DOLLAR GENERAL CORP
Form S-1/A
November 09, 2009

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As filed with the Securities and Exchange Commission on November 9, 2009

Registration No. 333-161464

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

AMENDMENT NO. 4
TO

FORM S-1

REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

Dollar General Corporation

(Exact name of registrant as specified in its charter)

Tennessee	**5331**	**61-0502302**
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification Number)

100 Mission Ridge
Goodlettsville, Tennessee 37072
(615) 855-4000

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

Susan S. Lanigan, Esq.
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(615) 855-4000

(Name, address, including zip code, and telephone number, including area code, of agent for service)

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Approximate date of commencement of proposed sale to the public:
As soon as practicable after this Registration Statement is declared effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. o

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

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 o	Accelerated filer o	Non-accelerated filer ý (Do not check if a smaller reporting company)	Smaller reporting company o

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	**Amount to be Registered(1)**	**Proposed Maximum Aggregate Offering Price per Share**	**Proposed Maximum Aggregate Offering Price(1)(2)**	**Amount of Registration Fee(3)**
Common Stock, par value $.875 per share	39,215,000 shares	$23.00	$901,945,000	$50,329

(1) Includes shares to be sold upon exercise of the underwriters' option. See "Underwriting."

(2) Estimated solely for the purpose of calculating the amount of the registration fee pursuant to Rule 457(o) under the Securities Act of 1933, as amended.

(3) Previously paid.

The registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until the Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

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The information in this preliminary prospectus is not complete and may be changed. We may not sell the securities until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

Subject to Completion. Dated November 9, 2009.

34,100,000 Shares

Common Stock
$ per share

We are offering 22,700,000 shares of our common stock and the selling shareholder named in this prospectus is offering 11,400,000 shares. We will not receive any proceeds from the sale of the shares by the selling shareholder.

This is an initial public offering of our common stock. Since July 2007 and prior to this offering, there has been no public market for our common stock. We currently expect the initial public offering price will be between $21.00 and $23.00 per share. Our common stock has been approved for listing on the New York Stock Exchange under the symbol "DG," subject to official notice of issuance.

Investing in our common stock involves a high degree of risk. See "Risk Factors" beginning on page 12 of this prospectus to read about factors you should consider before buying shares of our common stock.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

	Per Share	Total
Initial price to public	$	$
Underwriting discount	$	$
Proceeds, before expenses, to Dollar General Corporation	$	$
Proceeds, before expenses, to the selling shareholder	$	$

To the extent that the underwriters sell more than 34,100,000 shares of common stock, the underwriters have the option to purchase up to an additional 5,115,000 shares from the selling shareholder at the initial offering price less the underwriting discount.

The underwriters expect to deliver the shares against payment in New York, New York on or about , 2009.

Joint Book-Running Managers

Citi **Goldman, Sachs & Co.** **KKR**

BofA Merrill Lynch **J.P. Morgan**

Co-Managers

Barclays Capital **Wells Fargo Securities** **Deutsche Bank Securities** **HSBC**

Prospectus dated , 2009.

You should rely only on the information contained in this prospectus or in any free writing prospectus that we authorize be delivered to you. Neither we nor the underwriters have authorized anyone to provide you with additional or different information. If anyone provides you with additional, different or inconsistent information, you should not rely on it. We and the underwriters are not making an offer to sell these securities in any jurisdiction where an offer or sale is not permitted. You should assume that the information in this prospectus is accurate only as of the date on the front cover, regardless of the time of delivery of this prospectus or of any sale of our common stock. Our business, prospects, financial condition and results of operations may have changed since that date.

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PROSPECTUS SUMMARY

This summary highlights significant aspects of our business and this offering, but it is not complete and does not contain all of the information that you should consider before making your investment decision. You should carefully read the entire prospectus, including the information presented under the section entitled "Risk Factors" and the historical and pro forma financial data and related notes, before making an investment decision. This summary contains forward-looking statements that involve risks and uncertainties. Our actual results may differ significantly from the results discussed in the forward-looking statements as a result of certain factors, including those set forth in "Risk Factors" and "Special Note Regarding Forward-Looking Statements."

Our Company

We are the largest discount retailer in the United States by number of stores, with 8,577 stores located in 35 states as of July 31, 2009, primarily in the southern, southwestern, midwestern and eastern United States. We offer a broad selection of merchandise, including consumable products such as food, paper and cleaning products, health and beauty products and pet supplies, and non-consumable products such as seasonal merchandise, home décor and domestics, and apparel. Our merchandise includes high quality national brands from leading manufacturers, as well as comparable quality private brands selections with prices at substantial discounts to national brands. We offer our customers these national brand and private brand products at everyday low prices (typically $10 or less) in our convenient small-box (small store) locations. From 1968 through the end of 2008, we grew our store base from 215 in 13 states to 8,362 in 35 states and grew our annual sales from $40 million to $10.5 billion, which represents compound annual growth rates of 9.6% and 14.9%, respectively.

Our Business Model

Our compelling value and convenience proposition has driven our same-store sales growth regardless of economic conditions. Our small-box stores (averaging approximately 7,000 square feet) and our attractive store economics lead to strong returns on investment and, we believe, provide ample opportunity for growth. These elements combine for a profitable business model with wide appeal allowing us to be successful in varied markets. The fundamentals of our model are as follows:

Our value and convenience proposition: Our proposition to consumers is: "*Save time. Save money. Every day!*" We deliver on that pledge with convenient locations, a time-saving shopping experience and everyday low prices on quality basic merchandise. Our well-situated neighborhood locations drive customer loyalty and trip frequency and make us an attractive alternative to large discount and other big box (large store) retail stores.

Our consistent growth: We are now in our 20th year of consecutive annual same-store sales growth. We believe this success is driven by our necessity-weighted product mix and the strength of our value and convenience proposition, both of which attract consumers in all economic environments. We expect this combination will continue to provide a foundation for profitable same-store sales growth.

Our store economics: Our store economics are based on low capital investment to open stores, rapid sales increases after opening, consistent sales volumes in mature stores and low ongoing operating costs, which together result in an attractive return on capital. Our new stores are typically cash flow positive in their first year, generally pay back capital in under two years, and, we believe, deliver attractive returns relative to our competitors.

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Our History

J.L. Turner founded our Company in 1939 as J.L. Turner and Son, Wholesale. We opened our first store in 1955, when we were incorporated as a Kentucky corporation under the name J.L. Turner & Son, Inc. We changed our name to Dollar General Corporation in 1968 and reincorporated in 1998 as a Tennessee corporation. Our common stock was publicly traded from 1968 until July 2007, when we merged with an entity controlled by investment funds affiliated with Kohlberg Kravis Roberts & Co., L.P., or KKR. We are now a subsidiary of Buck Holdings, L.P., a Delaware limited partnership controlled by KKR. Following completion of this offering, Buck Holdings, L.P. will beneficially own approximately 89.5% of our outstanding common stock (or approximately 88% if the underwriters exercise their option to purchase additional shares in full). Our 2007 merger and the related financing transactions described herein are collectively referred to in this prospectus as the "Merger Transactions." See "Principal and Selling Shareholders" and "Description of Indebtedness."

Progress Since our 2007 Merger

Strengthening our management team has been one of our top priorities since our 2007 merger. In January 2008, we hired Richard W. Dreiling, who has 39 years of retail experience, to serve as our Chief Executive Officer. Including Mr. Dreiling, we have added or replaced eight executives at the Senior Vice President level or higher in our core merchandising and distribution functions and in key support roles including human resources, finance and information technology.

Ensuring superior execution of our operating priorities is one of our key strategic goals. Our operating priorities include: driving productive sales growth; increasing gross margins; leveraging process improvements and information technology to reduce costs; and strengthening and expanding Dollar General's culture of "serving others." Since our 2007 merger, our management team has focused on executing against these priorities, making a number of specific operational improvements in merchandising, private brand development, store operations, real estate and expense management. Examples of our progress since our 2007 merger include:

Merchandising

- Optimized our product assortment through rationalization of stock keeping units, or SKUs
- Improved product adjacencies and enhanced product presentation standards
- Introduced key new products and categories
- Implemented new markdown strategies
- Added new product fixtures

Private Brand

- Implemented new private branding strategy
- Improved quality standards and updated packaging
- Introduced approximately 600 net new private brand items

Store Operations

- Instituted a "model store" program
- Lowered store manager turnover
- Customized store hours
- Significantly reduced inventory shrink rate
- Further refined store work processes

Real Estate

Implemented more sophisticated store site selection

Enhanced our new real estate vetting processes

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- Improved our efforts in renegotiating lease terms and remodels and relocations
- Opened 207 new stores and remodeled or relocated 404 stores in 2008

Expense and Working Capital Management

- Instituted a process to mine for cost reduction
- Pursued a variety of cost-reducing distribution and transportation initiatives
- Implemented energy and waste management initiatives
- Improved inventory turns

These initiatives, along with more stringent business processes, have improved our operating and financial performance since our 2007 merger and we believe have laid the foundation for ongoing improvement. We generated strong sales growth of 10.1% in 2008, including annual same-store sales growth of 9.0%. For the first half of 2009, our total sales growth was 13.3%, including same-store sales growth of 10.8% following 7.8% same-store sales growth in the first half of 2008. These initiatives also allowed us to expand our gross profit margin to 29.3% in fiscal 2008, up from 27.3% for the 2007 predecessor period and 28.2% for the 2007 successor period, and 31.0% in the first half of 2009 as compared to 28.9% in the first half of 2008. We had net income of $108.2 million for the full fiscal year 2008 and $176.6 million for the first half of 2009, compared to $33.6 million for the first half of 2008. Since our 2007 merger, we have reduced our total outstanding long-term obligations by $539.8 million but remain highly leveraged, with $4.1 billion of total outstanding long-term obligations as of July 31, 2009.

Industry Overview

We compete primarily in the U.S. market for basic consumer packaged goods in categories including food, beverages, health and beauty care, paper products, pet supplies and other general merchandise, including basic apparel and home products. These categories encompass most of the everyday needs of consumers. According to Nielsen Homescan Panel data, the U.S. market for these products is approximately $843 billion, and grew at an average annual growth rate of 2.8% between 2001 and 2008. Nielsen Homescan Panel data indicates that sales in the discount retail channel grew at an average annual rate of 4.6% during the 2001-2008 period, including an increase in customer trips, whereas total customer trips for the overall consumer packaged goods market declined during the 2001 through 2008 period. Our current share of the $843 billion basic consumer packaged goods market is only 1.2% which, when coupled with our attractive value and convenience proposition, we believe provides substantial opportunity for growth.

Our Competitive Strengths

We believe our key competitive strengths that will enable us to execute our growth strategy include:

Compelling Value and Convenience Proposition. Our ability to deliver highly competitive prices on national brand and quality private brand products in convenient locations and our easy in and out shopping format provide a compelling shopping experience. Our slogan, "*Save time. Save money. Every day!*" summarizes our appeal to customers. We believe our ability to effectively deliver both value and convenience distinguishes us from many of our competitors and allows us to succeed in small markets, as well as to profitably coexist alongside larger retailers in more competitive markets.

We are in our 20th consecutive year of same-store sales growth. This growth, regardless of economic conditions, suggests that we have a less cyclical model than most retailers and, we believe, is a result of our strong value and convenience proposition. Our research indicates that the vast majority of new and existing customers plan to continue shopping with us after the economy recovers from the current recession.

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Attractive Store Economics. Our typical locations involve a modest, no-frills building design, which helps keep our costs relatively low. When coupled with our new stores' ability to generally deliver positive cash flow in the first year, this low capital expenditure requirement typically results in pay back of capital in under two years. Moreover, the financial performance of recently-opened stores appears to be outpacing many of our existing stores, which we believe is a result of significant enhancements to our real estate processes. Our ability to continue to achieve these results depends on our being able to find and secure new store locations that meet our defined real estate requirements.

Substantial Growth Opportunities. We believe we have substantial growth opportunities through both improved profitability of existing stores and new store openings. We are pursuing a number of initiatives to drive same-store sales growth, increase gross margins and reduce the operating costs of our existing store base. In addition, we believe we have the long-term potential in the U.S. to more than double our existing store base while maintaining or improving our return on capital. See "Our Growth Strategy" for additional details.

Experienced Management Team with a Proven Track Record. Our experienced senior management team has an average of 25 years of retail experience. In total, we have added eight senior executives (Senior Vice President or higher) with significant retail experience since our 2007 merger, in addition to numerous executives at the Vice President level. Alongside our veteran Dollar General executives, our newly expanded team has enhanced leadership capabilities and has made significant progress in developing and implementing world-class retailing processes at Dollar General.

Our Growth Strategy

Our long history of profitable growth is founded on a commitment to a relatively simple business model: providing a broad base of customers with their basic everyday and household needs, supplemented with a variety of general merchandise items, at everyday low prices in conveniently located, small-box stores. This successful business model enables growth from three distinct sources, including increasing store sales, expanding operating profit margins and growing our store base.

Increasing Sales. We believe the combination of our necessity-driven product mix and our attractive value proposition provide a strong basis for increased sales. We believe we will continue to have additional opportunities to increase our store productivity through continued improvements in space utilization, better in-stock positions and additional operating and merchandising initiatives. We are also continuing to define and improve our store standards and to adjust our store hours to better meet our customers' needs and enhance their experience in the store. Finally, we believe we have significant opportunities available for our relocation and remodel programs, which will further drive sales growth.

Most of our merchandising focus and the recent changes we have made have centered on items in our consumables category, which have demonstrated strong sales growth as a result. In 2009 we are bringing the same focus and intensity to our apparel, home and seasonal categories. We expect to start realizing the favorable impact from this effort in 2010 although there can be no assurance that our customers will respond favorably to these changes.

Expanding Operating Profit Margins. We believe that we can build on our recent strong financial results by continuing to enhance our gross profit and expense reduction initiatives, which include:

Merchandising. Our new line review processes are resulting in improved product selection and pricing decisions, contributing to our improved gross profit margins despite an increase in sales of consumables.

Sourcing. We believe we have the potential to directly source a larger portion of our products at significant savings to current costs. We are currently increasing our direct foreign sourcing

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efforts, as we believe direct sourcing offers significant opportunity for gross profit margin enhancement in the future.

Private Brand. Improving the consistency, quality, appearance and breadth of our private brand offerings has yielded increased penetration and higher gross margins, and we intend to continue to drive our private brand penetration going forward. As a percentage of consumables sales, we increased private brand penetration from approximately 17% in 2007 to approximately 21% in the first half of 2009. We expect to expand on these efforts in the future in addition to greatly increasing the role of private brands in our non-consumable offerings.

Inventory Shrink Rate Reduction. The reduction in shrink rate since 2007 has primarily resulted from the focus and relentless efforts of our field management team and the introduction of improved indicator metrics at the stores, in conjunction with improved hiring practices and lower store manager turnover. We continue to improve and automate our shrink indicator tools, and we believe we have opportunity for further shrink improvement.

Other Cost Reduction Efforts. We continually look for ways to improve our cost structure and enhance efficiencies throughout the organization. Cost reduction efforts include identifying additional efficiencies in distribution and transportation, labor productivity, store rent reduction, energy management and employee retention.

Growing Our Store Base. Based on a detailed, market-by-market analysis, we believe we have significant potential to increase our number of stores in existing and new markets. Our recent market analysis suggests there are as many as 12,000 opportunities, the majority of which are located in the 35 states where we currently operate. Based on the successes of our 2008 and 2009 new stores, we believe that our present level of new store growth is sustainable for the foreseeable future. In addition, we also believe that in the current real estate market environment there may be opportunities to negotiate lower rent and construction costs and to improve the overall quality of our sites at attractive rental rates.

Risk Factors

Investing in our common stock involves substantial risk, and our ability to successfully operate our business is subject to numerous risks, including those that are generally associated with operating in the retail industry. Any of the factors set forth under "Risk Factors" may limit our ability to successfully execute our business strategy. You should carefully consider all of the information set forth in this prospectus and, in particular, should evaluate the specific factors set forth under "Risk Factors" in deciding whether to invest in our common stock. Among these important risks are the following:

- our substantial debt could limit our ability to pursue our growth strategy;
- our debt agreements contain restrictions that may limit our flexibility in operating our business;
- our plans depend significantly on initiatives designed to increase sales and improve the efficiencies, costs and effectiveness of our operations, and failure to achieve or sustain these plans could affect our performance adversely;
- the current recession and general economic factors may adversely affect our performance;
- we face intense competition that could limit our growth opportunities;

- our private brands may not achieve or maintain broad market acceptance, which increases the risks we face; and
- our planned future growth will be impeded, which would adversely affect sales, if we cannot open new stores on schedule.

Our principal executive offices are located at 100 Mission Ridge, Goodlettsville, Tennessee 37072, and our telephone number is (615) 855-4000. Our website address is *www.dollargeneral.com*. The information on our website is not part of this prospectus.

We use a 52-53 week fiscal year ending on the Friday closest to January 31. Fiscal years are identified in this prospectus according to the calendar year prior to the calendar year in which they end. For example, 2008 refers to the fiscal year ended January 30, 2009.

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The Offering

Common stock offered by Dollar General	22,700,000 shares
Common stock offered by the selling shareholder	11,400,000 shares
Common stock to be outstanding after this offering	340,644,825 shares
Use of proceeds	We estimate that the net proceeds to us from this offering, after deducting underwriting discounts and estimated offering expenses, will be approximately $467.8 million, assuming the shares are offered at $22.00 per share, which is the midpoint of the estimated offering price range set forth on the cover page of this prospectus. We intend to use the anticipated net proceeds as follows: (1) $229.6 million of the net proceeds will be applied to redeem $205.2 million in aggregate principal amount of our 11.875/12.625% senior subordinated toggle notes due 2017 at a redemption price of 111.875% and (2) the remaining $238.3 million of the net proceeds will be applied to redeem $215.4 million in aggregate principal amount of our 10.625% senior notes due 2015 at a redemption price of 110.625%. Each such redemption will be made pursuant to a provision of the applicable indenture that permits us to redeem up to 35% of the aggregate principal amount of such notes with the net cash proceeds of certain equity offerings. In each case, we will pay accrued and unpaid interest on the notes through the redemption date with cash generated from operations. We will not receive any proceeds from the sale of shares of our common stock by the selling shareholder.
Underwriters' option	The selling shareholder has granted the underwriters a 30-day option to purchase up to 5,115,000 additional shares of our common stock at the initial public offering price.
Dividend policy	We have no current plans to pay dividends on our common stock in the foreseeable future. However, on September 8, 2009, our Board of Directors declared a special dividend on our outstanding common stock of approximately $239.3 million in the aggregate. The special dividend was paid on September 11, 2009 to shareholders of record on September 8, 2009 with cash generated from operations.

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Monitoring Agreement Fees	Upon the completion of this offering, pursuant to our monitoring agreement, we will pay a fee of approximately $64 million from cash generated from operations to KKR and Goldman, Sachs & Co. (which amount will include a transaction fee equal to 1%, or approximately $5 million, of the estimated gross primary proceeds from this offering and approximately $59 million in connection with its termination). See "Certain Relationships and Related Party Transactions Relationships with the Investors Monitoring Agreement and Indemnity Agreement."
Risk Factors	You should carefully read and consider the information set forth under "Risk Factors" beginning on page 12 of this prospectus and all other information set forth in this prospectus before investing in our common stock.
Ticker symbol	"DG"
Conflict of Interest	Certain of the underwriters and their respective affiliates have, from time to time, performed, and may in the future perform, various financial advisory, investment banking, commercial banking and other services for us for which they received or will receive customary fees and expenses. See "Underwriting." Goldman, Sachs & Co. and KKR Capital Markets LLC and/or their respective affiliates each own (through their investment in Buck Holdings, L.P.) in excess of 10% of our issued and outstanding common stock, and may therefore be deemed to be our "affiliates" and to have a "conflict of interest" with us within the meaning of NASD Conduct Rule 2720 ("Rule 2720") of the Financial Industry Regulatory Authority, Inc. Therefore, this offering will be conducted in accordance with Rule 2720, which requires that a qualified independent underwriter as defined in Rule 2720 participate in the preparation of the registration statement of which this prospectus forms a part and perform its usual standard of due diligence with respect thereto. See "Conflict of Interest."

Unless we indicate otherwise or the context requires, all information in this prospectus:

- assumes (1) no exercise of the underwriters' option to purchase additional shares of our common stock; (2) an initial public offering price of $22.00 per share, the midpoint of the initial public offering range indicated on the cover of this prospectus; and (3) the 1 to 1.75 reverse stock split that we effected on October 12, 2009.

- does not reflect (1) 13,419,343 shares of our common stock issuable upon the exercise of 13,419,343 outstanding stock options held by our officers and employees at a weighted average exercise price of $8.72 per share as of July 31, 2009, 4,310,235 of which were then exercisable and (2) 1,504,642 shares of our common stock reserved for future grants under our 2007 Stock Incentive Plan (including certain grants to be made to employees and non-employee directors upon the effectiveness of the registration statement of which this prospectus is a part or upon the closing of this offering). Our Board of Directors and our shareholders approved an increase in the number of shares authorized for issuance under our 2007 Stock Incentive Plan to 31,142,858, effective upon the closing of this offering.

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Summary Historical and Pro Forma Financial and Other Data

Set forth below is summary historical consolidated financial and other data and summary pro forma consolidated financial data of Dollar General Corporation at the dates and for the periods indicated. We derived the summary historical statement of operations data and statement of cash flows data for the fiscal years or periods, as applicable, ended January 30, 2009, February 1, 2008, July 6, 2007 and February 2, 2007, and balance sheet data as of January 30, 2009 and February 1, 2008, from our historical audited consolidated financial statements included elsewhere in this prospectus. We derived the summary consolidated selected financial data for the 26-week periods ended July 31, 2009 and August 1, 2008 from our unaudited condensed consolidated interim financial statements included elsewhere in this prospectus. We have prepared the unaudited condensed consolidated interim financial information set forth below on the same basis as our audited consolidated financial statements, except for the adoption of Statement of Financial Accounting Standards No. 161, *Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133*, and have included all adjustments, consisting only of normal recurring adjustments, that we consider necessary for a fair presentation of our financial position and operating results for such periods. The interim results set forth below are not necessarily indicative of results for the fiscal year ending January 29, 2010 or for any other period.

