of 2008 and a credit of $(2.5) million in the fourth quarter of 2008 in connection with the proposed settlement. Total related insurance proceeds of $10.0 million were collected in the fourth quarter of 2008. On February 2, 2009, the Company funded the $40.0 million settlement and on February 11, 2009, the court approved the terms of the settlement.

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 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.

Other

In August 2008, the Consumer Product Safety Improvement Act of 2008 was signed into law. This law addresses, among other things, the permissible levels of lead and listed phthalates in certain products. The first tier of new standards for permissible levels of lead and phthalates became effective in February 2009; the second tier became effective in August 2009. To ensure compliance, the Company undertook a process to identify, mark down and cease the sale of any remaining inventory that would be impacted by the new law. The impact of this process was not material to the Company s consolidated financial statements.

8.

Segment reporting

The Company manages its business on the basis of one reportable segment. As of October 30, 2009, all of the Company s operations were located within the United States, with the exception of a Hong Kong subsidiary, and a liaison office in India, the collective assets and revenues of which are not material. Net sales grouped by classes of similar products are presented below.

13 Weeks Ended

39 Weeks Ended

(In thousands)

October 30, 2009

October 31, 2008

October 30, 2009

October 31, 2008

Classes of similar products:

Consumables

$

2,137,504

$

1,864,015

$

6,186,509

$

5,340,925

Seasonal

370,026

320,706

1,149,775

1,027,352

H o m e products

207,798

206,780

	636,875
	630,815
Apparel	
	213,423
	207,437
	637,436
	612,728
Net sales	
$	2,928,751
$	2,598,938

$ 8,610,595

$ 7,611,820

9.

Related party transactions

KKR and GS Capital Partners VI Fund, L.P. and affiliated funds (affiliates of Goldman, Sachs & Co.), indirectly own a substantial portion of the Company s common stock through their investments in Buck Holdings, L.P.

Affiliates of KKR and Goldman Sachs (among other entities) are lenders under the Company s $2.294 billion senior secured term loan facility. The amount of principal outstanding under the term loan facility from the Company s 2007 merger to September 30, 2009, was $2.3 billion. Effective September 30, 2009, the Company became required to repay borrowings under the term loan facility in equal quarterly principal amounts in an aggregate amount per year equal to 1% of the total funded principal amount at July 6, 2007, resulting in the payment of principal of $5.8 million during the 39-week period ended October 30, 2009. In addition, the Company paid approximately $57.8 million and $102.0 million of interest on the term loan during the 39-week periods ended October 30, 2009 and October 31, 2008, respectively.

Goldman, Sachs & Co. is a counterparty to an amortizing interest rate swap totaling $410.0 million as of October 30, 2009, entered into in connection with the Company s senior secured term loan facility. The Company paid Goldman, Sachs & Co. approximately $13.0 million and $7.7 million in the 39-week periods ended October 30, 2009 and October 31, 2008, respectively pursuant to this swap.

Since the 2007 merger, the Company has been party to a monitoring agreement with an affiliate of KKR and with Goldman, Sachs & Co. pursuant to which those entities provide management and advisory services to the Company. Under the terms of the monitoring agreement, among other things, the Company has been obligated to pay to those entities an aggregate annual management fee payable in arrears at the end of each calendar quarter plus all reasonable out of pocket expenses incurred in connection with the provision of services under the agreement upon request. The fees incurred for the 39-week periods ended October 30, 2009 and October 31, 2008 totaled $4.1 million and $5.3 million, respectively. In connection with the initial public offering of the Company s common stock, the parties terminated the monitoring agreement in accordance with its terms as further discussed in Note 10.

From time to time the Company may use the services of Capstone Consulting, LLC, a team of executives who work exclusively with KKR portfolio companies providing certain consulting services. The aggregate fees incurred for Capstone services for the 39-week periods ended October 30, 2009 and October 31, 2008 totaled $0.2 million and $2.3 million, respectively. The Company s former board member Mr. Dean Nelson is the Chief Executive Officer of Capstone.

The Company s Board members Mr. Mike Calbert and Mr. Raj Agrawal serve as executives of KKR, while the Company s Board member Mr. Adrian Jones serves as a Managing Director of Goldman, Sachs & Co.

Affiliates of KKR, Goldman, Sachs & Co. and Citigroup Global Markets Inc. served as underwriters in connection with the Company s initial public offering of its common stock.

10.

