

DOLGENCORP, LLC
Form 424B3
June 02, 2009

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

DOLLAR GENERAL CORPORATION

SUPPLEMENT NO. 1 TO

MARKET MAKING PROSPECTUS DATED

APRIL 16, 2009

THE DATE OF THIS SUPPLEMENT IS JUNE 2, 2009

On June 2, 2009, Dollar General Corporation filed the attached Quarterly Report on Form 10-Q for the fiscal quarter ended May 1, 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 May 1, 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 556,317,671 shares of common stock outstanding on May 26, 2009.

PART I FINANCIAL INFORMATION

ITEM 1.

FINANCIAL STATEMENTS.

DOLLAR GENERAL CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

May 1,
2009

January 30,
2009

ASSETS

(Unaudited)

(see Note 1)

Current assets:

Cash and cash
equivalents

\$

434,584

\$

377,995

Merchandise
inventories

1,454,692

1,414,955

Income taxes
receivable

3,479

6,392

Deferred income
taxes

-

4,600
Prepaid expenses and
other current assets

69,393

66,183
Total current assets

1,962,148

1,870,125
Net property and
equipment

1,280,835

1,268,960
Goodwill

4,338,589

	4,338,589
Intangible assets, net	
	1,314,425
	1,325,558
Other assets, net	
	82,804
	85,967
Total assets	
	\$
	8,978,801
	\$
	8,889,199

**LIABILITIES AND
SHAREHOLDERS
EQUITY**

Current liabilities:

Current portion of
long-term obligations

\$

19,526

\$

14,158

Accounts payable

700,438

	678,421
Accrued expenses and other	
	332,722
	375,045
Income taxes payable	
	28,034
	7,611
Deferred income taxes	
	11,942
	-
Total current liabilities	
	1,092,662

1,075,235

Long-term
obligations

4,117,190

4,122,956

Deferred income
taxes

554,098

556,101

Other liabilities

283,916

289,288

Redeemable
common stock

14,350

13,924

Shareholders equity:

Preferred stock

-

-

Common stock

278,159

278,114

Additional paid-in
capital

2,492,482

2,489,647

Retained earnings

186,370

103,364

Accumulated other
comprehensive loss

(40,426)

(39,430)

Total shareholders
equity

2,916,585

2,831,695

Total liabilities and
shareholders equity

\$

8,978,801

\$

8,889,199

*See notes to
condensed
consolidated
financial statements.*

DOLLAR GENERAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(In thousands)

For the 13
weeks ended

May 1,
2009

May 2,
2008

Net sales

\$

2,779,937

\$

2,403,498

Cost of goods
sold

1,924,579

1,710,421

Gross profit

855,358

693,077

Selling,
general and
administrative

630,489

582,206

Operating
profit

224,869

110,871

Interest
income

(94)

(957)

Interest
expense

89,235

100,871

Other
(income)
expense

1,667

298

Income before
income taxes

134,061

10,659

Income tax
expense

51,055

4,743

Net income

\$

83,006

\$

5,916

*See notes to
condensed
consolidated
financial
statements.*

DOLLAR GENERAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

For the 13
weeks ended

May 1,
2009

May 2,
2008

*Cash flows
from
operating
activities:*

Net income

\$

83,006

\$

5,916

Adjustments
to reconcile
net income to
net cash
provided by
operating
activities:

Depreciation
and
amortization

64,531

61,406

Deferred
income taxes

15,461

	(5,600)
Noncash share-based compensation	
	2,938
	2,346
Noncash inventory adjustments	
	(697)
	1,310
Other noncash gains and losses	
	1,957
	219
Change in operating	

assets and
liabilities:

Merchandise
inventories

(39,040)

(29,746)

Prepaid
expenses and
other current
assets

(3,012)

(3,545)

Accounts
payable

10,578

52,860

Accrued
expenses and
other

(50,368)

67,897

Income taxes

23,336

(1,387)

Other

203

(115)

Net cash
provided by
operating
activities

108,893

151,561

*Cash flows
from investing
activities:*

Purchases of
property and
equipment

(51,825)

(35,373)