The summary unaudited pro forma consolidated financial data for the fiscal year ended February 1, 2008 has been prepared to give effect to the Merger Transactions in the manner described under "Management's Discussion and Analysis of Financial Condition and Results of Operations Unaudited Pro Forma Condensed Consolidated Financial Information" and the notes thereto. The pro forma adjustments are based upon available information and certain assumptions that we believe are reasonable. The summary unaudited pro forma consolidated financial data are for informational purposes only and do not purport to represent what our results of operations actually would have been if the Merger Transactions had occurred at any date, and such data do not purport to project the results of operations for any future period.

Our historical results are not necessarily indicative of future operating results. The information set forth below should be read in conjunction with, and is qualified in its entirety by reference to, "Selected Historical Financial and Other Data," "Management's Discussion and Analysis of Financial Condition and Results of Operations," and our consolidated financial statements and the related notes included elsewhere in this prospectus.

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	Historical			Pro Forma		Historical	
	Predecessor		Successor			Successor	
						26 Weeks Ended	
(amounts in millions, excluding number of stores, selling square feet, net sales per square foot and per share data)	**Year Ended February 2, 2007(1)**	**February 3, 2007 through July 6, 2007(1)**	**March 6, 2007 through February 1, 2008(1)(2)**	**Year Ended February 1, 2008**	**Year Ended January 30, 2009**	**August 1, 2008**	**July 31, 2009**
Statement of Operations Data:							
Net sales	$ 9,169.8	$ 3,923.8	$ 5,571.5	$ 9,495.2	$ 10,457.7	$ 5,012.9	$ 5,681.8
Cost of goods sold	6,801.6	2,852.2	3,999.6	6,852.5	7,396.6	3,561.8	3,920.4
Gross profit	2,368.2	1,071.6	1,571.9	2,642.8	3,061.1	1,451.1	1,761.4
Selling, general and administrative expenses	2,119.9	960.9	1,324.5	2,310.9	2,448.6	1,197.2	1,303.3
Litigation settlement and related costs, net					32.0		
Transaction and related costs		101.4	1.2	1.2			
Operating profit	248.3	9.2	246.1	330.6	580.5	253.9	458.1
Interest income	(7.0)	(5.0)	(3.8)	(8.8)	(3.1)	(2.2)	(0.1)
Interest expense	34.9	10.3	252.9	436.7	391.9	200.3	179.2
Other (income) expense			3.6	3.6	(2.8)	0.6	(0.7)
Income (loss) before income taxes	220.4	4.0	(6.6)	(100.9)	194.4	55.2	279.7
Income tax expense (benefit)	82.4	12.0	(1.8)	(42.9)	86.2	21.6	103.1
Net income (loss)	$ 137.9	$ (8.0)	$ (4.8)	$ (57.9)	$ 108.2	$ 33.6	$ 176.6
Earnings (loss) per share(3):							
Basic			$ (0.02)		$ 0.34	$ 0.11	$ 0.56
Diluted			(0.02)		0.34	0.11	0.55
Statement of Cash Flows Data:							
Net cash provided by (used in):							
Operating activities	$ 405.4	$ 201.9	$ 239.6		$ 575.2	$ 296.5	$ 243.9
Investing activities	(282.0)	(66.9)	(6,848.4)		(152.6)	(30.4)	(107.0)
Financing activities	(134.7)	25.3	6,709.0		(144.8)	(104.7)	0.5
Total capital expenditures	(261.5)	(56.2)	(83.6)		(205.5)	(80.1)	(107.3)
Other Financial and Operating Data:							
Same-store sales growth(4)	3.3%	2.6%	1.9%		9.0%	7.8%	10.8%
Same-store sales(4)	$ 8,327.2	$ 3,656.6	$ 5,264.2		$ 10,118.5	$ 4,830.1	$ 5,518.8
Number of stores included in same-store sales calculation	7,627	7,655	7,735		8,153	7,976	8,226
Number of stores (at period end)	8,229	8,205	8,194		8,362	8,308	8,577
Selling square feet in thousands (at period end)	57,299	57,379	57,376		58,803	58,302	60,431

Net sales per square foot(5)	$ 163	$ 164	$ 165	$ 180	$ 171	$ 188
Consumables sales	65.7%	66.7%	66.4%	69.3%	69.4%	71.3%
Seasonal sales	16.4%	15.4%	16.3%	14.6%	14.1%	13.7%
Home products sales	10.0%	9.2%	9.1%	8.2%	8.5%	7.6%
Apparel sales	7.9%	8.7%	8.2%	7.9%	8.1%	7.5%
Rent expense	$ 343.9	$ 150.2	$ 214.5	$ 389.6	$ 190.5	$ 206.3

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	Historical				
	Predecessor	Successor			
(amounts in millions)	February 2, 2007(1)	February 1, 2008(1)(2)	January 30, 2009	August 1, 2008	July 31, 2009
Balance Sheet Data (at period end):					
Cash and cash equivalents and short-term investments	$ 219.2	$ 119.8	$ 378.0	$ 261.6	$ 515.4
Total assets	3,040.5	8,656.4	8,889.2	8,909.8	9,139.9
Total long-term obligations	270.0	4,282.0	4,137.1	4,180.6	4,137.8
Total shareholders' equity	1,745.7	2,703.9	2,831.7	2,766.8	3,016.5

(1) Includes the effects of certain strategic merchandising and real estate initiatives that resulted in the closing of approximately 460 stores and changes in our inventory management model which resulted in greater inventory markdowns than in previous years.

(2) Includes the results of operations of Buck Acquisition Corp. for the period prior to its 2007 merger with and into Dollar General Corporation from March 6, 2007 (Buck's formation) through July 6, 2007 (reflecting the change in fair value of interest rate swaps), and the post-merger results of Dollar General Corporation for the period from July 7, 2007 through February 1, 2008.

(3) Because of our 2007 merger, our capital structure for periods before and after the merger is not comparable, and therefore we are presenting earnings per share information only for periods subsequent to our 2007 merger.

(4) Same-store sales have been calculated based upon stores that were open at least 13 full fiscal months and remained open at the end of the reporting period. If applicable, we exclude the sales in the 53rd week of a 53-week year from the same-store sales calculation.

(5) Net sales per square foot was calculated based on total sales for the preceding 12 months as of the ending date of the reporting period divided by the average selling square footage during the period, including the end of the fiscal year, the beginning of the fiscal year, and the end of each of our three interim fiscal quarters. For the period from February 3, 2007 through July 6, 2007, average selling square footage was calculated using the average of square footage as of July 6, 2007 and as of the end of each of the four preceding quarters.

RISK FACTORS

An investment in our common stock involves risk. You should carefully consider the following risks as well as the other information included in this prospectus, including "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our financial statements and related notes, before investing in our common stock. Any of the following risks could materially and adversely affect our business, financial condition or results of operations. However, the selected risks described below are not the only risks facing us. Additional risks and uncertainties not currently known to us or those we currently view to be immaterial may also materially and adversely affect our business, financial condition or results of operations. In such a case, the trading price of the common stock could decline and you may lose all or part of your investment in our company.

Risks Related to Our Business

The fact that we have substantial debt could adversely affect our ability to raise additional capital to fund our operations and limit our ability to pursue our growth strategy or to react to changes in the economy or our industry.

We have substantial debt, including a $2.3 billion senior secured term loan facility which matures on July 6, 2014, $1.175 billion aggregate principal amount of 10.625% senior notes due 2015 and $655.9 million aggregate principal amount of 11.875% / 12.625% senior subordinated toggle notes due 2017. This debt could have important negative consequences to our business, including:

- increasing the difficulty of our ability to make payments on our outstanding debt;
- increasing our vulnerability to general economic and industry conditions because our debt payment obligations may limit our ability to use our cash to respond to or defend against changes in the industry or the economy;
- requiring a substantial portion of our cash flow from operations to be dedicated to the payment of principal and interest on our indebtedness, therefore reducing our ability to use our cash flow to fund our operations, capital expenditures and future business opportunities or make dividends;
- limiting our ability to obtain additional financing for working capital, capital expenditures, debt service requirements, acquisitions and general corporate or other purposes;
- limiting our ability to pursue our growth strategy; and
- placing us at a disadvantage compared to our competitors who are less highly leveraged and may be better able to use their cash flow to fund competitive responses to changing industry, market or economic conditions.

Our variable rate debt exposes us to interest rate risk which could adversely affect our cash flow.

The borrowings under the term loan facility and the senior secured asset-based revolving credit facility of up to $1.031 billion, subject to borrowing base availability, which matures July 6, 2013, which, together with the term loan facility, comprise our credit facilities, bear interest at variable rates and other debt we incur also could be variable-rate debt. If market interest rates increase, variable-rate debt will create higher debt service requirements, which could adversely affect our cash flow. While we have and may in the future enter into agreements limiting our exposure to higher interest rates, any such agreements may not offer complete protection from this risk.

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Our debt agreements contain restrictions that may limit our flexibility in operating our business.

Our credit facilities and the indentures governing our notes contain various covenants that may limit our ability to engage in specified types of transactions. These covenants limit our and our restricted subsidiaries' ability to, among other things:

- incur additional indebtedness, issue disqualified stock or issue certain preferred stock;
- pay dividends and make certain distributions, investments and other restricted payments;
- create certain liens or encumbrances;
- sell assets;
- enter into transactions with our affiliates;
- limit the ability of restricted subsidiaries to make payments to us;
- merge, consolidate, sell or otherwise dispose of all or substantially all of our assets; and
- designate our subsidiaries as unrestricted subsidiaries.

A breach of any of these covenants could result in a default under the agreement governing such indebtedness. Upon our failure to maintain compliance with these covenants, the lenders could elect to declare all amounts outstanding thereunder to be immediately due and payable and terminate all commitments to extend further credit thereunder. If the lenders under such indebtedness accelerate the repayment of borrowings, we cannot assure you that we will have sufficient assets to repay those borrowings, as well as our other indebtedness, including our outstanding notes. We have pledged a significant portion of our assets as collateral under our credit facilities. If we were unable to repay those amounts, the lenders under our credit facilities could proceed against the collateral granted to them to secure that indebtedness. Additional borrowings under the senior secured asset-based revolving credit facility will, if excess availability under that facility is less than a certain amount, be subject to the satisfaction of a specified financial ratio. Accordingly, our ability to access the full availability under our senior secured asset-based revolving credit facility may be constrained. Our ability to meet this financial ratio can be affected by events beyond our control, and we cannot assure you that we will meet this ratio and other covenants.

The current recession and general economic factors may adversely affect our financial performance and other aspects of our business.

We believe that many of our customers are on fixed or low incomes and generally have limited discretionary spending dollars. A further slowdown in the economy or other economic conditions affecting disposable consumer income, such as increased unemployment levels, inflation, increases in fuel, other energy costs and interest rates, lack of available credit and further erosion in consumer confidence, may adversely affect our business by reducing those customers' spending or by causing them to shift their spending to products other than those sold by us or to products sold by us that are less profitable than other product choices, all of which could result in lower net sales, decreases in inventory turnover, greater markdowns on inventory, and a reduction in profitability due to lower margins. Many of those factors, as well as commodity rates, transportation costs, costs of labor, insurance and healthcare, foreign exchange rate fluctuations, lease costs, changes in other laws and regulations and other economic factors, also affect our cost of goods sold and our selling, general and administrative expenses, which may adversely affect our sales or profitability. We have limited or no ability to control such factors.

In addition, many of the factors discussed above, along with current adverse global economic conditions and uncertainties, the potential impact of the current recession, the potential for additional failures or realignments of financial institutions, and the related impact on available credit may affect us and our suppliers and other business partners, landlords, and customers in an adverse manner

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including, but not limited to, reducing access to liquid funds or credit (including through the loss of one or more financial institutions that are a part of our revolving credit facility), increasing the cost of credit, limiting our ability to manage interest rate risk, increasing the risk of bankruptcy of our suppliers, landlords or counterparties to or other financial institutions involved in our credit facilities and our derivative and other contracts, increasing the cost of goods to us, and other adverse consequences which we are unable to fully anticipate.

Our plans depend significantly on initiatives designed to increase sales and improve the efficiencies, costs and effectiveness of our operations, and failure to achieve or sustain these plans could affect our performance adversely.

We have had, and expect to continue to have, initiatives (such as those relating to marketing, merchandising, promotions, sourcing, shrink, private brand, store operations and real estate) in various stages of testing, evaluation, and implementation, upon which we expect to rely to continue to improve our results of operations and financial condition. These initiatives are inherently risky and uncertain, even when tested successfully, in their application to our business in general. It is possible that successful testing can result partially from resources and attention that cannot be duplicated in broader implementation, particularly in light of the diverse geographic locations of our stores and the fact that our field management is so decentralized. Testing and general implementation also can be affected by other risk factors described herein that reduce the results expected. Successful systemwide implementation relies on consistency of training, stability of workforce, ease of execution, and the absence of offsetting factors that can influence results adversely. Failure to achieve successful implementation of our initiatives or the cost of these initiatives exceeding management's estimates could adversely affect our results of operations and financial condition.

Risks associated with or faced by the domestic and foreign suppliers from whom our products are sourced could adversely affect our financial performance.

The products we sell are sourced from a wide variety of domestic and international suppliers. In fact, our largest supplier, The Procter & Gamble Company accounted for only 10% of our purchases in 2008. Our next largest supplier accounted for approximately 6% of our purchases in 2008. Nonetheless, if a supplier fails to deliver on key commitments, we could experience merchandise shortages that could lead to lost sales.

We directly imported approximately 10% of our purchases (measured at cost) in 2008, but many of our domestic vendors directly import their products or components of their products. Political and economic instability in the countries in which foreign suppliers are located, the financial instability of suppliers, suppliers' failure to meet our supplier standards, issues with labor practices of our suppliers or labor problems they may experience (such as strikes), the availability and cost of raw materials to suppliers, merchandise quality or safety issues, currency exchange rates, transport availability and cost, inflation, and other factors relating to the suppliers and the countries in which they are located or from which they import are beyond our control and could have negative implications for us. Because a substantial amount of our imported merchandise comes from China, a change in the Chinese currency or other policies could negatively impact our merchandise costs. In addition, the United States' foreign trade policies, tariffs and other impositions on imported goods, trade sanctions imposed on certain countries, the limitation on the importation of certain types of goods or of goods containing certain materials from other countries and other factors relating to foreign trade are beyond our control. Disruptions due to labor stoppages, strikes or slowdowns, or other disruptions involving our vendors or the transportation and handling industries also may negatively affect our ability to receive merchandise and thus may negatively affect sales. These and other factors affecting our suppliers and our access to products could adversely affect our financial performance. As we increase our imports of merchandise from foreign vendors, the risks associated with foreign imports will increase.

Product liability and food safety claims could adversely affect our business, reputation and financial performance.

We may be subject to product liability claims from customers or penalties from government agencies relating to products, including food products, that are recalled, defective or otherwise harmful. Such claims may result from tampering by unauthorized third parties, product contamination or spoilage, including the presence of foreign objects, substances, chemicals, other agents, or residues introduced during the growing, storage, handling and transportation phases. All of our vendors and their products must comply with applicable product and food safety laws. We generally seek contractual indemnification and insurance coverage from our suppliers. However, if we do not have adequate insurance or contractual indemnification available, such claims could have a material adverse effect on our business, financial condition and results of operation. Our ability to obtain indemnification from foreign suppliers may be hindered by the manufacturers' lack of understanding of U.S. product liability or other laws, which may make it more likely that we be required to respond to claims or complaints from customers as if we were the manufacturer of the products. Even with adequate insurance and indemnification, such claims could significantly damage our reputation and consumer confidence in our products. Our litigation expenses could increase as well, which also could have a materially negative impact on our results of operations even if a product liability claim is unsuccessful or is not fully pursued.

Our private brands may not achieve or maintain broad market acceptance and increases the risks we face.

We have substantially increased the number of our private brand items, and the program is a sizable part of our future growth plans. We believe that our success in gaining and maintaining broad market acceptance of our private brands depends on many factors, including pricing, our costs, quality and customer perception. We may not achieve or maintain our expected sales for our private brands. As a result, our business, financial condition and results of operations could be materially and adversely affected.

We are subject to governmental regulations, procedures and requirements. A significant change in, or noncompliance with, these regulations could have a material adverse effect on our financial performance.

Our business is subject to numerous federal, state and local laws and regulations. We routinely incur costs in complying with these regulations. New laws or regulations or changes in existing laws and regulations, particularly those governing the sale of products, may require extensive system and operating changes that may be difficult to implement and could increase our cost of doing business. In addition, such changes or new laws may require the write off and disposal of existing product inventory, resulting in significant adverse financial impact to the Company. Untimely compliance or noncompliance with applicable regulations or untimely or incomplete execution of a required product recall can result in the imposition of penalties, including loss of licenses or significant fines or monetary penalties, in addition to reputational damage.

Litigation may adversely affect our business, financial condition and results of operations.

Our business is subject to the risk of litigation by employees, consumers, suppliers, competitors, shareholders, government agencies or others through private actions, class actions, administrative proceedings, regulatory actions or other litigation. The number of employment-related class actions filed each year has continued to increase, and recent changes in Federal law may cause claims to rise even more. The outcome of litigation, particularly class action lawsuits, regulatory actions and intellectual property claims, is difficult to assess or quantify. Plaintiffs in these types of lawsuits may seek recovery of very large or indeterminate amounts, and the magnitude of the potential loss relating to these lawsuits may remain unknown for substantial periods of time. In addition, certain of these lawsuits, if decided adversely to us or settled by us, may result in liability material to our financial

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statements as a whole or may negatively affect our operating results if changes to our business operation are required. The cost to defend future litigation may be significant. There also may be adverse publicity associated with litigation that could negatively affect customer perception of our business, regardless of whether the allegations are valid or whether we are ultimately found liable. As a result, litigation may adversely affect our business, financial condition and results of operations. See "Business Legal Proceedings" for further details regarding certain of these pending matters.

Failure to attract and retain qualified employees, particularly field, store and distribution center managers, while controlling labor costs, as well as other labor issues, could adversely affect our financial performance.

Our future growth and performance depends on our ability to attract, retain and motivate qualified employees, many of whom are in positions with historically high rates of turnover such as field managers and distribution center managers. Our ability to meet our labor needs, while controlling our labor costs, is subject to many external factors, including competition for and availability of qualified personnel in a given market, unemployment levels within those markets, prevailing wage rates, minimum wage laws, health and other insurance costs and changes in employment and labor legislation (including changes in the process for our employees to join a union) or other workplace regulation (including changes in entitlement programs such as health insurance and paid leave programs). To the extent a significant portion of our employee base unionizes, or attempts to unionize, our labor costs could increase. Our ability to pass along labor costs to our customers is constrained.

Our profitability may be negatively affected by inventory shrinkage.

We are subject to the risk of inventory loss and theft. We have experienced inventory shrinkage in the past, and we cannot assure you that incidences of inventory loss and theft will decrease in the future or that the measures we are taking will effectively address the problem of inventory shrinkage. Although some level of inventory shrinkage is a necessary and unavoidable cost of doing business, if we were to experience higher rates of inventory shrinkage or incur increased security costs to combat inventory theft, our financial condition could be affected adversely.

A significant disruption to our distribution network or to the timely receipt of inventory could adversely impact sales or increase our transportation costs, which would decrease our profits.

We rely on our ability to replenish depleted inventory in our stores through deliveries to our distribution centers from vendors and then from the distribution centers or direct ship vendors to our stores by various means of transportation, including shipments by sea and truck. Unexpected delays in those deliveries or increases in transportation costs (including through increased fuel costs) could significantly decrease our ability to make sales and earn profits. In addition, labor shortages in the transportation industry or long-term disruptions to the national and international transportation infrastructure that lead to delays or interruptions of deliveries could negatively affect our business.

Our cash flows from operations may be negatively affected if we are not successful in managing our inventory balances.

Efficient inventory management is a key component of our business success and profitability. To be successful, we must maintain sufficient inventory levels to meet our customers' demands without allowing those levels to increase to an extent such that the costs to store and hold the goods unduly impacts our financial results. If our buying decisions do not accurately predict customer trends or purchasing actions, we may have to take unanticipated markdowns to dispose of the excess inventory, which also can adversely impact our financials results. While our inventory turns have improved and we continue to focus on ways to reduce these risks, we cannot assure you that we will continue to be efficient and successful in our inventory management. If we are not successful in managing our inventory balances, our cash flows from operations may be negatively affected.

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Our planned future growth will be impeded, which would adversely affect sales, if we cannot open new stores on schedule.

Our growth is dependent on both increases in sales in existing stores and the ability to open profitable new stores. Increases in sales in existing stores are dependent on factors such as competition, merchandise selection, store operations and other factors discussed in these Risk Factors. Our ability to timely open new stores and to expand into additional market areas depends in part on the following factors: the availability of attractive store locations; the absence of occupancy delays; the ability to negotiate favorable lease terms; the ability to hire and train new personnel, especially store managers in a cost effective manner; the ability to identify customer demand in different geographic areas; general economic conditions; and the availability of sufficient funds for expansion. In addition, many of these factors affect our ability to successfully relocate stores. Many of these factors are beyond our control. In addition, our substantial debt, particularly combined with the recent tightening of the credit markets, has made it more difficult for our real estate developers to obtain loans for our build-to-suit stores and to locate investors for those properties after they have been developed. If this trend continues, it could materially adversely impact our ability to open build-to-suit stores in desirable locations.

Delays or failures in opening new stores, or achieving lower than expected sales in new stores, or drawing a greater than expected proportion of sales in new stores from existing stores, could materially adversely affect our growth and/or profitability. In addition, we may not anticipate all of the challenges imposed by the expansion of our operations and, as a result, may not meet our targets for opening new stores, remodeling or relocating stores or expanding profitably.

Some of our new stores may be located in areas where we have little or no meaningful experience. Those markets may have different competitive conditions, market conditions, consumer tastes and discretionary spending patterns than our existing markets, which may cause our new stores to be less successful than stores in our existing markets.