Subsequent events

On November 18, 2009, the Company completed the initial public offering of its common stock. The Company issued 22,700,000 shares in the offering, and existing shareholders sold an additional 16,515,000 previously outstanding shares. The net proceeds from the offering to the Company of approximately $446 million have been used to redeem

$176.7 million aggregate principal amount of 10.625% senior notes due 2015 and $205.2 million aggregate principal amount of 11.875%/12.625% senior subordinated toggle notes due 2017 on November 30, 2009 at redemption prices of 110.625% and 111.875%, respectively, plus accrued and unpaid interest. On November 18, 2009, the Company gave 30-day notice to redeem $19.0 million additional aggregate principal amount of the senior notes at a redemption price of 110.625%, plus accrued and unpaid interest. Upon the completion of the offering, and in connection with the Company s termination of the monitoring agreement with KKR and Goldman, Sachs & Co., the Company paid these entities a fee of approximately $63.6 million which included approximately $4.8 million directly related to the offering transaction and approximately $58.8 million to terminate the agreement in accordance with its terms.

In connection with these transactions the Company has incurred charges in the fourth quarter of 2009 including the monitoring agreement termination fee of $58.8 million, and charges for the acceleration of vesting of certain share-based awards in the amount of approximately $9.4 million. In addition, the Company has incurred losses on the redemption of the notes, with a total anticipated loss on such redemption of approximately $51 million, which includes the loss on the $19.0 million of the notes to be redeemed subsequent to this filing.

Subsequent events pertaining to the Company have been evaluated through the time of filing this document with the SEC on December 10, 2009, which is the date these financial statements were issued.

11.

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 30, 2009
	DOLLAR GENERAL CORPORATION
	GUARANTOR SUBSIDIARIES
	OTHER SUBSIDIARIES
	ELIMINATIONS
	CONSOLIDATED TOTAL
	BALANCE SHEET:

ASSETS

Current assets:

Cash and cash equivalents

$

145,539

$

168,366

$

23,114

$

-

$

337,019

Merchandise inventories

-

1,680,273

-

-

1,680,273

Income taxes receivable

40,084

6,700

-

(15,516)

31,268

Deferred income taxes

12,380

-

-

(12,380)

-

Prepaid expenses and other current assets

715,486

2,739,771

11,040

(3,397,543)

68,754

Total current assets

913,489

4,595,110

34,154

(3,425,439)

2,117,314

Net property and equipment

98,251

1,207,501

106

-

1,305,858

Goodwill

4,338,589

-

-

-

4,338,589

Intangible assets, net

1,202,334

90,946

-

-

1,293,280

Deferred income taxes

-

-

35,177

(35,177)

-

Other assets, net

4,010,265

9,265

296,290

(4,238,329)

77,491

Total assets	
$	10,562,928
$	

5,902,822

$

365,727

$

(7,698,945)

$

9,132,532

LIABILITIES AND SHAREHOLDERS EQUITY

Current liabilities:

Current portion of long-term obligations

$

24,822

$

1,940

$

-

$

-

$

26,762

Accounts payable

2,705,171

1,484,689

46,931

(3,383,803)

852,988

Accrued expenses and other

99,994

246,300

48,792

(13,740)

381,346

Income taxes payable

2,701

-

16,474

(15,516)

3,659

Deferred income taxes

-

56,972

1,586

(12,380)

46,178

Total current liabilities

2,832,688

1,789,901

113,783

(3,425,439)

1,310,933

Long-term obligations

4,350,878

2,604,846

13,178

(2,863,650)

4,105,252

Deferred income taxes

397,511

184,846

-

(35,177)

547,180

Other liabilities

111,306

33,639

153,677

-

298,622

Redeemable common stock
15,131
-
-
-
15,131

Shareholders equity:

Preferred stock
-
-
-

-

-

Common stock

278,202

23,855

100

(23,955)

278,202

Additional paid-in capital

2,497,939

431,253

19,900

(451,153)

2,497,939

Retained earnings

115,878

834,482

65,089

(899,571)

115,878

Accumulated other comprehensive loss

(36,605)

-

-

-

(36,605)

Total shareholders equity

2,855,414

1,289,590

85,089

(1,374,679)

2,855,414

Total liabilities and shareholders equity
$
10,562,928
$
5,902,822
$
365,727
$
(7,698,945)
$
9,132,532

January 30, 2009
DOLLAR GENERAL CORPORATION
GUARANTOR SUBSIDIARIES
OTHER SUBSIDIARIES
ELIMINATIONS
CONSOLIDATED
TOTAL

BALANCE SHEET:

ASSETS

Current assets:

Cash and cash equivalents	$ 292,637	$ 64,404	$ 20,954	$ -	$ 377,995
Merchandise inventories					

-

1,414,955

-

-

1,414,955

Income tax
receivable

50,601

-

-

(44,209)

6,392

Deferred income taxes

5,892

-

2,560

(3,852)

4,600

Prepaid expenses and other current assets

462,572