Purchases of
short-term
investments

	-
	(9,903)
Sales of short-term investments	
	-
	12,976
Proceeds from sale of property and equipment	
	152
	94
Net cash used in investing activities	
	(51,673)

(32,206)

*Cash flows
from
financing
activities:*

Issuance of
common stock

620

-

Repayments
of borrowings
under
revolving
credit facility

-

(102,500)

Repayments
of long-term
obligations

(999)

(1,045)

Repurchases
of common
stock and
stock options

(252)

(10)

Other
financing
activities

-

(105)

Net cash used
in financing
activities

(631)

(103,660)

Net increase
in cash and
cash
equivalents

56,589

15,695

Cash and cash
equivalents,
beginning of
period

377,995

100,209

Cash and cash
equivalents,
end of period

\$

434,584

\$

115,904

*Supplemental
cash flow
information:*

Cash paid for
interest

\$

33,782

\$

45,735

Cash paid for
income taxes

\$

34,944

\$

2,204

*Supplemental
schedule of
noncash
investing and
financing
activities:*

Purchases of
property and
equipment
awaiting
processing for
payment,
included in
Accounts
payable

\$

18,913

\$

8,620

*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. 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 May 1, 2009 and results of operations for the 13-week quarterly accounting periods ended May 1, 2009 and May 2, 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 charges of \$0.8 million and zero in the 13-week periods ended May 1, 2009 and May 2, 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.

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

As discussed in Note 4, effective January 31, 2009 the Company changed its accounting for fair value of its nonfinancial assets and liabilities in connection with the adoption of Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements*. Through May 1, 2009, the adoption of this standard had no impact on the Company's consolidated financial position or results of operations.

The Company adopted the provisions of SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities*, an amendment of FASB Statement No. 133 ("SFAS 161") during the first quarter of 2009 as discussed in Note 5.

2.

Comprehensive income

Comprehensive income consists of the following:

	13 Weeks Ended
	(in thousands)
	May 1, 2009
	May 2, 2008
	Net income

\$

83,006

\$

5,916

Unrealized net
gain (loss) on
hedged
transactions,
net of income
tax expense
(benefit) of
\$(922) and
\$10,959
respectively
(see Note 5)

(996)

18,473

Comprehensive
income

\$

82,010

\$

24,389

3.

Income taxes

The Company reports income taxes in accordance with SFAS No. 109, *Accounting for Income Taxes* (SFAS 109). Under SFAS 109, 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 FASB Interpretation 48, *Accounting for Uncertainty in Income Taxes - An Interpretation of FASB Statement 109* (FIN 48). FIN 48 requires 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 the February 3, 2007 adoption of FIN 48, 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 in the initial stages of an examination of the Company's federal income tax returns for the 2005 and 2006 fiscal years. The 2004 and earlier fiscal years are not open for examination. The 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 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 May 1, 2009, the total reserves for uncertain tax benefits, interest expense related to income taxes and potential income tax penalties were \$35.0 million, \$9.5 million and \$1.4 million, respectively, for a total of \$45.9 million. Of this amount, \$4.3 million and \$40.6 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 period ended May 1, 2009 by \$24.1 million due principally to the reclassification, from the uncertain tax benefits account to the income tax payable account, of a liability associated with an accounting method utilized by the Company for income tax return filing purposes. The Company believes it is reasonably possible that the reserve for uncertain tax positions may be reduced by approximately \$2.9 million in the coming twelve months principally as a result of the settlement of currently ongoing state income tax examinations. The reasonably possible change of \$2.9 million is included in current liabilities in the condensed consolidated balance sheet as of May 1, 2009. Also, as of May 1, 2009, approximately \$34.4 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 rate for the 13-week period ended May 1, 2009 was 38.1% compared to a rate of 44.5% for the 13-week period ended May 2, 2008. Both periods included similar amounts of income tax-related interest, but because the 2009 pretax income was higher, the effective rate was impacted to a lesser degree.

4.

Assets and liabilities measured at fair value

On January 31, 2009, the Company adopted components of SFAS No. 157, *Fair Value Measurements*. SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS 157 applies 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.