Some of our new stores will be located in areas where we have existing units. Although we have experience in these markets, increasing the number of locations in these markets may result in inadvertent over-saturation of markets and temporarily or permanently divert customers and sales from our existing stores, thereby adversely affecting our overall financial performance.

Because our business is seasonal to a certain extent, with the highest volume of net sales during the fourth quarter, adverse events during the fourth quarter could materially affect our financial statements as a whole.

We generally recognize our highest volume of net sales during the Christmas selling season, which occurs in the fourth quarter of our fiscal year. In anticipation of this holiday, we purchase substantial amounts of seasonal inventory and hire many temporary employees. An excess of seasonal merchandise inventory could result if our net sales during the Christmas selling season were to fall below either seasonal norms or expectations. If our fourth quarter sales results were substantially below expectations, our financial performance and operating results could be adversely affected by unanticipated markdowns, especially in seasonal merchandise. Lower than anticipated sales in the Christmas selling season would also negatively affect our ability to absorb the increased seasonal labor costs.

We face intense competition that could limit our growth opportunities and adversely impact our financial performance.

The retail business is highly competitive. We operate in the basic consumer packaged goods market, which is competitive with respect to price, store location, merchandise quality, assortment and presentation, in-stock consistency, and customer service. This competitive environment subjects us to the risk of adverse impact to our financial performance because of the lower prices, and thus the lower margins, required to maintain our competitive position. Also, companies operating in the basic consumer packaged goods market (due to customer demographics and other factors) may have limited ability to increase prices in response to increased costs (including, but not limited to, vendor price increases). This limitation may adversely affect our margins and financial performance. We compete for customers, employees, store sites, products and services and in other important aspects of our business with many other local, regional and national retailers. We compete with retailers operating discount, mass merchandise, outlet, warehouse, club, grocery, drug, convenience, variety and other specialty stores. Certain of our competitors have greater financial, distribution, marketing and other resources than we do and may be able to secure better arrangements with suppliers than we can. These other competitors compete in a variety of ways, including aggressive promotional activities, merchandise selection and availability, services offered to customers, location, store hours, in-store amenities and price. If we fail to respond effectively to competitive pressures and changes in the retail markets, it could adversely affect our financial performance.

Competition for customers has intensified in recent years as larger competitors have moved into, or increased their presence in, our geographic markets. We remain vulnerable to the marketing power and high level of consumer recognition of these larger competitors and to the risk that these competitors or others could venture into our industry in a significant way. Generally, we expect an increase in competition.

Natural disasters, unusually adverse weather conditions, pandemic outbreaks, terrorist acts, and global political events could cause permanent or temporary distribution center or store closures, impair our ability to purchase, receive or replenish inventory, or decrease customer traffic, all of which could result in lost sales and otherwise adversely affect our financial performance.

The occurrence of one or more natural disasters, such as hurricanes, fires, floods, and earthquakes, unusually adverse weather conditions, pandemic outbreaks, terrorist acts or disruptive global political events, such as civil unrest in countries in which our suppliers are located, or similar disruptions could adversely affect our operations and financial performance. To the extent these events result in the closure of one or more of our distribution centers or a significant number of stores or impact one or more of our key suppliers, our operations and financial performance could be materially adversely affected through an inability to make deliveries to our stores and through lost sales. In addition, these events could result in increases in fuel (or other energy) prices or a fuel shortage, delays in opening new stores, the temporary lack of an adequate work force in a market, the temporary or long-term disruption in the supply of products from some local and overseas suppliers, the temporary disruption in the transport of goods from overseas, delay in the delivery of goods to our distribution centers or stores, the temporary reduction in the availability of products in our stores and disruption to our information systems. These events also can have indirect consequences such as increases in the costs of insurance if they result in significant loss of property or other insurable damage.

Material damage to, or interruptions to, our information systems as a result of external factors, staffing shortages and difficulties in updating our existing software or developing or implementing new software could have a material adverse effect on our business or results of operations.

We depend on a variety of information technology systems for the efficient functioning of our business. Such systems are subject to damage or interruption from power outages, computer and telecommunications failures, computer viruses, security breaches and natural disasters. Damage or interruption to our computer systems may require a significant investment to fix or replace them, and we may suffer interruptions in our operations in the interim. Any material interruptions may have a material adverse effect on our business or results of operations.

We also rely heavily on our information technology staff. If we cannot meet our staffing needs in this area, we may not be able to fulfill our technology initiatives while continuing to provide

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maintenance on existing systems. We rely on certain software vendors to maintain and periodically upgrade many of these systems so that they can continue to support our business. The software programs supporting many of our systems were licensed to us by independent software developers. The inability of these developers or us to continue to maintain and upgrade these information systems and software programs would disrupt or reduce the efficiency of our operations if we were unable to convert to alternate systems in an efficient and timely manner. In addition, costs and potential problems and interruptions associated with the implementation of new or upgraded systems and technology or with maintenance or adequate support of existing systems could also disrupt or reduce the efficiency of our operations.

Our current insurance program may expose us to unexpected costs and negatively affect our financial performance.

Our insurance coverage reflects deductibles, self-insured retentions, limits of liability and similar provisions that we believe are prudent based on the dispersion of our operations. However, there are types of losses we may incur but against which we cannot be insured or which we believe are not economically reasonable to insure, such as losses due to acts of war, employee and certain other crime and some natural disasters. If we incur these losses and they are material, our business could suffer. Certain material events may result in sizable losses for the insurance industry and adversely impact the availability of adequate insurance coverage or result in excessive premium increases. To offset negative insurance market trends, we may elect to self-insure, accept higher deductibles or reduce the amount of coverage in response to these market changes. In addition, we self-insure a significant portion of expected losses under our workers' compensation, automobile liability, general liability and group health insurance programs. Unanticipated changes in any applicable actuarial assumptions and management estimates underlying our recorded liabilities for these losses, including expected increases in medical and indemnity costs, could result in materially different amounts of expense than expected under these programs, which could have a material adverse effect on our financial condition and results of operations. Although we continue to maintain property insurance for catastrophic events, we are effectively self-insured for property losses up to the amount of our deductibles. If we experience a greater number of these losses than we anticipate, our financial performance could be adversely affected.

If we fail to protect our brand name, competitors may adopt tradenames that dilute the value of our brand name.

We may be unable or unwilling to strictly enforce our trademark in each jurisdiction in which we do business. Also, we may not always be able to successfully enforce our trademarks against competitors, or against challenges by others. Our failure to successfully protect our trademarks could diminish the value and efficacy of our brand recognition, and could cause customer confusion, which could, in turn, adversely affect our sales and profitability.

Our success depends on our executive officers and other key personnel. If we lose key personnel or are unable to hire additional qualified personnel, our business may be harmed.

Our future success depends to a significant degree on the skills, experience and efforts of our executive officers and other key personnel. The loss of the services of any of our executive officers, particularly Richard W. Dreiling, our Chief Executive Officer, could have a material adverse effect on our operations. Our future success will also depend on our ability to attract and retain qualified personnel and a failure to attract and retain new qualified personnel could have an adverse effect on our operations. We do not currently maintain key person life insurance policies with respect to our executive officers or key personnel.

We face risks related to protection of customers' credit card data.

In connection with credit card sales, we transmit confidential credit card information. Third parties may have the technology or know-how to breach the security of this customer information, and our security measures and those of our technology vendors may not effectively prohibit others from obtaining improper access to this information. Any security breach could expose us to risks of data loss, litigation and liability and could seriously disrupt our operations and any resulting negative publicity could significantly harm our reputation.

Risks Related to this Offering and Ownership of Our Common Stock

An active, liquid trading market for our common stock may not develop.

After our 2007 merger and prior to this offering, there has not been a public market for our common stock. We cannot predict the extent to which investor interest in our company will lead to the development of a trading market on the New York Stock Exchange or otherwise or how active and liquid that market may become. If an active and liquid trading market does not develop, you may have difficulty selling any of our common stock that you purchase. The initial public offering price for the shares will be determined by negotiations between us and the underwriters and may not be indicative of prices that will prevail in the open market following this offering. The market price of our common stock may decline below the initial offering price, and you may not be able to sell your shares of our common stock at or above the price you paid in this offering, or at all.

You will incur immediate and substantial dilution in the net tangible book value of the shares you purchase in this offering.

Prior investors have paid substantially less per share of our common stock than the price in this offering. The initial public offering price of our common stock is substantially higher than the net tangible book value per share of outstanding common stock prior to completion of the offering. Based on our net tangible book value as of July 31, 2009 and upon the issuance and sale of 22,700,000 shares of common stock by us at an assumed initial public offering price of $22.00 per share (the midpoint of the initial public offering price range indicated on the cover of this prospectus), if you purchase our common stock in this offering, you will pay more for your shares than the amounts paid by our existing shareholders for their shares and you will suffer immediate dilution of approximately $29.13 per share in net tangible book value after giving effect to (1) the sale of 22,700,000 shares of our common stock in this offering assuming an initial public offering price of $22.00 per share, less the underwriting discounts and commissions and the estimated offering expenses payable by us, (2) the payment of a special dividend in an amount of approximately $239.3 million to our existing shareholders on September 11, 2009, and (3) the payment of approximately $64 million in fees under our monitoring agreement with KKR and Goldman, Sachs & Co. (see "Certain Relationships and Related Party Transactions Relationships with the Investors Monitoring Agreement and Indemnity Agreement," "Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources" and our condensed consolidated balance sheets as of July 31, 2009 and Note 10 thereto) and without taking into account any other changes in such net tangible book value after July 31, 2009. We also have a large number of outstanding stock options to purchase common stock with exercise prices that are below the estimated initial public offering price of our common stock. To the extent that these options are exercised, you will experience further dilution. See "Dilution."

Our stock price may change significantly following the offering, and you could lose all or part of your investment as a result.

We and the underwriters will negotiate to determine the initial public offering price. You may not be able to resell your shares at or above the initial public offering price due to a number of factors such as those listed in "   Risks Related to Our Business" and the following, some of which are beyond our control:

- quarterly variations in our results of operations;
- results of operations that vary from the expectations of securities analysts and investors;
- results of operations that vary from those of our competitors;
- changes in expectations as to our future financial performance, including financial estimates by securities analysts and investors;
- announcements by us, our competitors or our vendors of significant contracts, acquisitions, joint marketing relationships, joint ventures or capital commitments;
- announcements by third parties of significant claims or proceedings against us;
- increases in prices of raw materials for our products, fuel or our goods;
- future sales of our common stock; and
- general domestic and international economic conditions.

Furthermore, the stock market recently has experienced extreme volatility that in some cases has been unrelated or disproportionate to the operating performance of particular companies. These broad market and industry fluctuations may adversely affect the market price of our common stock, regardless of our actual operating performance.

In the past, following periods of market volatility, shareholders have instituted securities class action litigation. If we were involved in securities litigation, it could have a substantial cost and divert resources and the attention of executive management from our business regardless of the outcome of such litigation.

If we or our existing investors sell additional shares of our common stock after this offering, the market price of our common stock could decline.

The market price of our common stock could decline as a result of sales of a large number of shares of common stock in the market after this offering, or the perception that such sales could occur. These sales, or the possibility that these sales may occur, also might make it more difficult for us to sell equity securities in the future at a time and at a price that we deem appropriate. After the completion of this offering, we will have 340,644,825 shares of common stock outstanding. This number includes 34,100,000 shares being sold in this offering, which may be resold immediately in the public market.

We, our directors and executive officers, the selling shareholder and, through their investment in Buck Holdings, L.P., KKR, GS Capital Partners VI Fund, L.P., GSUIG, LLC and affiliated funds, which we refer to collectively as the GS Investors (affiliates of Goldman, Sachs & Co.), Citigroup Capital Partners II Employee Master Fund, L.P. and affiliated funds, which we refer to collectively as the Citi Private Equity Investors (affiliates of Citigroup Global Markets Inc.), certain investment advisory clients of Wellington Management Company, LLP, CPP Investment Board (USRE II) Inc., and other equity co-investors, which we refer to collectively as the "Investors," have agreed not to offer or sell, dispose of or hedge, directly or indirectly, any common stock without the permission of each of Citigroup Global Markets Inc., Goldman, Sachs & Co. and KKR Capital Markets LLC for a period of 180 days from the date of this prospectus, subject to certain exceptions and automatic extension in certain circumstances. In addition, pursuant to shareholders agreements, we have granted certain members of our management and other shareholders the right to cause us, in certain instances, at our expense, to file registration statements under the Securities Act of 1933, as amended (the "Securities Act") covering resales of our common stock held by them or to piggyback on a registration statement in certain circumstances. This right will not be able to be exercised during the 180 day restricted period described above. These shares will represent approximately 90% of our outstanding common stock after this offering. These shares also may be sold pursuant to Rule 144 under the Securities Act, depending on their holding period and subject to restrictions in the case of shares held by persons deemed to be our affiliates. As restrictions on resale end or if these shareholders exercise their registration rights, the market price of our stock could decline if the holders of restricted shares sell them or are perceived by the market as intending to sell them. See "Certain Relationships and Related Party Transactions Relationships with the Investors Registration Rights Agreement" and "Shares Eligible for Future Sale."

As of July 31, 2009, 317,961,969 shares of our common stock were outstanding (1,733,386 of which are held by our employees and are subject to restrictions on transfer), 4,310,235 shares were issuable upon the exercise of outstanding vested stock options under our 2007 stock incentive plan and our 1998 stock incentive plan, 9,109,108 shares were subject to outstanding unvested stock options under our 2007 stock incentive plan, and 1,504,642 shares were reserved for future grant under our 2007 stock incentive plan. Our Board of Directors and our shareholders approved the increase in the number of shares authorized for issuance under our 2007 stock incentive plan to 31,142,858, effective upon the closing of this offering. All shares held by employees and all stock options and restricted stock granted under our stock incentive plans are subject to transfer restrictions that run for five years from the date of our 2007 merger or the employee's hire or promotion date, as applicable, unless such restrictions lapse in accordance with the terms of the management stockholder's agreements. In addition, in connection with this offering, we have agreed to waive these transfer restrictions on 61,785 shares of our common stock and 155,709 shares of our common stock underlying vested stock options as of August 20, 2009 held by our employees following the expiration of the 180 day restricted period under the underwriting agreement. See "Certain Relationships and Related Party Transactions Relationships with Management." Subject to the lapse of such transfer restrictions, these shares will first become eligible for resale 180 days after the date of this prospectus. Sales of a substantial number of shares of our common stock could cause the market price of our common stock to decline.

Because we have no current plans to pay cash dividends on our common stock for the foreseeable future, you may not receive any return on investment unless you sell your common stock for a price greater than that which you paid for it.

We may retain future earnings, if any, for future operation, expansion and debt repayment and have no current plans to pay any cash dividends for the foreseeable future (other than the special dividend that we paid prior to this offering). Any decision to declare and pay dividends in the future will be made at the discretion of our Board of Directors and will depend on, among other things, our results of operations, financial condition, cash requirements, contractual restrictions and other factors that our Board of Directors may deem relevant. In addition, our ability to pay dividends may be limited by covenants of any existing and future outstanding indebtedness we or our subsidiaries incur, including our Credit Facilities and the indentures governing the notes. As a result, you may not receive any return on an investment in our common stock unless you sell our common stock for a price greater than that which you paid for it.

Some provisions of Tennessee law and our governing documents could discourage a takeover that shareholders may consider favorable.

In addition to the Investors' ownership of a controlling percentage of our common stock, Tennessee law and provisions contained in our charter and bylaws as we expect them to be in effect upon completion of this offering could make it difficult for a third party to acquire us, even if doing so might be beneficial to our shareholders. For example, our charter authorizes our Board of Directors to determine the rights, preferences, privileges and restrictions of unissued preferred stock, without any vote or action by our shareholders. As a result, our Board of Directors could authorize and issue shares of preferred stock with voting or conversion rights that could adversely affect the voting or other rights of holders of our common stock or with other terms that could impede the completion of a merger, tender offer or other takeover attempt. In addition, as described under "Description of Capital Stock

Tennessee Anti-Takeover Statutes" elsewhere in this prospectus, we are subject to certain provisions of Tennessee law that may discourage potential acquisition proposals and may delay, deter or prevent a change of control of our company, including through transactions, and, in particular, unsolicited transactions, that some or all of our shareholders might consider to be desirable. As a result, efforts by our shareholders to change the direction or management of our company may be unsuccessful.

The Investors will continue to have significant influence over us after this offering, including control over decisions that require the approval of shareholders, which could limit your ability to influence the outcome of key transactions, including a change of control.

We are controlled, and after this offering is completed will continue to be controlled, by the Investors. The Investors will have an indirect interest in approximately 89.5% of our common stock (or 88.0% if the underwriters exercise their option to purchase additional shares in full) after the completion of this offering through their investment in Buck Holdings, L.P. In addition, the Investors will have the ability to elect our entire Board of Directors. As a result, the Investors will have control over our decisions to enter into any corporate transaction and the ability to prevent any transaction that requires shareholder approval regardless of whether others believe that the transaction is in our best interests. So long as the Investors continue to have an indirect interest in a majority of our outstanding common stock, they will have the ability to control the vote in any election of directors. In addition, pursuant to a shareholders agreement that we expect to enter into upon the consummation of this offering with Buck Holdings, L.P., KKR and the GS Investors, KKR will have a consent right over certain significant corporate actions and KKR and the GS Investors will have certain rights to appoint directors to our board and its committees. See "Certain Relationships and Related Party Transactions Relationships with the Investors Shareholders Agreement."

The Investors are also in the business of making investments in companies and may from time to time acquire and hold interests in businesses that compete directly or indirectly with us. The Investors may also pursue acquisition opportunities that are complementary to our business and, as a result, those acquisition opportunities may not be available to us. So long as the Investors, or other funds controlled by or associated with the Investors, continue to indirectly own a significant amount of our outstanding common stock, even if such amount is less than 50%, the Investors will continue to be able to strongly influence or effectively control our decisions. The concentration of ownership may have the effect of delaying, preventing or deterring a change of control of our company, could deprive shareholders of an opportunity to receive a premium for their common stock as part of a sale of our company and might ultimately affect the market price of our common stock.

We are a "controlled company" within the meaning of the New York Stock Exchange rules and, as a result, will qualify for, and intend to rely on, exemptions from certain corporate governance requirements. You will not have the same protections afforded to shareholders of companies that are subject to such requirements.

After completion of this offering, the Investors will continue to control a majority of the voting power of our outstanding common stock. As a result, we are a "controlled company" within the meaning of the New York Stock Exchange corporate governance standards. Under these rules, a company of which more than 50% of the voting power is held by an individual, group or another company is a "controlled company" and may elect not to comply with certain corporate governance requirements, including:

- the requirement that a majority of the Board of Directors consist of independent directors;

- the requirement that we have a nominating/corporate governance committee that is composed entirely of independent directors with a written charter addressing the committee's purpose and responsibilities;

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- the requirement that we have a compensation committee that is composed entirely of independent directors with a written charter addressing the committee's purpose and responsibilities; and

- the requirement for an annual performance evaluation of the nominating/corporate governance and compensation committees.

Following this offering, we intend to utilize these exemptions. As a result, we will not have a majority of independent directors, our nominating/corporate governance committee and compensation committee will not consist entirely of independent directors and such committees will not be subject to annual performance evaluations. Accordingly, you will not have the same protections afforded to shareholders of companies that are subject to all of the corporate governance requirements of the New York Stock Exchange.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus contains "forward-looking statements" within the meaning of the federal securities laws, including certain of the statements under "Prospectus Summary," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business." You can identify forward-looking statements because they are not solely statements of historical fact or they contain words such as "believe," "expect," "may," "will," "should," "seek," "approximately," "intend," "plan," "estimate," "anticipate," "continue," "potential," "predict," "project" or similar expressions that concern our strategy, plans or intentions. For example, all statements we make relating to our estimated and projected earnings, revenues, costs, expenditures, cash flows, growth rates and financial results, our plans and objectives for future operations, growth or initiatives, strategies, or the expected outcome or impact of pending or threatened litigation are forward-looking statements. All forward-looking statements are subject to risks and uncertainties that may cause actual results to differ materially from those that we expected, including:

- failure to successfully execute our growth strategy, including delays in store growth, difficulties executing sales and operating profit margin initiatives and inventory shrinkage reduction;
- the failure of our new store base to achieve sales and operating levels consistent with our expectations;
- risks and challenges in connection with sourcing merchandise from domestic and foreign vendors;
- our level of success in gaining and maintaining broad market acceptance of our private brands;
- unfavorable publicity or consumer perception of our products;
- our debt levels and restrictions in our debt agreements;
- economic conditions, including their effect on the financial and capital markets, our suppliers and business partners, employment levels, consumer demand, spending patterns, inflation and the cost of goods;
- levels of inventory shrinkage;
- seasonality of our business;
- increases in costs of fuel, or other energy, transportation or utilities costs and in the costs of labor, employment and health care;
- the impact of governmental laws and regulations and the outcomes of legal proceedings;
- disruptions in our supply chain;
- damage or interruption to our information systems;

changes in the competitive environment in our industry and the markets where we operate;

natural disasters, unusually adverse weather conditions, pandemic outbreaks, boycotts and geo-political events;

the incurrence of material uninsured losses or excessive insurance costs;

our failure to protect our brand name;

our loss of key personnel or our inability to hire additional qualified personnel; and

our failure to maintain effective internal controls.

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We derive many of our forward-looking statements from our operating budgets and forecasts, which are based upon many detailed assumptions. While we believe that our assumptions are reasonable, we caution that it is very difficult to predict the impact of known factors, and, it is impossible for us to anticipate all factors that could affect our actual results. Important factors that could cause actual results to differ materially from our expectations ("cautionary statements") are disclosed under "Risk Factors" in this prospectus. All written and oral forward-looking statements attributable to us, or persons acting on our behalf, are expressly qualified in their entirety by the cautionary statements as well as other cautionary statements that are made from time to time in our other SEC filings and public communications. You should evaluate all forward-looking statements made in this prospectus in the context of these risks and uncertainties.

We caution you that the important factors referenced above may not contain all of the factors that are important to you. In addition, we cannot assure you that we will realize the results or developments we expect or anticipate or, even if substantially realized, that they will result in the consequences or affect us or our operations in the way we expect. The forward-looking statements included in this prospectus are made only as of the date hereof. We undertake no obligation to publicly update or revise any forward-looking statement as a result of new information, future events or otherwise, except as otherwise required by law.

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USE OF PROCEEDS

We estimate that the net proceeds we will receive from the sale of 22,700,000 shares of our common stock in this offering, after deducting underwriter discounts and commissions and estimated expenses payable by us, will be approximately $467.8 million. This estimate assumes an initial public offering price of $22.00 per share, the midpoint of the range set forth on the cover page of this prospectus. A $1.00 increase (decrease) in the assumed initial public offering price of $22.00 per share would increase (decrease) the net proceeds to us from this offering by $21.5 million, assuming the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same and after deducting the estimated underwriting discounts and commissions and estimated expenses payable by us. We will not receive any proceeds from the sale of shares of our common stock by the selling shareholder (including any shares sold by the selling shareholder pursuant to the underwriters' option to purchase additional shares).

We intend to use the anticipated net proceeds as follows: (1) $229.6 million of the net proceeds will be applied to redeem $205.2 million in aggregate principal amount of our 11.875%/12.625% senior subordinated toggle notes due 2017 (the "Senior Subordinated Notes") at a redemption price of 111.875% and (2) the remaining $238.3 million of the net proceeds will be applied to redeem $215.4 million in aggregate principal amount of our 10.625% senior notes due 2015 (the "Senior Notes", and, together with the Senior Subordinated Notes, the "Notes") at a redemption price of 110.625%. Each such redemption will be made pursuant to a provision of the applicable indenture that permits us to redeem up to 35% of the aggregate principal amount of such Notes with the net cash proceeds of certain equity offerings. In each case, we will pay accrued and unpaid interest on the Notes through the redemption date with cash generated from operations. To the extent we raise more proceeds in this offering, we will redeem additional Senior Notes. To the extent we raise less proceeds in this offering, we will reduce the amount of Senior Notes that will be redeemed.

As of the date hereof, there is approximately $1.175 billion aggregate principal amount of Senior Notes outstanding, which bear interest at a rate of 10.625% per annum and mature on July 15, 2015 and $655.9 million aggregate principal amount of Senior Subordinated Notes outstanding, which bear cash interest at a rate of 11.875% per annum and mature on July 15, 2017.

Affiliates of several of the underwriters hold the Notes, some of which may be retired with a portion of the net proceeds from this offering. As a result, some of the underwriters or their affiliates may receive part of the proceeds of the offering by reason of the redemption of Notes held by them. See "Underwriting."

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DIVIDEND POLICY

Prior to our 2007 merger, we declared a quarterly cash dividend in the amount of $0.05 per share payable on or before April 19, 2007 to common shareholders of record on April 5, 2007. We have not declared or paid recurring dividends since that date. However, on September 8, 2009, our Board of Directors declared a special dividend on our outstanding common stock of approximately $239.3 million in the aggregate. The special dividend was paid on September 11, 2009 to shareholders of record on September 8, 2009 with cash generated from operations. Following completion of the offering, we have no current plans to pay any cash dividends on our common stock for the foreseeable future and instead may retain earnings, if any, for future operation and expansion and debt repayment. Any decision to declare and pay dividends in the future will be made at the discretion of our Board of Directors and will depend on, among other things, our results of operations, cash requirements, financial condition, contractual restrictions and other factors that our Board of Directors may deem relevant. In addition, our ability to pay dividends is limited by covenants in our Credit Facilities and in the indentures governing the Notes. See "Description of Indebtedness" for restrictions on our ability to pay dividends.

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CAPITALIZATION

The following table sets forth our capitalization as of July 31, 2009:

- on an actual basis; and

- on an as adjusted basis to give effect to (1) the issuance of common stock in this offering and the application of proceeds from the offering as described in "Use of Proceeds" as if each had occurred on July 31, 2009, (2) the payment of a special dividend in an amount of approximately $239.3 million to our existing shareholders on September 11, 2009, (3) offering-related stock compensation expense of approximately $10 million and (4) the payment of approximately $64 million in fees under our monitoring agreement with KKR and Goldman, Sachs & Co. See "Certain Relationships and Related Party Transactions Relationships with the Investors Monitoring Agreement and Indemnity Agreement," "Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources" and our condensed consolidated balance sheets as of July 31, 2009 and Note 10 thereto.

You should read this table in conjunction with "Use of Proceeds," "Selected Historical Financial and Other Data," and "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our financial statements and notes thereto, included elsewhere in this prospectus.

	July 31, 2009	
(amounts in millions)	Actual	As Adjusted(2)
Long-term obligations:		
Credit Facilities:		
Senior secured asset-based revolving credit facility	$	$
Senior secured term loan facility	2,300.0	2,300.0
Senior notes, net of discount(1)	1,156.1	944.0
Senior subordinated notes	655.9	450.7
Senior notes due 2010	1.8	1.8
Tax increment financing	14.5	14.5
Capital lease obligations and other	9.5	9.5
Total long-term obligations(1)	4,137.8	3,720.6
Shareholders' equity:		
Preferred stock		
Common stock; $0.875 par value, 1,000.0 shares authorized, 318.0 and 340.7 shares issued and outstanding at July 31, 2009 actual and as adjusted, respectively	278.2	298.1
Additional paid-in capital	2,495.0	2,942.7
Retained earnings	280.0	(40.9)
Accumulated other comprehensive loss	(36.6)	(36.6)
Total shareholders' equity(1)	3,016.5	3,163.3
Total capitalization	$7,154.3	$ 6,883.9

(1) A $1.00 increase (decrease) in the assumed initial public offering price of $22.00 per share would decrease (increase) our senior notes by $19.1 million and total long-term obligations by $19.1 million and would increase (decrease) equity by $19.6 million, assuming the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same and after deducting the estimated underwriting discounts and commissions and estimated expenses payable by us. To the extent we raise more proceeds in this offering,

we will redeem additional Senior Notes. To the extent we raise less proceeds in this offering, we will reduce the amount of Senior

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Notes that will be redeemed. The decrease (increase) in senior notes of $19.1 million and the increase (decrease) in equity of $19.6 million as a result of a $1 increase (decrease) in the assumed initial public offering price is different from the potential change in net proceeds of $21.5 million described in "Use of Proceeds" as the amounts disclosed herein related to "Capitalization" assume the application of the proceeds to redeem additional debt, while the disclosure under "Use of Proceeds" only calculates the change in net proceeds. The redemption of debt with the additional proceeds would generate further losses on such redemption (corresponding to those described in footnote (2) below explaining the changes in equity and debt based on net proceeds at the mid-point of the offering range), which would further reduce equity so that the increase in equity and decrease in debt are less than the incremental net proceeds received.

(2) Adjustments made to the "Actual" column to arrive at the "As Adjusted" column are as follows:

- Decrease in Senior Notes based upon redemption of $215.4 million of notes, offset by a write-off of $3.3 million of related debt discount, upon the redemption of said notes at a premium of 110.625% of face value.

- Decrease in Senior Subordinated Notes based upon redemption of $205.2 million of notes upon the redemption of said notes at a premium of 111.875% of face value.

- Increase in common stock of $19.9 million based upon the issuance of 22.7 million shares with a par value of $0.875.

- Increase in additional paid in capital of $447.7 million based upon (a) the portion of the net proceeds of the offering attributable to paid in capital, equal to $447.9 million, (b) an increase of $5.1 million related to the acceleration of vesting of certain restricted stock awards, (c) a reduction of $5.0 million for the transaction fee portion of the monitoring agreement fee that is expected to be accounted for as a cost of raising equity and (d) a reduction of $0.3 million for the tax effects of payments of dividends on certain share-based awards.

- Decrease in retained earnings of $320.9 million based upon (a) losses, net of income taxes, on the redemption of both the Senior and Senior Subordinated Notes of $32.5 million (including the premium paid, the write-off of the related debt acquisition costs, and the write-off of the related discount), (b) the expense, net of income taxes, of the termination-related fee under the monitoring agreement of $42.9 million, (c) expense, net of income taxes, for acceleration of certain restricted stock awards and other stock compensation costs of $5.8 million and (d) the payment of a special dividend of $239.3 million and other dividend-related amounts of $0.4 million.

The table set forth above is based on the number of shares of our common stock outstanding as of July 31, 2009. This table does not reflect:

- 13,419,343 shares of our common stock issuable upon the exercise of outstanding stock options at a weighted average exercise price of $8.72 per share as of July 31, 2009, 4,310,235 of which were then exercisable; and

- 1,504,642 shares of our common stock reserved for future grants under our 2007 Stock Incentive Plan. Our Board of Directors and our shareholders approved the increase in the number of shares authorized for issuance under our 2007 Stock Incentive Plan to 31,142,858, effective upon the closing of this offering.

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DILUTION

If you invest in our common stock, your interest will be diluted to the extent of the difference between the initial public offering price per share of our common stock and the net tangible book value per share of our common stock after this offering. Dilution results from the fact that the initial public offering price per share of common stock is substantially in excess of the net tangible book value per share of our common stock attributable to the existing shareholders for our presently outstanding shares of common stock. We calculate net tangible book value per share of our common stock by dividing the net tangible book value (total consolidated tangible assets less total consolidated liabilities) by the number of outstanding shares of our common stock.

Our net tangible book value as of July 31, 2009 was a deficit of $(2.6) billion, or $(8.21) per share of our common stock, based on 317,944,825 shares of our common stock outstanding immediately prior to the closing of this offering. Net tangible book value represents the amount of total tangible assets less total liabilities. Redeemable common stock of $15.3 million has been excluded when calculating net tangible book value as this amount would not be payable in a liquidation event. Dilution is determined by subtracting net tangible book value per share of our common stock from the assumed initial public offering price per share of our common stock.

After giving effect to (1) the sale of 22,700,000 shares of our common stock in this offering assuming an initial public offering price of $22.00 per share, less the underwriting discounts and commissions and the estimated offering expenses payable by us, (2) the payment of a special dividend in an amount of approximately $239.3 million to our existing shareholders on September 11, 2009, and (3) the payment of approximately $64 million in fees under our monitoring agreement with KKR and Goldman, Sachs & Co. (see "Certain Relationships and Related Party Transactions Relationships with the Investors Monitoring Agreement and Indemnity Agreement," "Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources" and our condensed consolidated balance sheets as of July 31, 2009 and Note 10 thereto) and without taking into account any other changes in such net tangible book value after July 31, 2009, our pro forma as adjusted net tangible book value at July 31, 2009 would have been a deficit of $(2.4) billion, or $(7.13) per share. This represents an immediate increase in net tangible book value of $1.08 per share of our common stock to the existing shareholders and an immediate dilution in net tangible book value of $(29.13) per share of our common stock, or 132% of the estimated offering price of $22.00, to investors purchasing shares of our common stock in this offering. The following table illustrates such per share of our common stock dilution:

Assumed initial public offering price per share	$ 22.00
Actual net tangible book value (deficit) per share as of July 31, 2009	(8.21)
Decrease in pro forma net tangible book value per share attributable to the special dividend and the monitoring agreement fees discussed above	(0.90)
Pro forma net tangible book value (deficit) per share before the change attributable to new investors	(9.11)
Increase in pro forma net tangible book value per share attributable to new investors	1.98
Pro forma as adjusted net tangible book value (deficit) per share after this offering	(7.13)
Dilution per share to new investors	$(29.13)

The following table summarizes, on a pro forma basis as of July 31, 2009, the total number of shares of our common stock purchased from us, the total cash consideration paid to us and the average

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price per share of our common stock paid by purchasers of such shares and by new investors purchasing shares of our common stock in this offering.

	Shares of our Common Stock Purchased		Total Consideration			
	Number (in millions)	Percent	Amount (in millions)	Average Price Percent		Per Share of our Common Stock
Prior purchasers	306.5(1)	90%	$ 2,686.8	78.2%	$	8.76
New investors	34.1(1)	10%	$ 750.2	21.8%	$	22.00
Total	340.6	100%	$ 3,437.0	100.0%	$	10.09

(1) Reflects 11.4 million shares owned by the selling shareholder that will be purchased by new investors as a result of this offering.

If the underwriters were to fully exercise the underwriters' option to purchase 5,115,000 additional shares of our common stock from the selling shareholder, the percentage of shares of our common stock held by existing shareholders who are directors, officers or affiliated persons would be 88.5%, and the percentage of shares of our common stock held by new investors would be 11.5%.

To the extent that we grant options or other equity awards to our employees or directors in the future, and those options or other equity awards are exercised or become vested or other issuances of shares of our common stock are made, there will be further dilution to new investors.

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SELECTED HISTORICAL FINANCIAL AND OTHER DATA

The following table sets forth selected consolidated financial and other data of Dollar General Corporation as of the dates and for the periods indicated. We derived the selected historical statement of operations data and statement of cash flows data for the fiscal years or periods, as applicable, ended January 30, 2009, February 1, 2008, July 6, 2007 and February 2, 2007, and balance sheet data as of January 30, 2009 and February 1, 2008, from our historical audited consolidated financial statements included elsewhere in this prospectus. We derived the selected historical statement of operations data and statement of cash flows data for the fiscal years ended February 3, 2006 and January 28, 2005 and balance sheet data as of February 2, 2007, February 3, 2006 and January 28, 2005 presented in this table from audited consolidated financial statements not included in this prospectus. We derived the consolidated selected financial data for the 26-week periods ended July 31, 2009 and August 1, 2008 from our unaudited condensed consolidated interim financial statements included elsewhere in this prospectus. We have prepared the unaudited condensed consolidated interim financial information set forth below on the same basis as our audited consolidated financial statements, except for the adoption of Statement of Financial Accounting Standards No. 161, *Disclosures about Derivative Instruments and Hedging Activities*, *an amendment of FASB Statement No. 133*, and have included all adjustments, consisting only of normal recurring adjustments, that we consider necessary for a fair presentation of our financial position and operating results for such periods. The interim results set forth below are not necessarily indicative of results for the fiscal year ending January 29, 2010 or for any other period.

On July 6, 2007, we completed a merger with Buck Acquisition Corp. ("Buck") and, as a result, we are a subsidiary of a Delaware limited partnership controlled by investment funds affiliated with KKR. As a result of our 2007 merger, the related purchase accounting adjustments, and a new basis of accounting beginning on July 7, 2007, the 2007 financial reporting periods presented below include the Predecessor period of the Company reflecting 22 weeks of operating results from February 3, 2007 to July 6, 2007 and 30 weeks of operating results for the Successor period, reflecting the 2007 merger from July 7, 2007 to February 1, 2008. Buck's results of operations for the period from March 6, 2007 to July 6, 2007 (prior to the 2007 merger on July 6, 2007) are also included in the consolidated financial statements for the 2007 Successor period described above, as a result of certain derivative financial instruments entered into by Buck prior to the merger. Other than these financial instruments, Buck had no assets, liabilities, or operations prior to the merger. The fiscal years presented from 2004 to 2006 reflect the Predecessor. Due to the significance of the 2007 merger and related transactions that occurred in 2007, the financial information for all Successor periods is not comparable to that of the Predecessor periods presented in the accompanying table.

Our historical results are not necessarily indicative of future operating results. The information set forth below should be read in conjunction with, and is qualified in its entirety by reference to, "Prospectus Summary Summary Historical and Pro Forma Financial and Other Data," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and the related notes included elsewhere in this prospectus.

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	Predecessor				Successor			
(amounts in millions, excluding number of stores, selling square feet, net sales per square foot and per share data)	Year Ended January 28, 2005	Year Ended February 3, 2006(1)	Year Ended February 2, 2007(2)	February 3, 2007 through July 6, 2007(2)	March 6, 2007 through February 1, 2008(2)(3)	Year Ended January 30, 2009	26 Weeks Ended August 1, 2008	26 Weeks Ended July 31, 2009
Statement of Operations Data:								
Net sales	$ 7,660.9	$ 8,582.2	$ 9,169.8	$ 3,923.8	$ 5,571.5	$ 10,457.7	$ 5,012.9	$ 5,681.8
Cost of goods sold	5,397.7	6,117.4	6,801.6	2,852.2	3,999.6	7,396.6	3,561.8	3,920.4
Gross profit	2,263.2	2,464.8	2,368.2	1,071.6	1,571.9	3,061.1	1,451.1	1,761.4
Selling, general and administrative expenses	1,706.2	1,903.0	2,119.9	960.9	1,324.5	2,448.6	1,197.2	1,303.3
Litigation settlement and related costs, net						32.0		
Transaction and related costs				101.4	1.2			
Operating profit	557.0	561.9	248.3	9.2	246.1	580.5	253.9	458.1
Interest income	(6.6)	(9.0)	(7.0)	(5.0)	(3.8)	(3.1)	(2.2)	(0.1)
Interest expense	28.8	26.2	34.9	10.3	252.9	391.9	200.3	179.2
Other (income) expense					3.6	(2.8)	0.6	(0.7)
Income (loss) before income taxes	534.8	544.6	220.4	4.0	(6.6)	194.4	55.2	279.7
Income tax expense (benefit)	190.6	194.5	82.4	12.0	(1.8)	86.2	21.6	103.1
Net income (loss)	$ 344.2	$ 350.2	$ 137.9	$ (8.0)	$ (4.8)	$ 108.2	$ 33.6	$ 176.6
Earnings (loss) per share(4):								
Basic					$ (0.02)	$ 0.34	$ 0.11	$ 0.56
Diluted					(0.02)	0.34	0.11	0.55
Weighted average shares(4):								
Basic					316.8	317.0	317.4	317.9
Diluted					316.8	317.5	317.9	318.9
Statement of Cash Flows Data:								
Net cash provided by (used in):								
Operating activities	$ 391.5	$ 555.5	$ 405.4	$ 201.9	$ 239.6	$ 575.2	$ 296.5	$ 243.9
Investing activities	(259.2)	(264.4)	(282.0)	(66.9)	(6,848.4)	(152.6)	(30.4)	(107.0)
Financing activities	(245.4)	(323.3)	(134.7)	25.3	6,709.0	(144.8)	(104.7)	0.5
Total capital expenditures	(288.3)	(284.1)	(261.5)	(56.2)	(83.6)	(205.5)	(80.1)	(107.3)
Other Financial and Operating Data:								
Same-store sales growth(5)	3.2%	2.2%	3.3%	2.6%	1.9%	9.0%	7.8%	10.8%
Same-store sales(5)	$ 6,589.0	$ 7,555.8	$ 8,327.2	$ 3,656.6	$ 5,264.2	$ 10,118.5	$ 4,830.1	$ 5,518.8
Number of stores included in same-store sales calculation	5,932	7,186	7,627	7,655	7,735	8,153	7,976	8,226
Number of stores (at period end)	7,320	7,929	8,229	8,205	8,194	8,362	8,308	8,577
Selling square feet (in thousands at period end)	50,015	54,753	57,299	57,379	57,376	58,803	58,302	60,431
Net sales per square foot(6)	$ 160	$ 160	$ 163	$ 164	$ 165	$ 180	$ 171	$ 188
Consumables sales	63.0%	65.3%	65.7%	66.7%	66.4%	69.3%	69.4%	71.3%
Seasonal sales	16.5%	15.7%	16.4%	15.4%	16.3%	14.6%	14.1%	13.7%

Home product sales	11.5%	10.6%	10.0%	9.2%	9.1%	8.2%	8.5%	7.6%
Apparel sales	9.0%	8.4%	7.9%	8.7%	8.2%	7.9%	8.1%	7.5%
Rent expense	$ 268.8	$ 312.3	$ 343.9	$ 150.2	$ 214.5	$ 389.6	$ 190.5	$ 206.3
Balance Sheet Data (at period end):								
Cash and cash equivalents and short-term investments	$ 275.8	$ 209.5	$ 219.2		$ 119.8	$ 378.0	$ 261.6	$ 515.4
Total assets	2,841.0	2,980.3	3,040.5		8,656.4	8,889.2	8,909.8	9,139.9
Total long-term obligations	271.3	278.7	270.0		4,282.0	4,137.1	4,180.6	4,137.8
Total shareholders' equity	1,684.5	1,720.8	1,745.7		2,703.9	2,831.7	2,766.8	3,016.5

(1) The fiscal year ended February 3, 2006 was comprised of 53 weeks.

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(2) Includes the effects of certain strategic merchandising and real estate initiatives that resulted in the closing of approximately 460 stores and changes in our inventory management model which resulted in greater inventory markdowns than in previous years.

(3) Includes the results of Buck Acquisition Corp. for the period prior to its 2007 merger with and into Dollar General Corporation from March 6, 2007 (Buck's formation) through July 6, 2007 and the post-merger results of Dollar General Corporation for the period from July 7, 2007 through February 1, 2008.

(4) Because of our 2007 merger, our capital structure for periods before and after the merger is not comparable, and therefore we are presenting earnings per share and weighted average share information only for periods subsequent to our 2007 merger. Similarly, dividends per share for the periods prior to the merger have not been presented, and we have not paid dividends for the periods presented since our 2007 merger.

(5) For fiscal periods ending after January 28, 2005, same-store sales have been calculated based upon stores that were open at least 13 full fiscal months and remained open at the end of the reporting period. For fiscal periods ending on or before January 28, 2005, same-store sales include stores that were open both at the end of the reporting period and at the beginning of the preceding fiscal year. We exclude the sales in the 53rd week of a 53-week year from the same-store sales calculation.

(6) Net sales per square foot was calculated based on total sales for the preceding 12 months as of the ending date of the reporting period divided by the average selling square footage during the period, including the end of the fiscal year, the beginning of the fiscal year, and the end of each of our three interim fiscal quarters. For the period from February 3, 2007 through July 6, 2007, average selling square footage was calculated using the average of square footage as of July 6, 2007 and as of the end of each of the four preceding quarters. For the fiscal year ended February 3, 2006, net sales per square foot was calculated based on 52 weeks' sales.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis of our financial condition and results of operations with "Selected Historical Financial and Other Data" and the audited historical and unaudited interim financial statements and related notes included elsewhere in this prospectus. This discussion contains forward-looking statements and involves numerous risks and uncertainties, including but not limited to those described in the "Risk Factors" section of this prospectus. Actual results may differ materially from those contained in any forward-looking statements. You should read "Special Note Regarding Forward-Looking Statements" and "Risk Factors."