SFAS 157 emphasizes that 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, SFAS 157 establishes 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 May 1, 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 5, 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 May 1, 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
May 1, 2009

Assets:

Trading
securities (a)
\$
8,360

\$
-

\$
-

\$
8,360

Liabilities:

Derivative
financial
instruments (b)

-

66,332

-

66,332

(a)

Reflected in the condensed consolidated balance sheet as Prepaid expenses and other current assets of \$1,854 and Other assets, net of \$6,506.

(b)

Reflected in the condensed consolidated balance sheet as Accrued expenses and other of \$540 and Other liabilities of \$65,792.

5.

Derivatives and hedging activities

SFAS 161 amends and expands the disclosure requirements of FASB Statement No. 133 ("SFAS 133") with the intent 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 SFAS 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. SFAS 161 requires 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.

As required by SFAS 133, 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 hedge accounting under SFAS 133.

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. The Company enters into derivative financial instruments to protect against future price changes related to transportation costs associated with forecasted purchases and 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 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 period ended May 1, 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 May 1, 2009, the Company had four interest rate swaps with a combined notional value of \$1.5 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. In accordance with Derivatives Implementation Group (DIG) Issue No. G3, 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 \$42.2 million will be reclassified as an increase to interest expense for all of its interest rate swaps.

Non-designated hedges of commodity risk

Derivatives not designated as hedges are not speculative and are used to manage the Company's exposure to commodity price risk but do not meet the strict hedge accounting requirements of SFAS 133. In February 2009, the Company entered into a commodity hedge related to diesel fuel to eliminate 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 May 1, 2009, the Company had one diesel fuel commodity swap hedging monthly usage of diesel fuel through January 2010 with a total 11.4 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 May 1, 2009 (in thousands):

Tabular Disclosure of Fair Values of Derivative Instruments

**Asset
Derivatives**

**Liability
Derivatives**

**As of May 1,
2009**

**As of May 1,
2009**

Balance Sheet
Classification

Fair Value

Balance Sheet
Classification

Fair Value

**Derivatives
designated as
hedging
instruments
under SFAS
133**

Interest rate
swaps

Other assets,
net

\$

-

Other
liabilities

\$

65,792

**Derivatives
not
designated as
hedging
instruments
under SFAS
133**

Commodity
hedges

Prepaid
expenses

and other

current assets

\$

-

Accrued
expenses and
other

\$

540

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 period ended May 1, 2009 (in thousands):

**Tabular
Disclosure of
the Effect of
Derivative
Instruments
on the
Consolidated
Statement of
Income
For the
13-weeks
ended May 1,
2009**

**Derivatives in
SFAS 133
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

\$

13,817

Interest
expense

\$

11,898

Other
(income)

expense

\$

158

**Derivatives
Not
Designated as
Hedging
Instruments
Under SFAS
133**

**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

\$

1,508

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 May 1, 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 \$70.2 million. As of May 1, 2009, the Company has not posted any collateral related to these agreements. If the Company had breached any of these provisions at May 1, 2009, it would have been required to settle its obligations under the agreements at their termination value of \$70.2 million.

As of May 1, 2009, the fair value of commodity hedges in a net liability position, which excludes any adjustment for nonperformance risk related to the agreements, was \$0.5 million. As of May 1, 2009, the Company has an outstanding letter of credit related to these agreements in the amount of \$1.0 million. If the Company had breached any of the provisions of this agreement at May 1, 2009, the letter of credit would have been sufficient to settle its obligations under this agreement.

6.

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, and the court has not approved the Notice that will be sent to the class.

On May 30, 2007, the court stayed all proceedings in the case, including the sending of the Notice, to evaluate, among other things, certain appeals pending in the Eleventh Circuit involving claims similar to those raised in this action. That stay was extended through May 15, 2009, but the Company s efforts to secure its further extension have been denied. During the stay, the statute of limitations has been tolled for potential class members. If the court ultimately permits Notice to issue, the Company will have an opportunity at the close of the discovery period to seek decertification of the class, and the Company expects to file such a motion if necessary.