Executive Overview

We are the largest discount retailer in the United States by number of stores, with 8,577 stores located in 35 states as of July 31, 2009, primarily in the southern, southwestern, midwestern and eastern United States. We offer a broad selection of merchandise, including consumable products such as food, paper and cleaning products, health and beauty products and pet supplies, and non-consumable products such as seasonal merchandise, home décor and domestics, and apparel. Our merchandise includes high quality national brands from leading manufacturers, as well as comparable quality private brand selections with prices at substantial discounts to national brands. We offer our customers these national brand and private brand products at everyday low prices (typically $10 or less) in our convenient small-box (small store) locations. We believe our convenient store format and broad selection of high quality products at compelling values have driven our substantial growth and financial success over the years.

On July 6, 2007, we completed a merger and, as a result, we are a subsidiary of Buck Holdings, L.P. ("Parent"), a Delaware limited partnership controlled by investment funds affiliated with Kohlberg Kravis Roberts & Co., L.P. (collectively, "KKR" or "Sponsor"). KKR, the GS Investors, the Citi Private Equity Investors, certain investment advisory clients of Wellington Management Company, LLP, CPP Investment Board (USRE II) Inc., and other equity co-investors (collectively, the "Investors") have an indirect interest in a substantial portion of our capital stock through their investment in Parent. The merger consideration was funded through the use of our available cash, cash equity contributions from the Investors, equity contributions of certain members of our management and certain debt financings discussed below under " Liquidity and Capital Resources."

The customers we serve are value-conscious, and Dollar General has always been intently focused on helping our customers make the most of their spending dollars. We believe our convenient store format and broad selection of high quality products at compelling values have driven our substantial growth and financial success over the years. Like other companies, we are operating in a very difficult economic environment. Consumers are facing heightened economic challenges, including fluctuating gasoline and energy costs, rising food costs, high rates of unemployment, and a continued weakness in housing and credit markets in 2008 and 2009, and the timetable for economic recovery is uncertain. Nonetheless, as a result of our long-term mission of serving the value-conscious customer, coupled with a vigorous focus on improving our operating and financial performance, our 2008 and year-to-date 2009 results have been strong, and we remain cautiously optimistic with regard to executing our operating priorities for the remainder of 2009.

Discussion of Operating Priorities. We have been keenly focused on executing the following four operating priorities which we defined at the beginning of 2008:

- Drive productive sales growth;
- Increase gross margins;

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- Leverage process improvements and information technology to reduce costs; and

- Strengthen and expand Dollar General's culture of "serving others."

Our first priority is driving productive sales growth by increasing shopper frequency and transaction amount and maximizing sales per square foot. We utilized numerous initiatives in 2008 and 2009 to enable productive sales growth. For example, we are defining and improving our store standards with a goal of developing a consistent look and feel across all stores. We expanded offerings of convenience foods and beverages, added new impulse racks at the checkout stands and expanded our store operating hours. To further improve space utilization, we have begun the process of raising the height of merchandise fixtures in our stores, starting with the food area. We also intend to increase sales growth by increasing our number of stores. We believe we have significant potential to increase our number of stores in new and existing markets, with a plan to open approximately 500 new stores in fiscal 2009 and to continue this growth into the future.

Our second priority is to increase gross profit through shrink reduction, distribution efficiencies, an improved pricing model, the expansion of private brand offerings and increased foreign sourcing. In 2008 and 2009, inventory shrink decreased as a result of several focused initiatives, including the elimination of packaway inventories from the stockrooms, the installation of additional security cameras, the implementation of exception-based shrink detection tools, and improved hiring practices and employee retention. Higher sales volumes have contributed to our ability to leverage transportation and distribution costs, and we were able to offset the impact of higher average fuel costs for 2008 through better trailer utilization, expansion of backhaul opportunities and improved fleet management. We reviewed and reset our consumables planograms, eliminating less productive items in order to add more productive ones. In this process, we reviewed our pricing strategy and worked diligently to minimize vendor cost increases. Some merchandise cost increases were unavoidable in 2008, but as a result of our improved pricing analysis tools, we were able to recoup a portion of these increases through pricing. We continue to focus on sales of private brand consumables, which generally have higher gross profit rates, while continuing to offer a wide variety of national brands in our efforts to offer the optimal mix of products to our customers. With regard to the expansion of foreign sourcing, we are still in the early stages of defining the objectives and building the team.

Our third priority is leveraging process improvements and information technology to reduce costs. We are committed as an organization to extract costs that do not affect the customer experience. Examples of cost reduction initiatives in 2008 and 2009 include recycling of cardboard, reduction of workers' compensation expense through a focus on safety and improvement of energy management in the stores through installation and monitoring of new equipment. With regard to information technology, we are focusing our resources on improving systems that are designed to enhance retail store operations and merchandising.

Our fourth priority is to strengthen and expand Dollar General's culture of serving others. For customers this means helping them "*Save Time. Save Money. Every Day*." For employees, this means creating an environment that attracts and retains key employees throughout the organization. For the public, this means giving back to our store communities.

Financial and operating highlights. For the 26 weeks ended July 31, 2009, our focus on our four priorities resulted in improved financial performance over the comparable 2008 period in each of our key financial metrics, as follows:

- Total sales increased 13.3% to $5.68 billion. Sales in same-stores increased 10.8%, driven by increases in customer traffic and average transaction amount. Average sales per square foot for all stores over the 52-week period ended July 31, 2009 were approximately $188, up from $171 for the comparable prior 52-week period ended August 1, 2008.

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- Gross profit, as a percentage of sales, increased to 31.0%, compared to 28.9% in the 2008 period, as a result of higher average markups driven by our focused effort to reduce our merchandise purchase costs while maintaining our everyday low prices (including strategic changes we have made to the mix of merchandise, such as increasing private brand items which generally are associated with higher average markups), reduced transportation and distribution costs, continued improvement in our inventory shrink rate and a lower LIFO charge.

- SG&A, as a percentage of sales, was 22.9%, compared to 23.9% in the 2008 period. The improvement is attributable to leverage resulting from our significant sales increase.

- Inventory turnover improved to 5.1 times on a rolling four-quarter basis, compared to 5.0 times for the corresponding prior year period.

- We reported net income of $176.6 million, compared to net income of $33.6 million in the 2008 period.

We generated $243.9 million of cash from operating activities during the first two quarters of 2009; and as of July 31, 2009, we had a cash balance of $515.4 million. Through the 2009 second quarter, we opened 225 new stores, remodeled or relocated 213 stores, and closed 10 stores.

Our fiscal 2008 annual financial highlights included:

- A 10.1% total sales increase from 2007 and a 9.0% same-stores sales increase, driven by increases in customer traffic and average transaction amount. Average sales per square foot for all stores in 2008 were approximately $180, up from $165 in 2007. Sales increases of consumables products outpaced our more discretionary categories, likely the result of both our merchandising initiatives, which were more focused on consumables, and the negative effect of the economy on consumer discretionary spending.

- Gross profit, as a percentage of sales, was 29.3% in 2008. During the year, we made progress in reducing our inventory shrinkage and improving the efficiencies of our distribution and transportation processes as well as leveraging fixed distribution costs. Improvements in our pricing systems and processes also permitted us to make timelier price changes to compensate for unavoidable cost increases, and for the year, markdowns declined.

- SG&A, as a percentage of sales, for fiscal 2008 was 23.4%, compared to 23.8% in the 2007 Successor period and 24.5% in the 2007 Predecessor period. Our increased sales levels favorably affected SG&A, as a percentage of sales, in addition to a reduction in workers' compensation expense, resulting from safety initiatives implemented over the last several years, and reduced advertising expense. The 2007 Predecessor period included SG&A of $45.0 million, or 115 basis points, related to closing underperforming stores.

- Litigation expense of $32 million reflecting the settlement and related expenses, net of insurance proceeds, of a class action lawsuit filed as a result of our 2007 merger. We determined that the settlement was in our best interests to avoid costly and time consuming litigation.

- Interest expense of $391.9 million in 2008 relating primarily to interest on debt incurred to finance our 2007 merger. We repaid all borrowings under our revolving credit facility in the first quarter of 2008 and incurred no additional borrowings during the year. In January 2009, we further reduced our total long-term obligations by repurchasing $44.1 million of our Senior Subordinated Notes.

- Net income of $108.2 million, compared to a net loss of $4.8 million in the 2007 Successor period and a net loss of $8.0 million in the 2007 Predecessor period (each of the 2007 periods included significant costs related to the 2007 merger and other strategic initiatives as more fully described below in the comparison of results of operations for 2008 and 2007).

- Cash from operating activities of $575.2 million, a portion of which we used to invest in our stores and to reduce long-term obligations. At year end, our cash balance was $378 million.

- Opening of 207 new stores, remodeling or relocating of 404 stores, and closing of 39 stores, resulting in a store count of 8,362 on January 30, 2009. In addition, we are pleased with the progress we made during the year in our efforts to better utilize existing square footage and to improve the appearance of our stores.

Outlook for 2009. We plan to continue to focus on our same four operating priorities for the remainder of the year. We intend to continue to refine and improve our store standards, focusing on achieving a consistent look and feel across the chain, and plan to measure customer satisfaction. We expect to complete the process of raising the height of our merchandise fixtures, allowing us to better utilize our store square footage. We will continue to focus on reducing inventory shrink by implementing additional analytical tools and expanding the utilization of surveillance equipment. We have identified additional opportunities to reduce labor and other costs in our distribution centers. In addition, we plan to continue to expand our private brand consumables offerings and to increase and upgrade our private brand merchandise in the home and seasonal categories. Most of our merchandising focus and the recent changes we have made have centered on items in our consumables category, which have demonstrated strong sales growth as a result. In 2009, we are bringing the same focus and intensity to our apparel, home and seasonal categories. We intend to make strides in expanding our foreign sourcing efforts and expect to begin seeing a greater impact from this initiative in late 2009.

With regard to leveraging information technology and process improvements to reduce costs, we will continue to focus on making improvements that benefit our merchandising and operations efforts, including projects such as pricing and profitability analysis, merchandise selection and allocation and labor scheduling. All of our store managers now have access to a back office computer, which improves reporting and communications with the stores and, consequently, will assist us in improving store productivity.

Finally, in 2009, we plan to open approximately 500 new stores within the 35 states in which we currently operate, and to remodel or relocate an additional 450 stores. With regard to planned new store openings, our criteria are based on numerous factors including, among other things, availability of appropriate sites, expected sales, lease terms, population demographics, competition, and the employment environment. We use various real estate site selection tools to determine target markets and optimum site locations within those markets. Our 2009 store expansion plans include expansion only within our existing markets. With respect to store relocations, we begin to evaluate a store for relocation opportunities approximately 18 months prior to the store's lease expiration using the same basic tools and criteria as those used for new stores. Remodels, which require a much smaller investment, are determined based on the need, the opportunity for sales improvement at the location and an expectation of a desirable return on investment. The majority of new store sites for 2009 have been identified and terms agreed to.

We expect to continue to face difficult economic issues in 2009 which will restrict our customers' ability to spend and, therefore, will challenge our efforts to increase sales and gross profit. We also believe that competitive pricing, promotions, and advertising will continue and are likely to increase if overall retail sales continue to decline. We remain committed to our operating model and to making improvements in our stores and our merchandise to better serve the needs of our customers.

As a result of this offering and the related transactions, we anticipate that we will incur significant pre-tax charges in the accounting period in which such transactions are consummated, including charges relating to the redemption of our Senior Notes and Senior Subordinated Notes in the amount of approximately $53 million, fees associated with the termination of our monitoring agreement in the amount of approximately $59 million and charges for the acceleration of vesting of certain share-based awards in the amount of approximately $10 million.

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Results of Operations

Accounting Periods. The following text contains references to years 2009, 2008, 2007, and 2006, which represent fiscal years ending or ended January 29, 2010, January 30, 2009, February 1, 2008, and February 2, 2007, respectively. Our fiscal year ends on the Friday closest to January 31. Fiscal years 2009, 2008 and 2006 were all 52-week accounting periods.

As discussed above, we completed a merger transaction on July 6, 2007, and therefore the 2007 presentation includes the 22-week Predecessor period of Dollar General Corporation through July 6, 2007, reflecting the historical basis of accounting prior to the 2007 merger, and a 30-week Successor period, reflecting the impact of the business combination and associated purchase price allocation of the merger of Dollar General Corporation and Buck Acquisition Corp. ("Buck"), from July 7, 2007 to February 1, 2008. Buck was formed on March 6, 2007, and its results of operations prior to the 2007 merger, related solely to interest rate swaps entered into in anticipation of the merger, are included in the 2007 Successor results of operations. Transactions relating to or resulting from the 2007 merger are discussed separately.

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

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The following table contains results of operations data for the 26-week periods ended July 31, 2009 and August 1, 2008, and the dollar and percentage variances among those periods:

(amounts in millions, except per share data)	26 Weeks Ended Jul. 31, 2009	26 Weeks Ended Aug. 1, 2008	2009 vs. 2008 Amount change	2009 vs. 2008 % change
Net sales by category:				
Consumables	$4,049.0	$3,476.9	$572.1	16.5%
% of net sales	*71.26%*	*69.36%*		
Seasonal	779.7	706.6	73.1	10.3
% of net sales	*13.72%*	*14.10%*		
Home products	429.1	424.0	5.0	1.2
% of net sales	*7.55%*	*8.46%*		
Apparel	424.0	405.3	18.7	4.6
% of net sales	*7.46%*	*8.08%*		
Net sales	$5,681.8	$5,012.9	$669.0	13.3%
Cost of goods sold	3,920.4	3,561.8	358.7	10.1
% of net sales	*69.00%*	*71.05%*		
Gross profit	1,761.4	1,451.1	310.3	21.4
% of net sales	*31.00%*	*28.95%*		
Selling, general and administrative expenses	1,303.3	1,197.2	106.1	8.9
% of net sales	*22.94%*	*23.88%*		
Operating profit	458.1	253.9	204.2	80.4
% of net sales	*8.06%*	*5.07%*		
Interest income	(0.1)	(2.2)	2.1	(95.0)
% of net sales	*(0.00)%*	*(0.04)%*		
Interest expense	179.2	200.3	(21.1)	(10.5)
% of net sales	*3.15%*	*4.00%*		
Other (income) expense	(0.7)	0.6	(1.3)	
% of net sales	*(0.01)%*	*0.01%*		
Income before income taxes	279.7	55.2	224.5	406.7
% of net sales	*4.92%*	*1.10%*		
Income taxes	103.1	21.6	81.6	378.2
% of net sales	*1.82%*	*0.43%*		
Net income	$ 176.6	$ 33.6	$143.0	425.1%
% of net sales	*3.11%*	*0.67%*		
Earnings per share:				
Basic	$ 0.56	$ 0.11	$ 0.45	409.1%
Diluted	0.55	0.11	0.44	400.0

Net Sales. The net sales increase in the 2009 year-to-date period reflects a same-store sales increase of 10.8% compared to the same period in 2008. For the 2009 quarter, there were 8,226 same-stores which accounted for sales of $5.52 billion. The remainder of the sales increase was attributable to new stores, partially offset by sales from closed stores.

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Gross Profit. The gross profit rate as a percentage of sales was 31.0% in the 2009 period compared to 28.9% in the 2008 period. Several factors contributed significantly to our gross profit rate expansion:

- Average markups increased as a result of our focus on lowering costs from our vendors, while maintaining our every day low prices, and changes we have made to the mix of merchandise, such as the increase in private brand items which generally represent higher gross profit rates.

- Distribution and transportation costs decreased as a result of lower fuel costs and improved efficiencies arising from changes in our distribution processes. In addition, higher sales volumes resulted in improved cost leverage.

- Inventory shrink as a percentage of sales declined.

- The estimated LIFO provision in the 2009 period was $0.5 million compared to a provision of $16.0 million in the 2008 period based on our 2009 year-to-date product cost trends compared to 2008 as discussed above and our current estimates for the 2009 fiscal year.

SG&A Expenses. SG&A decreased to 22.9% as a percentage of sales in the 2009 period from 23.9% in the 2008 period, a decrease of 94 basis points, primarily attributable to leverage attained from significantly higher net sales as discussed above. As a percentage of sales, waste management costs declined primarily as a result of cardboard recycling efforts, electricity, store payroll and occupancy costs decreased, and professional fees (primarily legal expenses) were lower in the 2009 period. In addition, workers' compensation costs and general liability insurance expense decreased as a result of our continued cost reduction and safety efforts. A noncash fixed asset impairment charge of approximately $5.0 million in the 2009 period and increased advertising costs partially offset improvements in SG&A. The overall 8.9% increase in SG&A expense in the 2009 period compared to the 2008 period is primarily the result of amounts required to operate new stores and to support increased same-store sales levels.

Interest Income. Interest income consists primarily of interest on investments. The decrease in interest income in the 2009 period compared to the 2008 period was the result of lower interest rates.

Interest Expense. The decrease in interest expense in the 2009 period from the 2008 period is due to lower interest rates on our variable rate debt, primarily on our term loan, and lower outstanding borrowings as the result of the repurchase of $44.1 million of the senior subordinated notes in the fourth quarter of 2008.

Income Taxes. The effective income tax rate for the 26-week period ended July 31, 2009 was 36.9% compared to a rate of 39.1% for the 26-week period ended August 1, 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. In addition, the 2009 period benefited from a reduction in a deferred tax valuation allowance related to state income tax credits that did not occur in 2008.

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Fiscal Year 2008, 2007 Successor and Predecessor Periods, and Fiscal Year 2006

The following table contains results of operations data for fiscal year 2008, the Successor and Predecessor periods in 2007, and fiscal year 2006.

	Successor		Predecessor	
(amounts in millions, except per share data)	**2008**	**2007(a)(c)**	**2007(b)(c)**	**2006(c)**
Net sales by category:				
Consumables	$ 7,248.4	$ 3,701.7	$ 2,615.1	$ 6,022.0
% of net sales	*69.31%*	*66.44%*	*66.65%*	*65.67%*
Seasonal	1,521.5	908.3	604.9	1,510.0
% of net sales	*14.55%*	*16.30%*	*15.42%*	*16.47%*
Home products	862.2	507.0	362.7	914.4
% of net sales	*8.24%*	*9.10%*	*9.24%*	*9.97%*
Apparel	825.6	454.4	341.0	723.5
% of net sales	*7.89%*	*8.16%*	*8.69%*	*7.89%*
Net sales	$ 10,457.7	$ 5,571.5	$ 3,923.8	$ 9,169.8
Cost of goods sold	7,396.6	3,999.6	2,852.2	6,801.6
% of net sales	*70.73%*	*71.79%*	*72.69%*	*74.17%*
Gross profit	3,061.1	1,571.9	1,071.6	2,368.2
% of net sales	*29.27%*	*28.21%*	*27.31%*	*25.83%*
Selling, general and administrative expenses	2,448.6	1,324.5	960.9	2,119.9
% of net sales	*23.41%*	*23.77%*	*24.49%*	*23.12%*
Litigation settlement and related costs, net	32.0			
% of net sales	*0.31%*			
Transaction and related costs		1.2	101.4	
% of net sales		*0.02%*	*2.58%*	
Operating profit	580.5	246.1	9.2	248.3
% of net sales	*5.55%*	*4.42%*	*0.24%*	*2.71%*
Interest income	(3.1)	(3.8)	(5.0)	(7.0)
% of net sales	*(0.03)%*	*(0.07)%*	*(0.13)%*	*(0.08)%*
Interest expense	391.9	252.9	10.3	34.9
% of net sales	*3.75%*	*4.54%*	*0.26%*	*0.38%*
Other (income) expense	(2.8)	3.6		
% of net sales	*(0.03)%*	*0.07%*		
Income (loss) before income taxes	194.4	(6.6)	4.0	220.4
% of net sales	*1.86%*	*(0.12)%*	*0.10%*	*2.40%*
Income taxes	86.2	(1.8)	12.0	82.4
% of net sales	*0.82%*	*(0.03)%*	*0.31%*	*0.90%*
Net income (loss)	$ 108.2	$ (4.8)	$ (8.0)	$ 137.9
% of net sales	*1.03%*	*(0.09)%*	*(0.20)%*	*1.50%*
Earnings per share(d)				
Basic	$ 0.34	$ (0.02)		
Diluted	0.34	(0.02)		

(a) Includes the results of operations of Buck Acquisition Corp. for the period prior to its 2007 merger with and into Dollar General Corporation from March 6, 2007 (Buck's formation) through July 6, 2007 (reflecting the change in fair value of interest rate swaps), and the post-merger results of Dollar General Corporation for the period from July 7, 2007 through February 1, 2008.

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(b) Includes the pre-merger results of Dollar General Corporation for the period from February 3, 2007 through July 6, 2007.

(c) Includes the effects of certain strategic merchandising and real estate initiatives that resulted in the closing of approximately 460 stores and changes in our inventory management model which resulted in greater inventory markdowns than in previous years.

(d) Because of our 2007 merger, our capital structure for periods before and after the merger is not comparable and therefore we are presenting earnings per share information only for periods subsequent to our 2007 merger.

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The following discussion of our financial performance also includes supplemental unaudited pro forma condensed consolidated financial information for fiscal years 2007 and 2006. Because our merger occurred during our 2007 second quarter, we believe this information aids in the comparison between the periods presented. The pro forma information does not purport to represent what our results of operations would have been had the 2007 merger and related transactions actually occurred at the beginning of the years indicated, and they do not purport to project our results of operations or financial condition for any future period. The following table contains results of operations data for 2008 compared to pro forma results of operations for fiscal years 2007 and 2006, and the dollar and percentage variances among those years. See " Unaudited Pro Forma Condensed Consolidated Financial Information" below.

				2008 vs. 2007		2007 Pro Forma vs.	
		Pro Forma		Pro Forma		2006 Pro Forma	
(amounts in millions)	2008	2007	2006	$ change	% change	$ change	% change
Net sales by category:							
Consumables	$ 7,248.4	$ 6,316.8	$ 6,022.0	$ 931.6	14.7%	$ 294.8	4.9%
% of net sales	69.31%	66.53%	65.67%				
Seasonal	1,521.5	1,513.2	1,510.0	8.2	0.5	3.2	0.2
% of net sales	14.55%	15.94%	16.47%				
Home products	862.2	869.8	914.4	(7.5)	(0.9)	(44.6)	(4.9)
% of net sales	8.24%	9.16%	9.97%				
Apparel	825.6	795.4	723.5	30.2	3.8	72.0	9.9
% of net sales	7.89%	8.38%	7.89%				
Net sales	$ 10,457.7	$ 9,495.2	$ 9,169.8	$ 962.4	10.1%	$ 325.4	3.5%
Cost of goods sold	7,396.6	6,852.5	6,803.1	544.1	7.9	49.3	0.7
% of net sales	70.73%	72.17%	74.19%				
Gross profit	3,061.1	2,642.8	2,366.7	418.3	15.8	276.1	11.7
% of net sales	29.27%	27.83%	25.81%				
Selling, general and administrative expenses	2,448.6	2,310.9	2,180.9	137.7	6.0	130.0	6.0
% of net sales	23.41%	24.34%	23.78%				
Litigation settlement and related costs, net	32.0			32.0			
% of net sales	0.31%						
Transaction and related costs		1.2		(1.2)		1.2	
% of net sales		0.01%					
Operating profit	580.5	330.6	185.7	249.9	75.6	144.9	78.0
% of net sales	5.55%	3.48%	2.03%				
Interest income	(3.1)	(8.8)	(7.0)	5.8	(65.4)	(1.8)	26.3
% of net sales	(0.03)%	(0.09)%	(0.08)%				
Interest expense	391.9	436.7	436.9	(44.8)	(10.3)	(0.2)	(0.0)
% of net sales	3.75%	4.60%	4.76%				
Other (income) expense	(2.8)	3.6		(6.4)		3.6	
% of net sales	(0.03)%	0.04%					
Income (loss) before income taxes	194.4	(100.9)	(244.2)	295.3		143.3	(58.7)
% of net sales	1.86%	(1.06)%	(2.66)%				
Income taxes	86.2	(42.9)	(88.0)	129.1		45.1	(51.2)
% of net sales	0.82%	(0.45)%	(0.96)%				
Net income (loss)	$ 108.2	$ (57.9)	$ (156.2)	$ 166.1	%	$ 98.2	(62.9)%
% of net sales	1.03%	(0.61)%	(1.70)%				

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Net Sales. The net sales increase in fiscal 2008 reflects a same-store sales increase of 9% compared to 2007. For the 2008 fiscal year, there were 8,153 same-stores which accounted for sales of $10.12 billion. There were no purchase accounting or other adjustments to net sales as a result of our 2007 merger, therefore, the 2007 net sales and other amounts presented related to 2007 net sales are calculated using the 2007 52-week fiscal year. The remainder of the increase in sales in fiscal 2008 was attributable to new stores, partially offset by sales from closed stores. The increase in consumables sales reflects the various initiatives implemented in 2008, including the impact of improved store standards, the expansion of convenience food and beverage offerings, improved utilization of square footage and extended store hours. The majority of our merchandising efforts in 2008 related to the consumables category, including planogram resets and increased emphasis on private brand products as further discussed above in the Executive Overview. Both the number of customer transactions and average transaction amount increased for the year, and we believe that our stores benefited to some degree from attracting new customers who are seeking value as a result of the current economic environment.

The net sales increase in 2007 primarily reflects a same-store sales increase of 1.9% for the 2007 Successor period and 2.6% for the Predecessor period compared to the same periods in 2006. For the 2007 Successor period, there were 7,735 same-stores (generating $5.26 billion of net sales) and for the 2007 Predecessor period there were 7,655 same-stores (generating $3.66 billion of net sales). Sales resulting from new store growth, including 170 new stores in the 2007 Successor period and 195 stores in the 2007 Predecessor period, were partially offset by the impact of store closings in the 2007 Predecessor and Successor periods and in 2006. Sales of consumables were 66.4% of total sales in the 2007 Successor period and 66.6% of total sales in the 2007 Predecessor period, compared to 65.7% of total sales in 2006, resulting from successful changes during the 2007 periods to our consumables merchandising mix. Sales of seasonal merchandise increased slightly in dollars but declined as a percentage of total sales in the 2007 periods compared to 2006. Apparel sales increased as a percentage of total sales in the 2007 periods compared to 2006, while home products sales decreased as a percentage of sales. To some extent, sales in these more discretionary categories were affected by our efforts to eliminate our inventory packaway strategy by the end of 2007 and to reduce overall inventory levels. In addition, we believe sales of seasonal merchandise, apparel and home products were negatively affected by continued economic pressures on our customers, particularly in the fourth quarter of 2007. The increase in same-store sales represents an increase in average customer purchase, offset by a slight decrease in customer traffic.

Of our four major merchandise categories, the consumables category has grown significantly over the past several years. Although this category generally has a lower gross profit rate than the other three categories, as discussed below, we have been able to increase our overall gross profit rate since our 2007 merger. Because of the impact of sales mix on gross profit, we continually review our merchandise mix and strive to adjust it when appropriate. Maintaining an appropriate sales mix is an integral part of achieving our gross profit and sales goals.

Gross Profit. The gross profit rate as a percentage of sales was 29.3% in 2008, compared to 28.2% in the 2007 Successor period, 27.3% in the 2007 Predecessor period, and 27.8% for pro forma 2007. Factors contributing to the increase in the 2008 gross profit rate include a lower inventory shrink rate; lower promotional markdowns; improved leverage on distribution and transportation costs; and improved markups related to changes resulting from the outcome of pricing analysis, our ability to react more quickly to product cost changes and diligent vendor negotiations. In January 2009, we marked down merchandise as the result of a change in the interpretation of the phthalates provision of the Consumer Product Safety Improvement Act of 2008 resulting in a charge of $8.6 million. Also in 2008, we faced increased commodity cost pressures mainly related to food and pet products which have been driven by rising fruit and vegetable prices and freight costs. Increases in petroleum, resin, metals, pulp and other raw material commodity driven costs also resulted in multiple product cost increases. Related to these commodity cost increases, we recorded a LIFO provision of $43.9 million in 2008, compared to the LIFO provision recorded in the 2007 Successor period of $6.1 million. We intend to address these commodity cost increases through negotiations with our vendors and by increasing retail prices as necessary. On a quarterly basis, we estimate the annual impact of commodity cost fluctuations based upon the best available information at that point in time.

The gross profit rate as a percentage of sales was 27.3% in the 2007 Predecessor period, 28.2% in the 2007 Successor period, and 27.8% in pro forma 2007, compared to 25.8% in 2006. Factors affecting the increase in the gross profit rate include: lower markdowns (markdowns in 2006 included significant markdowns and below cost adjustments relating to the move away from our packaway inventory strategy); and improved leverage on distribution and transportation costs driven by logistics efficiencies. The gross profit rate in the 2007 Successor period was greater than in the Predecessor period, in part due to the seasonality of our sales which generally result in greater sales of higher margin discretionary purchases in the fourth quarter. Offsetting the factors listed above was an increase in our shrink rate in the 2007 periods as compared to 2006 and a shift in the mix of sales to more consumables products which have relatively lower gross profit rates.

SG&A Expense. SG&A expense as a percentage of sales decreased to 23.4% in 2008, compared to 23.8% and 24.5% in the 2007 Successor and Predecessor periods, respectively. The more significant items resulting in the decrease in 2008 compared to the 2007 periods include: approximately $9.0 million and $45.0 million in the 2007 Successor and Predecessor periods, respectively (including $2.4 million and $4.1 million, respectively, also included in advertising costs discussed below) relating to the closing of stores and the elimination of our packaway inventory strategy; a $5.0 million gain in 2008, compared to a $12.0 million loss in the 2007 Successor period, relating to potential losses on distribution center leases; advertising costs of $27.8 million in 2008 compared to $23.6 million and $17.3 million in the 2007 Successor and Predecessor periods, respectively; and decreases in workers' compensation and other insurance-related costs compared to the 2007 periods. These decreases were partially offset by an increase in incentive compensation and related payroll taxes in 2008 compared to the 2007 periods due to improved overall financial performance, increased amortization of leasehold intangibles capitalized in connection with the revaluation of assets at the date of our 2007 merger and an increase in professional fees in 2008 compared to the 2007 periods primarily reflecting legal expenses related to shareholder litigation.

SG&A decreased to 23.4% of sales in 2008, compared to 24.3% of sales in pro forma 2007. The more significant items resulting in the decrease from the 2007 pro forma results include: $54.0 million of costs in pro forma 2007 SG&A relating to the closing of stores and the elimination of our packaway inventory strategy; a $5.0 million gain in 2008, compared to a $12.0 million loss in the 2007 pro forma period relating to possible losses on distribution center leases; and decreases in workers' compensation and other insurance-related costs in 2008 of $10.4 million compared to the 2007 pro forma period. These decreases were partially offset by an increase in incentive compensation and related payroll taxes of $42.0 million in 2008 compared to pro forma 2007 due to improved overall financial performance and an increase in professional fees in 2008 of $10.4 million compared to pro forma 2007 primarily reflecting legal expenses related to shareholder litigation.

SG&A expense increased as a percentage of sales to 23.8% in the 2007 Successor period and 24.5% in the 2007 Predecessor period from 23.1% in 2006. SG&A in the 2007 periods includes: $23.4 million in the 2007 Successor period related to amortization of leasehold intangibles capitalized in connection with the revaluation of assets at the date of our 2007 merger; $19.3 million and $7.6 million of administrative employee incentive compensation expense in the 2007 Successor and Predecessor periods, respectively, resulting from meeting certain financial targets, compared to $9.6 million of discretionary bonuses in 2006; approximately $9.0 million and $45.0 million of expenses in the 2007 Successor and Predecessor periods, respectively, relating to the closing of stores and the elimination of our packaway inventory strategy (compared to approximately $33 million in 2006) and an accrued loss of approximately $12.0 million in the 2007 Successor period relating to probable losses for certain distribution center leases. In addition, SG&A in the 2007 Successor period includes approximately $4.8 million of KKR-related consulting and monitoring fees. SG&A expense in 2006 was partially offset by insurance proceeds of $13.0 million received during the year related to losses incurred due to Hurricane Katrina.

On a pro forma basis, SG&A expense increased as a percentage of sales to 24.3% in 2007, compared to 23.8% in 2006. SG&A in the 2007 pro forma results compared to 2006 includes: $26.9 million of administrative employee incentive compensation expense in 2007 resulting from meeting certain financial targets, compared to $9.6 million of discretionary bonuses in 2006; approximately $54 million of expenses in 2007 relating to the closing of stores and the elimination of our packaway inventory strategy, compared to approximately $33 million in 2006; and an accrued loss of approximately $12.0 million in 2007 relating to probable losses for certain distribution center leases. SG&A expense in 2006 was partially offset by insurance proceeds of $13.0 million received during the year related to losses incurred due to Hurricane Katrina.

Litigation Settlement and Related Costs, Net. The $32.0 million in 2008 represents the settlement of a class action lawsuit filed in response to our 2007 merger, and includes a $40.0 million settlement and estimated expenses of $2.0 million, net of $10.0 million of insurance proceeds received in the fourth quarter of 2008.

Transaction and Related Costs. The $1.2 million and $101.4 million of expenses recorded in the 2007 Successor and Predecessor periods, respectively, reflect $1.2 million and $62.0 million, respectively, of expenses related to our 2007 merger, such as investment banking and legal fees as well as $39.4 million of compensation expense in the Predecessor period related to stock options, restricted stock and restricted stock units which were fully vested immediately prior to and as a result of our 2007 merger.

Interest Income. Interest income consists primarily of interest on investments. The decrease in interest income in 2008 compared to the 2007 periods was a result of lower interest rates, partially offset by higher investments. In the 2007 periods (primarily the 2007 Predecessor period) we had higher levels of cash and short-term investments on hand as compared to 2006.

Interest Expense. The significant increase in interest expense in 2008 and the 2007 Successor period subsequent to our 2007 merger is due to interest on long-term obligations incurred to finance the merger. See further discussion under " Liquidity and Capital Resources" below. We had outstanding variable-rate debt of $623 million and $787 million, after taking into consideration the impact of interest rate swaps, as of January 30, 2009 and February 1, 2008, respectively. The remainder of our outstanding indebtedness at January 30, 2009 and February 1, 2008 was fixed rate debt.

Interest expense in 2008 was less than 2007 pro forma interest expense due to lower borrowing amounts, specifically on the senior secured asset-based revolving credit facility and Senior Subordinated Notes, along with lower interest rates. Pro forma interest expense for both 2007 and 2006 was approximately $437 million.

Other (Income) Expense. In 2008, we recorded a gain of $3.8 million resulting from the repurchase of $44.1 million of our Senior Subordinated Notes, offset by expense of $1.0 million related to hedge ineffectiveness related to certain interest rate swaps.

During the 2007 Successor period, we recorded an unrealized loss of $4.1 million related to the change in the fair value of interest swaps prior to the designation of such swaps as cash flow hedges in October 2007, offset by earnings of $1.7 million under the contractual provisions of the swap agreements. Also during the 2007 Successor period, we recorded $6.2 million of expenses related to consent fees and other costs associated with a tender offer for certain notes payable maturing in June 2010 ("2010 Notes"). Approximately 99% of the 2010 Notes were retired as a result of the tender offer. The costs related to the tender of the 2010 Notes were partially offset by a $4.9 million gain in the 2007 Successor period resulting from the repurchase of $25.0 million of our Senior Subordinated Notes.

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Income Taxes. The effective income tax rates for 2008, the 2007 Successor and Predecessor periods and 2006 were an expense of 44.4%, a benefit of 26.9% and expense of 300.2%, and 37.4%, respectively.

The 2008 income tax rate is greater than the expected U.S. statutory tax rate of 35% principally due to the non-deductibility of the settlement and related expenses associated with our 2007 merger-related shareholder lawsuit.

The income tax rate for the Successor period ended February 1, 2008 is a benefit of 26.9%. This benefit is less than the expected U.S. statutory rate of 35% due to the incurrence of state income taxes in several of the group's subsidiaries that file their state income tax returns on a separate entity basis and the election to include, effective February 3, 2007, income tax related interest and penalties in the amount reported as income tax expense.

The income tax rate for the Predecessor period ended July 6, 2007 is an expense of 300.2%. This expense is higher than the expected U.S. statutory rate of 35% due principally to the non-deductibility of certain acquisition related expenses.

Off Balance Sheet Arrangements

We lease three of our distribution centers from lessors, which meet the definition of a Variable Interest Entity ("VIE") as described by Financial Accounting Standards Board ("FASB") Interpretation 46, *Consolidation of Variable Interest Entities* ("FIN 46"), as revised. One of these distribution centers has been recorded as a financing obligation whereby the property and equipment are reflected in our consolidated balance sheets. The land and buildings of the other two distribution centers have been recorded as operating leases in accordance with Statement of Financial Accounting Standards ("SFAS") No. 13, *Accounting for Leases*. We are not the primary beneficiary of these VIEs and, accordingly, have not included these entities in our consolidated financial statements. Other than the foregoing, we are not party to any off balance sheet arrangements.

Unaudited Pro Forma Condensed Consolidated Financial Information

The following supplemental unaudited pro forma condensed consolidated statements of operations data have been developed by applying pro forma adjustments to our historical consolidated statements of operations. We were acquired on July 6, 2007 through a merger accounted for as a reverse acquisition. Although we continued as the same legal entity after this merger, the accompanying unaudited pro forma condensed consolidated financial information is presented for the Predecessor and Successor relating to the periods preceding and succeeding the merger, respectively. As a result of our 2007 merger, we applied purchase accounting standards and a new basis of accounting effective July 7, 2007. The unaudited pro forma condensed consolidated statements of operations for the years ended February 1, 2008 and February 2, 2007 gives effect to the 2007 merger as if it had occurred on February 3, 2007 and February 4, 2006, respectively. Assumptions underlying the pro forma adjustments are described in the accompanying notes, which should be read in conjunction with this unaudited pro forma condensed consolidated financial information.

The unaudited pro forma adjustments are based upon available information and certain assumptions that we believe are reasonable under the circumstances. The unaudited pro forma condensed consolidated financial information is presented for supplemental informational purposes only, although we believe this information is useful in providing comparisons between years. The unaudited pro forma condensed consolidated financial information does not purport to represent what our results of operations would have been had our 2007 merger and related transactions actually occurred on the date indicated, and they do not purport to project our results of operations or financial condition for any future period. The unaudited pro forma condensed consolidated statements of operations should be read in conjunction with other sections of this Management's Discussion and Analysis of Financial Condition and Results of Operations, as well as "Selected Historical Financial and Other Data" and our audited consolidated financial statements and related notes thereto appearing

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elsewhere in this prospectus. All pro forma adjustments and their underlying assumptions are described more fully in the notes to our unaudited pro forma condensed consolidated statements of operations.

	Fiscal Year Ended February 1, 2008			
(In thousands)	**Successor**	**Predecessor**	**Adjustments**	**Pro Forma**
Net sales	$5,571,493	$3,923,753	$	$9,495,246
Cost of goods sold	3,999,599	2,852,178	695 (a)	6,852,472
Gross profit	1,571,894	1,071,575	(695)	2,642,774
Selling, general and administrative expenses	1,324,508	960,930	25,461 (b)	2,310,899
Transaction and related costs	1,242	101,397	(101,397)(c)	1,242
Operating profit	246,144	9,248	75,241	330,633
Interest income	(3,799)	(5,046)		(8,845)
Interest expense	252,897	10,299	173,502 (d)	436,698
Other (income) expense	3,639			3,639
Income (loss) before income taxes	(6,593)	3,995	(98,261)	(100,859)
Income tax expense (benefit)	(1,775)	11,993	(53,138)(e)	(42,920)
Net loss	$ (4,818)	$ (7,998)	$ (45,123)	$ (57,939)

See notes to unaudited pro forma condensed consolidated statements of operations.

	Fiscal Year Ended February 2, 2007		
(In thousands)	**Predecessor**	**Adjustments**	**Pro Forma**
Net sales	$9,169,822	$	$9,169,822
Cost of goods sold	6,801,617	1,532 (a)	6,803,149
Gross profit	2,368,205	(1,532)	2,366,673
Selling, general and administrative expenses	2,119,929	61,016 (b)	2,180,945
Operating profit	248,276	(62,548)	185,728
Interest income	(7,002)		(7,002)
Interest expense	34,915	401,987 (d)	436,902
Income (loss) before income taxes	220,363	(464,535)	(244,172)
Income tax expense (benefit)	82,420	(170,404)(e)	(87,984)
Net income (loss)	$ 137,943	$ (294,131)	$ (156,188)

See notes to unaudited pro forma condensed consolidated statements of operations.

Notes to Unaudited Pro Forma Condensed Consolidated Statements of Operations

(a)

Represents the estimated impact on cost of goods sold of depreciation expense related to the adjustment to fair value of the property and equipment at our distribution centers.

(b)

Primarily represents depreciation and amortization of the fair value adjustments related to tangible and intangible long-lived assets. Identifiable intangible assets with a determinable life have been amortized on a straight-line basis in the unaudited pro forma consolidated statement of operations over a period ranging from 2 to 17.5 years. The primary fair value adjustments (on which the pro forma adjustments are based) impacting SG&A expenses were to leasehold interests ($185 million), property and equipment ($101 million) and internally developed software ($12 million). This adjustment also includes management fees that are payable to affiliates of certain of the Investors subsequent to the closing of our 2007 merger and related transactions (at an initial annual rate of $5.0 million which shall be increased by 5% for each succeeding year during the term of the agreement).

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(c)
Represents $101.4 million of charges that are non-recurring in nature and directly attributable to our 2007 merger and related transactions. Such charges are comprised of $39.4 million of stock compensation expense from the acceleration of unvested stock options, restricted stock and restricted stock units as required as a result of this merger and $62.0 million of transaction costs we incurred that were expensed as one-time charges upon the close of the merger. Such adjustments do not include any adjustments to reflect the effects of our new stock based compensation plan.

(d)
Reflects pro forma interest expense resulting from our new capital structure as if the new capital structure had been in place on February 3, 2007 and February 4, 2006, respectively (in millions):

	Predecessor	
	Fiscal Year Ended February 2, 2007	**Period Ended July 6, 2007**
Revolving credit facility(1)	$ 21.4	$ 8.9
Term loan facilities(2)	177.8	74.1
Notes(3)	210.9	87.9
Letter of credit fees(4)	1.7	0.7
Bank commitment fees(5)	2.3	1.0
Other existing debt obligations(6)	7.2	3.0
Total cash interest expense	421.3	175.6
Amortization of capitalized debt issuance costs and debt discount(7)	9.8	4.1
Amortization of discounted liabilities(8)	8.5	3.5
Other(9)	(2.7)	0.6
Total pro forma interest expense	436.9	183.8
Less historical interest expense	(34.9)	(10.3)
Net adjustment to interest expense	$ 402.0	$ 173.5

(1)
The $1.125 billion revolving credit facility became effective on the date of our 2007 merger and carries an interest rate of 3-month LIBOR of 5.32% plus 1.50% for tranche A loans and 3-month LIBOR of 5.32% plus 2.25% for tranche A-1 loans based upon such rates at the date of our 2007 merger. Reflects assumed borrowings of $175.0 million under tranche A and $125.0 million under tranche A-1 based upon projected borrowing needs at the date of our 2007 merger. Such levels of borrowings will fluctuate in future periods dependent upon short term cash needs. Changes in the levels of borrowings would impact interest expense.

(2)
Reflects interest on the $2.3 billion term loan facility which became effective on the date of our 2007 merger at a rate of LIBOR (as of our 2007 merger date) plus 2.75%. To hedge against interest rate risk, we have entered into a swap agreement with respect to a $2.0 billion notional amount for 4.93%. This swap agreement became effective as a result of the acquisition on July 31, 2007 and will amortize on a quarterly basis until maturity at July 31, 2012. The unhedged portion of the facility is reflected at an interest rate of LIBOR of 5.32% plus 2.75%.