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 the Company s financial statements as a whole.

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

merits or otherwise, and, if it is not successful, the resolution of this action could have a material adverse effect on the Company's financial statements as a whole.

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

The plaintiff has not yet moved for class certification. 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.

On December 4, 2008, a complaint was filed in the United States District Court for the Western District of Tennessee (*Tressa Holt, et al v. Dollar General Corporation, et al.*, Case No.1:08-cv-01298 JDB) in which the plaintiff, on behalf of herself and a putative class of non-exempt store employees, alleges that the Company violated the Fair Labor Standards Act by failing to pay for all hours worked, including overtime hours. At this time, it is not possible to predict whether the court will permit this action to proceed collectively. However, the Company believes that this action is not appropriate for collective treatment and that the Company's wage and hour policies and practices comply with the FLSA. 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.

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 Kohlberg Kravis Roberts & Co., L.P. (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 of \$32.0 million in the third and fourth quarters of 2008 in connection with the proposed settlement, which was net of insurance proceeds of \$10.0 million which 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.

Leases

The Company's 2007 merger and certain of the related financing transactions may be interpreted as giving rise to certain trigger events (which may include events of default) under leases for three of the Company's distribution centers (DCs). The Company does not believe such an interpretation would be appropriate under the terms of the leases. However, the possibility remains that the ultimate resolution of these matters could require the Company to make a significant cash investment to purchase these DCs.

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 is effective in August 2009. To ensure compliance, the Company undertook a process during the fourth quarter of 2008 to identify, mark down and cease the sale of any remaining inventory that would be impacted by the new law. The Company is continuing to evaluate its inventory for the next implementation phase of this law, but does not currently expect the impact of this process to be material to its financial statements. Until the process is complete, however, the Company cannot definitely rule out that possibility.

7.

Segment reporting

The Company manages its business on the basis of one reportable segment. As of May 1, 2009, all of the Company's operations were located within the United States, with the exception of a Hong Kong subsidiary, the assets and revenues of which are not material. The following net sales data is presented in accordance with SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*.

13 Weeks
Ended

(*I n*
thousands)

May 1,
2009

May 2,
2008

Classes of
s i m i l a r
products:

H i g h l y

consumable

\$

1,995,809

\$

1,680,895

Seasonal

356,452

322,126

H o m e
products

216,883

204,493

B a s i c
clothing

210,793

195,984

Net sales

\$

2,779,937

\$

2,403,498

8.**Related party transactions**

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

Affiliates of KKR (among other entities) are lenders under the Company's \$2.3 billion senior secured term loan facility. The amount of principal outstanding under this term loan facility at all times since the Company's 2007 merger was \$2.3 billion, and the Company paid no principal and approximately \$20.0 million and \$37.0 million of interest on this term loan during the periods ended May 1, 2009 and May 2, 2008, respectively.

Goldman, Sachs & Co. is a counterparty to an amortizing interest rate swap with a \$426.7 million notional amount as of May 1, 2009, entered into in connection with the Company's senior secured term loan facility, as discussed in more detail in Note 5. The Company paid Goldman, Sachs & Co. approximately \$4.1 million and \$2.3 million in the periods ended May 1, 2009 and May 2, 2008, respectively pursuant to this swap.

The Company is 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 is 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 periods ended May 1, 2009 and May 2, 2008 totaled \$1.3 million in each period. The management fee will be \$5.4 million in 2009 and increases at a rate of 5% per year.

From time to time the Company may use the services of Capstone Consulting, LLC, a team of executives who consult exclusively with KKR portfolio companies. The Chief Executive Officer of Capstone (who also is a Partner of KKR) served on the Company's Board of Directors until March 2009. Although neither KKR nor any entity affiliated with KKR owns any of the

equity of Capstone, prior to January 1, 2007 KKR had provided financing to Capstone. The aggregate fees incurred for Capstone services for the periods ended May 1, 2009 and May 2, 2008 totaled \$0.2 million and \$0.9 million, respectively.

A Member and a Director of KKR and a Managing Director of Goldman, Sachs & Co. serve on the Company's Board of Directors.

9.

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