(3)
Reflects interest on the 10.625% Senior Notes and 11.875%/12.625% Senior Subordinated Notes which were issued on the date of our 2007 merger. Assumes the cash interest payment option at a rate of 11.875% has been elected with respect to all of the Senior Subordinated Notes.

(4)
Represents fees on balances of trade letters of credit of $141.2 million at 0.75% and standby letters of credit of $40.7 million at 1.50%.

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(5) Represents commitment fees of 0.375% on the $612.1 million unutilized balance of the revolving credit facility at July 6, 2007. Outstanding letters of credit noted in (4) above reduce the availability under the revolving credit facility.

(6) Represents historical interest expense on other existing indebtedness.

(7) Represents debt issuance costs associated with the new bank facilities amortized using the effective interest method over 6 years for the revolving facility, 7 years for the term loan facility, 8 years for the senior notes, 10 years for the senior subordinated notes and 8 years for other capitalized debt issuance costs. Also includes the amortization of debt discount of the Senior Notes.

(8) Represents interest expense on long-term liabilities which were discounted as a result of our 2007 merger.

(9) Represents an adjustment to historical interest expense to reflect the effect of the adoption of current accounting standards for income taxes, offset by capitalized interest expense.

(e) Represents the tax effect of the pro forma adjustments, calculated at an effective rate of 54.1% for the Predecessor period ended July 6, 2007 and 36.7% for the fiscal year ended February 2, 2007. The effective tax rate, a benefit, applied to the pro forma changes for the Predecessor period ended July 6, 2007, reflects the pro forma elimination of non-deductible transaction costs from income before taxes. The pro forma income tax expense for the year ended February 2, 2007 has been adjusted to reflect changes required by FIN 48 as if FIN 48 had been adopted as of the beginning of the year.

Effects of Inflation

In 2008, increased commodity cost pressures mainly related to food and pet products, which have been driven by fruit and vegetable prices and rising freight costs, have increased the costs of certain products. Increases in petroleum, resin, metals, pulp and other raw material commodity driven costs also resulted in multiple product cost increases. We believe that our ability to increase selling prices in response to cost increases largely mitigated the effect of these cost increases on our overall results of operations. We believe that inflation and/or deflation had a minimal impact on our overall operations during the 2009 year-to-date period and in fiscal years 2007 and 2006.

Stock Compensation

As described in more detail in Note 10 "Share-based payments" to our audited consolidated financial statements for the year ended January 30, 2009, we account for stock option grants in accordance with Statement of Financial Accounting Standards 123(R), "*Share-Based Payment*" ("SFAS 123(R)"). Under SFAS 123(R), the fair value of each award is separately estimated and amortized into compensation expense over the service period. The fair value of our stock option grants are estimated on the grant date using the Black-Scholes-Merton valuation model. The application of this valuation model involves assumptions that require judgment and are highly sensitive in the determination of compensation expense.

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During the most recent 12-month period through July 31, 2009, we have granted the following stock options:

Grant date	Number of Options	Exercise Price	Fair Value of Common Stock(1)	Fair Value of Option Grant(2)	Intrinsic Value(3)
August 28, 2008	1,922,832	$ 8.75	$ 8.75	$ 4.23	$
December 19, 2008	1,482,443	8.75	8.75	4.10	
March 18, 2009	491,425	9.63	9.63	4.56	
May 28, 2009	731,821	12.95	12.95	6.39	

(1) All fair valuations were determined by our board of directors in consultation with management at the date of each stock option grant.

(2) As determined using the Black-Scholes-Merton valuation model at the date of each stock option grant.

(3) Intrinsic value reflects the amount by which the value of the shares (as of the grant date) exceeds the exercise price of the stock option.

At July 31, 2009, we had approximately 13.4 million stock options outstanding, approximately 4.3 million of which were vested with an intrinsic value of $61.1 million, and approximately 9.1 million of which were unvested with an intrinsic value of $117.3 million. Intrinsic value reflects the amount by which $22.00 (the midpoint of the offering range) exceeds the exercise price of the outstanding stock options.

Significant factors, assumptions and methodologies used in determining fair value of our common stock on the grant dates of stock option awards made subsequent to August 1, 2008

We granted stock options on four dates subsequent to August 1, 2008. Set forth below are significant factors considered, assumptions made and methodologies used in determining fair value on each grant date.

Valuation Methodologies. Each of the fair value determinations discussed below utilized, in part, two alternative valuation approaches. The first approach, referred to as the income approach, is a valuation technique that provides an estimation of the fair value of a business based upon the cash flows that it can be expected to generate over time. The second approach, referred to as the market comparable approach, is a valuation technique that provides an estimation of fair value based on market prices of publicly traded companies. In determining a value, we considered the indications of value from both the income approach and the market comparable approach, which were consistent and overlapped at each valuation date. As a result of the consistency between the two approaches, we applied equal weighting in deriving a final indication of value. Alternate weighting methods could result in a different indication of fair value.

The income approach utilized begins with an estimation of the annual cash flows that a business is expected to generate over a discrete projection period. The estimated cash flows for each of the years in the period are then converted to their present value equivalent using a rate of return considered appropriate given the risk of achieving the projected cash flows. The present value of the estimated cash flows are then added to the present value equivalent of the residual value of the business at the end of the projection period to arrive at an estimate of fair value. Such an approach necessarily relies on estimations of future cash flows that are inherently uncertain, as well as a determination of an appropriate rate of return in order to derive present value equivalents of both the projected cash flows and the residual value of the business at the end of the period. The use of different estimations of future cash flows or a different rate of return could result in a different indication of fair value.

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The market comparable approach utilizes in part a comparison to publicly traded companies in similar lines of business. In this regard, a search was conducted of public companies utilizing the same standard industrial classification code as our company. Such companies were then analyzed to determine which were most comparable based on various factors, including industry similarity, financial risk, company size, geographic diversification, growth opportunities, similarity of reaction to macroeconomic factors, profitability, financial data availability and active trading volume. Four companies were included as comparable companies in the market comparable approach throughout the entire period presented. Three additional companies were included with respect to 2008 grant dates but were removed prior to the 2009 grant dates due to their pharmacy business segments that were determined to be inconsistent with our operations. At the same time, in place of the removed companies, we added one additional discount retailer that was deemed to be a comparable company. Assuming that the these changes to the comparable company set had taken place prior to the analyses conducted in connection with the 2008 grant dates, the valuation range indicated from the market comparable approach would have increased on the low and high end by less than 5%. Alternate determinations of which publicly traded entities constituted comparable companies could result in a different indication of fair value.

Fair Value at August 28, 2008. To determine the fair value of our common stock on August 28, 2008 of $8.75 per share, our primary considerations included:

- a valuation utilizing the above valuation methods prepared as of May 2, 2008 that indicated a valuation range between $8.37 and $9.59 per share,

- an improvement in financial performance relative to our budget from May 2, 2008 through August 28, 2008,

- continued business uncertainty, including the expectation that the full impact of our new leadership team and our business initiatives would take time and risk to implement,

- a decline in the equity markets generally over this period, and no material change in the market performance of comparable companies, and

- worsening of general economic conditions and outlook over this period.

Fair Value at December 19, 2008. To determine the fair value of our common stock on December 19, 2008 of $8.75 per share, our primary considerations included:

- the May 2, 2008 valuation and the other factors considered in the August 28, 2008 fair value determination noted above,

- further improvement in financial performance relative to our budget from August 28, 2008 through December 19, 2008,

- continued business uncertainty, particularly related to the costs and risks associated with new business initiatives resulting from the priorities of our new management team being implemented, including private brand expansion, foreign sourcing acceleration, setting new store standards and new real estate analytical processes,

- a substantial decline from August 28, 2008 through December 19, 2008 in the equity markets generally, as well as in the market performance of comparable companies,

- the lack of free accessibility as of such date to the equity capital markets, creating difficulties in marketability and liquidity, and a significant worsening of economic and consumer outlook over this period resulting from the emerging recession and extensive financial crisis.

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Fair Value at March 18, 2009. To determine the fair value of our common stock on March 18, 2009 of $9.63 per share, our primary considerations included:

- a valuation as of January 30, 2009 that indicated a valuation range between $8.94 and $10.17 per share,
- a determination that there had been no material change in valuation from January 30, 2009 to March 18, 2009,
- slight improvement in our operating and financial performance from January 30, 2009 through March 18, 2009,
- a slight decline in the equity markets generally over this period, as well as a slight increase in the market performance of comparable companies,
- the continued lack of free accessibility as of such date to the equity capital markets, and
- a slight worsening in economic and consumer outlook over this period.

Fair Value at May 28, 2009. To determine the fair value of our common stock on May 28, 2009 of $12.95 per share, our primary considerations included:

- a valuation as of such date that indicated a valuation range between $11.95 and $13.86 per share,
- improved financial performance relative to our budget for the first quarter of 2009, including momentum relating to new initiatives in our consumables category, resulting in an increase in our internal forecasts for 2009 financial performance,
- less uncertainty in business performance, particularly given that our new leadership team was fully in place at this point in time,
- significant improvement in the equity markets generally, and in the market performance of comparable companies specifically, from March 18, 2009 through May 28, 2009,
- improving accessibility as of such date to the equity capital markets, and
- significant improvement in economic and consumer outlook over this period.

Comparison to Offering Price. The value of our common stock, based upon the midpoint of the estimated price range of this offering, is significantly higher than the estimated fair value of our common stock as of each of the foregoing dates on which option grants were issued. We note that, as is typical in initial public offerings, the estimated price range of this offering was not derived using a formal determination of fair value. Instead, the estimated price range has been calculated based upon discussions between us and the underwriters in the offering. Among the factors considered in determining this range were prevailing market conditions, our historical performance, estimates of our business potential and earnings prospects, an assessment of our management and the consideration of the above factors in relation to market valuation of companies in related businesses. In addition to this difference in purpose and methodology, we believe that the difference in value reflected between the estimated price range and the option grant dates since August 1, 2008 is principally attributed to the following significant events that have occurred since January 2009, and particularly after May 28, 2009:

our substantially improved financial performance, mainly related to sales growth, particularly in our consumables category, and margin expansion due to improved product costs, reduced inventory shrink and continued distribution efficiencies, specifically:

- for the first half of 2009, our total sales growth was 13.3%, including same-store sales growth of 10.8% on top of 7.8% same-store sales growth in the first half of 2008, in comparison to the comparable companies discussed above, which had total sales growth of 2.4% (calculated using a simple average) in the first half of 2009,

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for the second quarter of 2009, our same store sales grew 8.6% while the comparable companies' same store sales decreased 0.1% (calculated using a simple average), and

we generated net income of $176.6 million for the first half of 2009, compared to $33.6 million in net income for the first half of 2008 and $108.2 million in net income for the full fiscal year of 2008.

greater confidence in business outlook given the tenure of our new management team and results of new initiatives, specifically:

success in our private brand expansion efforts,

progress on our efforts to increase foreign sourcing,

chain-wide implementation of model store standards with a focus on clean and fresh stores,

installment of rigorous merchandising and category management in both consumables and non-consumable products,

continuing reduction in inventory shrink,

improving real estate analytical site selection and impressive new store returns, and

distribution and transportation efficiencies.

as the result of the early success of many of the initiatives discussed above, our adoption of an updated five-year business plan in August 2009 that raised expectations for our financial performance for the full 2009 fiscal year and improved the long-term outlook for 2010 through 2014,

substantial improvement in the equity markets generally, including a 28.8% increase in the S&P 500 index from January 30, 2009 through October 27, 2009 and a 17.3% increase in the S&P 500 index from May 28, 2009 through October 27, 2009,

similar improvement in the market performance of comparable companies, with an index of the comparable companies used in the valuation analyses discussed above reflecting a 20.1% increase during the period from January 30, 2009 through October 27, 2009 and an 8.9% increase during the period from May 28, 2009 through October 27, 2009,

the reduction from 20% on January 30, 2009 to 0% currently of the marketability discount applied to our valuation resulting from dramatic improvement in the equity capital markets relating to new equity issuances, with September 2009 representing the largest month for initial public offerings in the United States in terms of number since December 2007 and in terms of value since March 2008 and with such market improvement continuing into October 2009, and

continued improvement in economic and consumer outlook over this period, including a forecast slowdown in the decline in GDP from the current recession and a stabilization of consumer confidence at levels significantly higher than those for early

2009.

Liquidity and Capital Resources

Current Financial Condition/Recent Developments

On July 31, 2009, we amended the senior secured asset-based revolving credit facility (the "ABL Facility"). Wells Fargo Retail Finance, LLC, became the successor administrative agent, replacing CIT Group/Business Credit, Inc., whose $94 million in commitments were also terminated. The total commitments under the ABL Facility are now $1.031 billion.

At July 31, 2009, we had total outstanding debt (including the current portion of long-term obligations) of approximately $4.14 billion and $515.4 million of cash and cash equivalents. We had

$901.6 million available for borrowing under our ABL Facility at that date based on borrowing base availability. Our liquidity needs are significant, primarily due to our debt service and other obligations. However, we believe our cash flow from operations and existing cash balances, combined with availability under the Credit Facilities, will provide sufficient liquidity to fund our current obligations, projected working capital requirements and capital spending for a period that includes the next twelve months. After consideration of (1) the issuance of common stock in this offering and the application of proceeds from the offering as described in "Use of Proceeds," (2) cash payments of $239.7 million (which amount includes a special dividend in an amount of approximately $239.3 million to our existing shareholders on September 11, 2009 and a cash payment of approximately $0.4 million made to holders of rollover options in lieu of an adjustment to the strike price of such options) and (3) the payment of approximately $64 million in fees under our monitoring agreement with KKR and Goldman, Sachs & Co., cash and cash equivalents at July 31, 2009 would have been $211.6 million.

As described in Note 7 to the condensed consolidated financial statements appearing elsewhere in this prospectus, we are involved in a number of legal actions and claims, some of which could potentially result in material cash payments. Adverse developments in those contingencies or actions could materially and adversely affect our liquidity. We have certain income tax-related contingencies as more fully described below under "Critical Accounting Policies and Estimates" and in Note 3 to the condensed consolidated financial statements. Future negative developments could have a material adverse effect on our liquidity.

We may seek, from time to time, to retire the Notes through cash purchases on the open market, in privately negotiated transactions or otherwise. Such repurchases, if any, will depend on prevailing market conditions, our liquidity requirements, contractual restrictions and other factors. The amounts involved may be material. In connection with this offering, we intend to redeem some of the Notes. See "Use of Proceeds."

During the three-year period from 2006 through 2008, we generated an aggregate of approximately $1.4 billion in cash flows from operating activities. During that period, we expanded the number of stores we operate by approximately 5% (433 stores), remodeled or relocated over 9% of our currently operated stores (768 stores), and incurred approximately $607 million in capital expenditures. As noted above, we made certain strategic decisions which slowed our store growth in 2007 and 2008, but have accelerated store growth again in 2009.

Prior to our 2007 merger, we declared a quarterly cash dividend in the amount of $0.05 per share payable on or before April 19, 2007 to common shareholders of record on April 5, 2007. We have not declared or paid recurring dividends since that date. However, on September 8, 2009, our Board of Directors declared a special dividend on our outstanding common stock of approximately $239.3 million in the aggregate. The special dividend was paid on September 11, 2009 to shareholders of record on September 8, 2009 with cash generated from operations. Following completion of the offering, we have no current plans to pay any cash dividends on our common stock for the foreseeable future and instead may retain earnings, if any, for future operation and expansion and debt repayment. Any decision to declare and pay dividends in the future will be made at the discretion of our Board of Directors and will depend on, among other things, our results of operations, cash requirements, financial condition, contractual restrictions and other factors that our Board of Directors may deem relevant. In addition, our ability to pay dividends is limited by covenants in our Credit Facilities and in the indentures governing the Notes. See "Description of Indebtedness" for restrictions on our ability to pay dividends.

Credit Facilities

Overview. We have two senior secured credit facilities (the "Credit Facilities") which provide financing of up to $3.331 billion. The Credit Facilities consist of a $2.3 billion senior secured term loan facility (the "Term Loan Facility") and the ABL Facility, which provides financing of up to $1.031 billion (of which up to $350.0 million is available for letters of credit), subject to borrowing base availability. The ABL Facility includes borrowing capacity available for letters of credit and for short-term borrowings referred to as swingline loans.

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The agreements governing the Credit Facilities provide that we have the right at any time to request up to $325.0 million of incremental commitments under one or more incremental term loan facilities and/or asset-based revolving credit facilities. The lenders under these facilities are not under any obligation to provide any such incremental commitments and any such addition of or increase in commitments will be subject to our not exceeding certain senior secured leverage ratios and certain other customary conditions precedent. Our ability to obtain extensions of credit under these incremental commitments also will be subject to the same conditions as extensions of credit under the Credit Facilities.

The amount available under the ABL Facility (including letters of credit) shall not exceed the sum of the tranche A borrowing base and the tranche A-1 borrowing base. The tranche A borrowing base equals the sum of (i) 85% of the net orderly liquidation value of all our eligible inventory and that of each guarantor thereunder and (ii) 90% of all our accounts receivable and credit/debit card receivables and that of each guarantor thereunder, in each case, subject to a reserve equal to the principal amount of the 2010 Notes that remain outstanding at any time and other customary reserves and eligibility criteria. An additional 10% of the net orderly liquidation value of all of our eligible inventory and that of each guarantor thereunder is made available to us in the form of a "last out" tranche under which we may borrow up to a maximum amount of $101.0 million. Borrowings under the ABL Facility will be incurred first under the last out tranche, and no borrowings will be permitted under any other tranche until the last out tranche is fully utilized. Repayments of the ABL Facility will be applied to the last out tranche only after all other tranches have been fully paid down.

Interest Rates and Fees. Borrowings under the Credit Facilities bear interest at a rate equal to an applicable margin plus, at our option, either (a) LIBOR or (b) a base rate (which is usually equal to the prime rate). The applicable margin for borrowings is (i) under the Term Loan Facility, 2.75% for LIBOR borrowings and 1.75% for base-rate borrowings (ii) as of January 30, 2009 and February 1, 2008, respectively, under the ABL Facility (except in the last out tranche described above), 1.25% and 1.50% for LIBOR borrowings; 0.25% and 0.50% for base-rate borrowings and for any last out borrowings, 2.25% for LIBOR borrowings and 1.25% for base-rate borrowings. The applicable margins for borrowings under the ABL Facility (except in the case of last out borrowings) are subject to adjustment each quarter based on average daily excess availability under the ABL Facility. We are also required to pay a commitment fee to the lenders under the ABL Facility for any unutilized commitments at a rate of 0.375% per annum, to be reduced to 0.25% per annum if unutilized commitments are equal to or less than 50% of aggregate commitments. We also must pay customary letter of credit fees. See " Quantitative and Qualitative Disclosures About Market Risk" below for a discussion of our use of interest rate swaps to manage our interest rate risk.

Prepayments. The senior secured credit agreement for the Term Loan Facility requires us to prepay outstanding term loans, subject to certain exceptions, with:

- 50% of our annual excess cash flow (as defined in the credit agreement) which will be reduced to 25% and 0% if we achieve and maintain a total net leverage ratio of 6.0 to 1.0 and 5.0 to 1.0, respectively;

- 100% of the net cash proceeds of all non-ordinary course asset sales or other dispositions of property in excess of $25.0 million in the aggregate and subject to our right to reinvest the proceeds; and

- 100% of the net cash proceeds of any incurrence of debt, other than proceeds from debt permitted under the senior secured credit agreement.

The mandatory prepayments discussed above will be applied to the Term Loan Facility as directed by the senior secured credit agreement. Through July 31, 2009, no prepayments have been required under the prepayment provisions listed above.

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In addition, the senior secured credit agreement for the ABL Facility requires us to prepay the ABL Facility, subject to certain exceptions, with:

- 100% of the net cash proceeds of all non-ordinary course asset sales or other dispositions of revolving facility collateral (as defined below) in excess of $1.0 million in the aggregate and subject to our right to reinvest the proceeds; and

- to the extent such extensions of credit exceed the then current borrowing base (as defined in the senior secured credit agreement for the ABL Facility).

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

An event of default under the senior secured credit agreements will occur upon a change of control as defined in the senior secured credit agreements governing our Credit Facilities. Upon an event of default, indebtedness under the Credit Facilities may be accelerated, in which case we will be required to repay all outstanding loans plus accrued and unpaid interest and all other amounts outstanding under the Credit Facilities.

Amortization. Beginning September 30, 2009, we are required to repay installments on the loans under the term loan credit facility in equal quarterly principal amounts in an aggregate amount per annum equal to $23 million, or 1% of the total funded principal amount at July 6, 2007, with the balance payable on July 6, 2014. There is no amortization under the ABL Facility. The entire principal amounts (if any) outstanding under the ABL Facility are due and payable in full at maturity, on July 6, 2013, on which day the commitments thereunder will terminate.

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

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

- a second-priority security interest in all existing and after-acquired inventory, accounts receivable, and other assets arising from such inventory and accounts receivable, of our company and each U.S. Guarantor (the "Revolving Facility Collateral"), subject to certain exceptions;

- a first priority security interest in, and mortgages on, substantially all of our and each U.S. Guarantor's tangible and intangible assets (other than the Revolving Facility Collateral); and

- a first-priority pledge of 100% of the capital stock held by us, or any of our domestic subsidiaries that are directly owned by us or one of the U.S. Guarantors and 65% of the voting capital stock of each of our existing and future foreign subsidiaries that are directly owned by us or one of the U.S. Guarantors.

All obligations and related guarantees under the asset-based credit facility are secured by the Revolving Facility Collateral, subject to certain exceptions.

Certain Covenants and Events of Default. The senior secured credit agreements for the Credit Facilities contain a number of covenants that, among other things, restrict, subject to certain exceptions, our ability to:

- incur additional indebtedness;

- sell assets;

pay dividends and distributions or repurchase our capital stock;

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- make investments or acquisitions;
- repay or repurchase subordinated indebtedness (including the Senior Subordinated Notes discussed below) and the Senior Notes discussed below;
- amend material agreements governing our subordinated indebtedness (including the Senior Subordinated Notes discussed below) or our Senior Notes discussed below; and
- change our lines of business.

The senior secured credit agreements also contain certain customary affirmative covenants and events of default.

At July 31, 2009, we had no borrowings, $43.4 million of commercial letters of credit, and $86.0 million of standby letters of credit outstanding under our ABL Facility.

Senior Notes due 2015 and Senior Subordinated Toggle Notes due 2017

Overview. We have $1.175 billion aggregate principal amount of 10.625% senior notes due 2015 (the "Senior Notes") outstanding, which mature on July 15, 2015, pursuant to an indenture dated as of July 6, 2007 (the "senior indenture"), and $655.9 million aggregate principal amount of 11.875%/12.625% senior subordinated toggle notes due 2017 (the "Senior Subordinated Notes") outstanding, which mature on July 15, 2017, pursuant to an indenture dated as of July 6, 2007 (the "senior subordinated indenture"). The Senior Notes and the Senior Subordinated Notes are collectively referred to herein as the "Notes." The senior indenture and the senior subordinated indenture are collectively referred to herein as the "indentures." We may redeem some or all of the Notes at any time at redemption prices described or set forth in the indentures.

Interest on the Notes is payable on January 15 and July 15 of each year. Interest on the Senior Notes is payable in cash. Cash interest on the Senior Subordinated Notes accrues at a rate of 11.875% per annum, and PIK interest (as that term is defined below) accrues at a rate of 12.625% per annum, if applicable. The initial interest payment on the Senior Subordinated Notes was payable in cash. For any future interest period through July 15, 2011, we may elect to pay interest on the Senior Subordinated Notes (i) in cash, (ii) by increasing the principal amount of the Senior Subordinated Notes or issuing new senior subordinated notes ("PIK interest") or (iii) by paying interest on half of the principal amount of the Senior Subordinated Notes in cash interest and half in PIK interest. After July 15, 2011, all interest on the Senior Subordinated Notes will be payable in cash. Through July 31, 2009, all such interest has been paid in cash.

The Notes are fully and unconditionally guaranteed by each of the existing and future direct or indirect wholly owned domestic subsidiaries that guarantee the obligations under our Credit Facilities.

We may redeem some or all of the Notes at any time at redemption prices described or set forth in the indentures. We also may seek, from time to time, to retire some or all of the Notes through cash purchases on the open market, in privately negotiated transactions or otherwise. Such repurchases, if any, will depend on prevailing market conditions, our liquidity requirements, contractual restrictions and other factors. The amounts involved may be material. We repurchased $44.1 million and $25.0 million of the Senior Subordinated Notes in the fourth quarters of 2008 and 2007, respectively.

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

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Covenants. The indentures contain covenants limiting, among other things, our ability and the ability of our restricted subsidiaries to (subject to certain exceptions):

- incur additional debt, issue disqualified stock or issue certain preferred stock;
- pay dividends on or make certain distributions and other restricted payments;
- create certain liens or encumbrances;
- sell assets;
- enter into transactions with affiliates;
- make payments to us;
- consolidate, merge, sell or otherwise dispose of all or substantially all of our assets; and
- designate our subsidiaries as unrestricted subsidiaries.

Events of Default. The indentures also provide for events of default which, if any of them occurs, would permit or require the principal of and accrued interest on the Notes to become or to be declared due and payable.

Adjusted EBITDA

Under the agreements governing the Credit Facilities and the indentures, certain limitations and restrictions could arise if we are not able to satisfy and remain in compliance with specified financial ratios. Management believes the most significant of such ratios is the senior secured incurrence test under the Credit Facilities. This test measures the ratio of the senior secured debt to Adjusted EBITDA for the four most recently completed quarterly financial periods. This ratio would need to be no greater than 4.25 to 1 to avoid such limitations and restrictions. As of July 31, 2009, this ratio was 1.6 to 1. Senior secured debt is defined as our total debt secured by liens or similar encumbrances less cash and cash equivalents. EBITDA is defined as income (loss) from continuing operations before cumulative effect of change in accounting principle plus interest and other financing costs, net, provision for income taxes, and depreciation and amortization. Adjusted EBITDA is defined as EBITDA, further adjusted to give effect to adjustments required in calculating this covenant ratio under our Credit Facilities. EBITDA and Adjusted EBITDA are not presentations made in accordance with U.S. GAAP, are not measures of financial performance or condition, liquidity or profitability, and should not be considered as an alternative to (i) net income, operating income or any other performance measures determined in accordance with U.S. GAAP or (ii) operating cash flows determined in accordance with U.S. GAAP. Additionally, EBITDA and Adjusted EBITDA are not intended to be measures of free cash flow for management's discretionary use, as they do not consider certain cash requirements such as interest payments, tax payments and debt service requirements and replacements of fixed assets.

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

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

	26-weeks ended		52-weeks ended	
(in millions)	Jul. 31, 2009	Aug. 1, 2008	Jul. 31, 2009	Jan. 30, 2009
Net income	$176.6	$ 33.6	$ 251.2	$108.2
Add (subtract):				
Interest income	(0.1)	(2.2)	(1.0)	(3.1)
Interest expense	179.1	200.3	370.7	391.9
Depreciation and amortization	122.9	115.7	242.3	235.1
Income taxes	103.2	21.5	167.9	86.2
EBITDA	581.7	368.9	1,031.1	818.3
Adjustments:				
Gain on debt retirement			(3.8)	(3.8)
(Gain) loss on hedging instruments	(2.0)	0.6	(1.5)	1.1
Contingent gain on distribution center leases			(5.0)	(5.0)
Impact of markdowns related to inventory clearance activities, net of purchase accounting adjustments	(5.6)		(30.5)	(24.9)
Hurricane-related expenses and write-offs			2.2	2.2
Monitoring and consulting fees to affiliates	3.0	4.7	6.9	8.6
Stock option and restricted stock expense	6.1	4.5	11.6	10.0
Indirect merger-related costs	5.2	12.4	13.5	20.7
Litigation settlement and related costs			32.0	32.0
Other non-cash charges (including LIFO)	8.8	17.3	46.2	54.7
Total Adjustments	15.5	39.5	71.6	95.6
Adjusted EBITDA	$597.2	$408.4	$1,102.7	$913.9

Interest Rate Swaps

We use interest rate swaps to minimize the risk of adverse changes in interest rates. These swaps are intended to reduce risk by hedging an underlying economic exposure. Because of high correlation between the derivative financial instrument and the underlying exposure being hedged, fluctuations in the value of the financial instruments are generally offset by reciprocal changes in the value of the underlying economic exposure. Our principal interest rate exposure relates to outstanding amounts under our Credit Facilities. As of July 31, 2009, we had four interest rate swaps with a combined notional value of $1.47 billion that were designated as cash flow hedges of interest rate risk. For more information see " Quantitative and Qualitative Disclosures about Market Risk" below.

Fair Value Accounting

We have classified our interest rate swaps, as further discussed in " Quantitative and Qualitative Disclosures About Market Risk" below, in Level 2 (as defined by SFAS No. 157, *Fair Value Measurements* ("SFAS 157")) of the fair value hierarchy, as the significant inputs to the overall valuations are based on market-observable data or information derived from or corroborated by market-observable data, including market-based inputs to models, model calibration to market-clearing transactions, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency. Where models are used, the selection of a particular model to value a derivative depends upon the contractual terms of, and specific risks inherent in, the instrument as well as the availability of pricing information in the market. We use similar models to value similar instruments. Valuation models require a variety of inputs, including contractual terms, market prices, yield curves, credit

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curves, measures of volatility, and correlations of such inputs. For our derivatives, all of which trade in liquid markets, model inputs can generally be verified and model selection does not involve significant management judgment.

To comply with the provisions of SFAS 157, we incorporate credit valuation adjustments to appropriately reflect both our own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements of our derivatives. The credit valuation adjustments are calculated by determining the total expected exposure of the derivatives (which incorporates both the current and potential future exposure) and then applying each counterparty's credit spread to the applicable exposure. For derivatives with two-way exposure, such as interest rate swaps, the counterparty's credit spread is applied to our exposure to the counterparty, and our own credit spread is applied to the counterparty's exposure to us, and the net credit valuation adjustment is reflected in our derivative valuations. The total expected exposure of a derivative is derived using market-observable inputs, such as yield curves and volatilities. The inputs utilized for our own credit spread are based on implied spreads from our publicly-traded debt. For counterparties with publicly available credit information, the credit spreads over LIBOR used in the calculations represent implied credit default swap spreads obtained from a third party credit data provider. In adjusting the fair value of our derivative contracts for the effect of nonperformance risk, we have considered the impact of netting and any applicable credit enhancements, such as collateral postings, thresholds, mutual puts, and guarantees. Additionally, we actively monitor counterparty credit ratings for any significant changes.

As of July 31, 2009, the net credit valuation adjustments reduced the settlement values of our derivative liabilities by $2.7 million. Various factors affect changes in the credit valuation adjustments over time, including changes in the credit spreads of the parties to the contracts, as well as changes in market rates and volatilities, which affect the total expected exposure of the derivative instruments. When appropriate, valuations are also adjusted for various factors such as liquidity and bid/offer spreads, which factors we deemed to be immaterial as of July 31, 2009.

Other Considerations

Our inventory balance represented approximately 44% of our total assets exclusive of goodwill and other intangible assets as of July 31, 2009. Our proficiency in managing our inventory balances can have a significant impact on our cash flows from operations during a given fiscal year. As a result, efficient inventory management has been and continues to be an area of focus for us.

Contractual Obligations

The following table summarizes our significant contractual obligations and commercial commitments as of January 30, 2009 (in thousands):

	Payments Due by Period				
Contractual obligations	**Total**	**< 1 yr**	**1-3 yrs**	**3-5 yrs**	**> 5 yrs**
Long-term debt obligations	$4,147,109	$ 11,500	$ 47,723	$ 46,000	$4,041,886
Capital lease obligations	9,939	2,658	2,471	564	4,246
Interest(a)	2,159,555	332,792	661,518	656,169	509,076
Self-insurance liabilities(b)	216,817	70,047	93,198	30,590	22,982
Operating leases(c)	1,671,935	358,367	569,005	371,966	372,597
Monitoring agreement(d)	20,682	5,403	11,630	3,649	
Subtotal	$8,226,037	$780,767	$1,385,545	$1,108,938	$4,950,787

		Commitments Expiring by Period			
Commercial commitments(e)	**Total**	**< 1 yr**	**1-3 yrs**	**3-5 yrs**	**> 5 yrs**
Letters of credit	$ 51,014	$ 51,014	$	$	$
Purchase obligations(f)	634,014	632,857	1,157		
Subtotal	$ 685,028	$ 683,871	$ 1,157	$	$
Total contractual obligations and commercial commitments	$8,911,065	$1,464,638	$1,386,702	$1,108,938	$4,950,787

(a) Represents obligations for interest payments on long-term debt and capital lease obligations, and includes projected interest on variable rate long-term debt, based upon 2008 year end rates.

(b) We retain a significant portion of the risk for our workers' compensation, employee health insurance, general liability, property loss and automobile insurance. As these obligations do not have scheduled maturities, these amounts represent undiscounted estimates based upon actuarial assumptions. Reserves for workers' compensation and general liability which existed as of our 2007 merger date were discounted in order to arrive at estimated fair value. All other amounts are reflected on an undiscounted basis in our consolidated balance sheets.

(c) Operating lease obligations are inclusive of amounts included in deferred rent and closed store obligations in our consolidated balance sheets.

(d) We entered into a monitoring agreement, dated July 6, 2007, with affiliates of certain of our Investors pursuant to which those entities will provide management and advisory services. Such agreement has no contractual term and for purposes of this schedule is presumed to be outstanding for a period of five years.

(e) Commercial commitments include information technology license and support agreements, supplies, fixtures, letters of credit for import merchandise, and other inventory purchase obligations.

(f) Purchase obligations include legally binding agreements for software licenses and support, supplies, fixtures, and merchandise purchases excluding such purchases subject to letters of credit.

There have been no material changes to the information in the table above through July 31, 2009 other than contractual payments made in accordance with their terms. Long-term debt obligations, interest and monitoring agreement line items in the table above have not been adjusted to give effect to this offering and related transactions. See "Use of Proceeds" and "Certain Relationships and Related Party Transactions Relationships with the Investors Monitoring Agreement and Indemnity Agreement."

In 2008 and 2007, our South Carolina-based wholly owned captive insurance subsidiary, Ashley River Insurance Company ("ARIC"), had investments in U.S. Government securities, obligations of Government Sponsored Enterprises, short- and long-term corporate obligations, and asset-backed obligations. These investments were held pursuant to South Carolina regulatory requirements to maintain certain asset balances in relation to ARIC's liability and equity balances which could limit our ability to use these assets for general corporate purposes. In May 2008, the state of South Carolina made certain changes to these regulatory requirements, which had the effect of reducing the amounts and types of investments required, allowing ARIC to liquidate investments (primarily U.S. Government and corporate debt securities) totaling $48.6 million during 2008. At July 31, 2009, the asset balances held pursuant to these revised regulatory requirements equaled $20.0 million and were reflected in our condensed consolidated balance sheet as cash and cash equivalents.

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In August 2005, we incurred significant losses caused by Hurricane Katrina, primarily inventory and fixed assets in the form of store fixtures and leasehold improvements. We reached final settlement of our related insurance claim in 2006 and received proceeds totaling $21.0 million due to these losses, including $13.0 million in 2006 and $8.0 million prior to 2006, and have utilized a portion of these proceeds to replace lost assets. Insurance proceeds related to fixed assets are included in cash flows from investing activities, and proceeds related to inventory losses and business interruption are included in cash flows from operating activities.

Legal actions, claims and tax contingencies. As described in "Business Legal Proceedings," we are involved in a number of legal actions and claims, some of which could potentially result in material cash payments. Adverse developments in those actions could materially and adversely affect our liquidity. We also have certain income tax-related contingencies as more fully described below under "Critical Accounting Policies and Estimates." Future negative developments could have a material adverse effect on our liquidity.

Credit ratings. On March 26, 2009, Moody's upgraded our corporate credit rating to B2 with a stable outlook. On April 1, 2009, Standard & Poor's raised our corporate credit rating to B+ from B. The outlook is also stable. These current ratings are considered non-investment grade. Our current credit ratings, as well as future rating agency actions, could (1) impact our ability to obtain financings to finance our operations on satisfactory terms; (2) have an effect on our financing costs; and (3) have an effect on our insurance premiums and collateral requirements necessary for our self-insured programs.

Cash flows

Cash flows from operating activities. Cash flows from operating activities in the 2009 26-week period as compared to the corresponding 2008 period were significantly impacted by changes in working capital in general and accrued expenses and other liabilities in particular. Accrued expenses and other liabilities decreased by $75.3 million in the 2009 period compared to an increase of $68.7 million in the 2008 period, with the most significant items including a $40.0 million payment in the 2009 period to settle a shareholder lawsuit resulting from our 2007 merger, higher bonus payouts in the 2009 period compared to the prior year period as a result of our improved 2008 operating results, and reductions of income tax reserves in the 2009 period. In addition, in 2008 we implemented initiatives to aggressively manage our payables and improve payment terms. While these initiatives continue, their impact, as expected, is less significant in the 2009 period compared to when they were first implemented. Our cash flows from operating activities in the 2009 period compared to the 2008 period was positively impacted by our strong operating performance due to greater sales, higher gross margins and lower SG&A expenses as a percentage of sales, as described in more detail above under " Results of Operations." We continue to closely monitor our inventory balances, which increased by 10% overall during the first two quarters of 2009 compared to a 16% overall increase during the first two quarters of 2008. Inventory levels in our four inventory categories in the 2009 period compared to the respective 2008 period were as follows: the consumables category increased 15% compared to a 21% increase; the seasonal category increased by 5% compared to a 13% increase; the home products category declined by 1% compared to a decline of less than 1%; and apparel increased by 5% compared to a 16% increase.

A significant component of the change in cash flows from operating activities in 2008 compared to the 2007 Successor and Predecessor periods was our strong operating performance due to greater sales, higher gross margins and lower SG&A expenses as a percentage of sales, partially offset by significantly higher interest expense, as described in more detail above under " Results of Operations." In addition, we experienced increased inventory turns and improved merchandise payment terms in 2008 as compared to the 2007 periods. Accounts payable balances increased by $140.4 million in 2008, compared to a decline of $41.4 million in the 2007 Successor period and an increase of $34.8 million in the 2007 Predecessor period, partially as a result of our implementation of initiatives to aggressively manage our payables. Also positively affecting cash flows from operations were increases in accrued expenses and other in 2008, which was primarily attributable to increases in litigation reserves, incentive bonus accruals, deferred vendor rebates, and property and sales tax accruals. Other significant components of the change in cash flows from operating activities in 2008 as compared to 2007 were changes in inventory balances, which increased by 10% in 2008 compared to decreases of approximately 6% and 1% during the 2007 Successor and Predecessor periods, respectively. Inventory levels in the consumables category increased by $77.8 million, or 12%, in 2008, compared to a decline of $90.7 million, or 12%, in the 2007 Successor period and an increase of $48.8 million, or 7%, in the 2007 Predecessor period. The seasonal category increased by $20.9 million, or 8%, in 2008, compared to a decline of $24.2 million, or 8%, in the 2007 Successor period and a decline of $38.7 million, or 11%, in the 2007 Predecessor period. The home products category declined by $2.6 million, or 2%, in 2008, compared to an increase of $25.4 million, or 19%, in the 2007 Successor period and a decline of $15.0 million, or 10%, in the 2007 Predecessor period. The apparel category increased by $30.2 million, or 15%, in 2008, compared to an increase of $10.0 million, or 5%, in the 2007 Successor period and a decline of $11.5 million, or 5%, in the 2007 Predecessor period. In addition, net income in 2008 compared to the net losses in the 2007 periods discussed above was a principal factor in the increase in income taxes paid in 2008. Income tax refunds received in 2007 for taxes paid in prior years that did not reoccur in 2008 also contributed to the increase in income taxes paid during 2008.

Cash flows from operating activities for the 2007 periods were impacted by a net loss of $4.8 million and $8.0 million in the 2007 Successor and Predecessor periods, respectively, compared to net income of $137.9 million in 2006, as described in detail under "Results of Operations" above, including the incurrence of $101.4 million of Transaction and related costs in the 2007 Predecessor period. Other significant components of the change in cash flows from operating activities in 2007 as compared to 2006 were changes in inventory balances, which decreased by approximately 6% and 1% during the 2007 Successor and Predecessor periods, respectively, compared to a decrease of approximately 3% during 2006. As compared to changes in inventory levels in the 2007 periods discussed above, in 2006 consumables increased $63.2 million, or 10%; seasonal increased $6.7 million, or 2%; home products decreased $52.5 million, or 25%; and apparel decreased $59.5 million, or 21%. In addition to inventory changes, the net losses in the 2007 periods discussed above were principal factors in the reduction in income taxes paid in those periods as compared to 2006. Also offsetting the decline in net income were changes in accrued expenses, particularly in the 2007 Predecessor period as compared to 2006, which were primarily attributable to income tax related reserves, accruals for lease liabilities on closed stores and property and sales tax accruals.

Cash flows from investing activities. Significant components of property and equipment purchases in the 26-week 2009 period included the following approximate amounts: $58 million for improvements and upgrades to existing stores; $23 million for new stores, $12 million for remodels and relocations of existing stores, $7 million for distribution and transportation related capital expenditures and $5 million for systems-related capital projects. During the 2009 period, we opened 225 new stores and remodeled or relocated 213 stores.

Significant components of property and equipment purchases in the 26-week 2008 period included the following approximate amounts: $41 million for improvements and upgrades to existing stores; $16 million for remodels and relocations of existing stores; $10 million for new stores; $6 million for distribution and transportation-related capital expenditures; and $5 million for systems-related capital projects. During the 2008 period, we opened 125 new stores and remodeled or relocated 249 stores.

Purchases and sales of short-term investments of $9.9 million and $59.0 million, respectively, during the 2008 period relate primarily to our captive insurance subsidiary.

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Cash flows used in investing activities totaling $152.6 million in 2008 were primarily related to capital expenditures and sales of investments. Significant components of our property and equipment purchases in 2008 included the following approximate amounts: $149 million for improvements, upgrades, remodels and relocations of existing stores; $22 million for new stores; $17 million for distribution and transportation-related capital expenditures; and $13 million for information systems upgrades and technology-related projects. During 2008 we opened 207 new stores and remodeled or relocated 404 stores.

Purchases and sales of short-term investments, which equaled net sales of $51.6 million in 2008, primarily reflect our investment activities in our captive insurance subsidiary, including a change in regulatory requirements as discussed in more detail above under "Other Considerations."

Our 2007 merger, as discussed in more detail above, required cash payments in the 2007 Successor period of approximately $6.7 billion, net of cash acquired of $350 million. Significant components of property and equipment purchases in the 2007 Successor period included the following approximate amounts: $45 million for improvements, upgrades, remodels and relocations of existing stores; $23 million for distribution and transportation-related capital expenditures; and $16 million for new stores. During the 2007 Successor period, we opened 170 new stores and remodeled or relocated 235 stores. Significant components of property and equipment purchases in the 2007 Predecessor period included the following approximate amounts: $29 million for new stores; $15 million for improvements, upgrades, remodels and relocations of existing stores; and $7 million for distribution and transportation-related capital expenditures. During the 2007 Predecessor period, we opened 195 new stores and remodeled or relocated 65 stores.

During the 2007 Successor period we purchased a secured promissory note for $37.0 million which represents debt issued by a third-party entity from which we lease our distribution center in Ardmore, Oklahoma. Purchases and sales of short-term investments, which equaled net sales of $17.6 million and $4.4 million in the respective 2007 Successor and Predecessor periods, primarily reflect our investment activities in our captive insurance subsidiary, and all purchases of long-term investments were related to the captive insurance subsidiary.

Cash flows used in investing activities totaling $282.0 million in 2006 were primarily related to capital expenditures and, to a lesser degree, purchases of long-term investments. Significant components of our property and equipment purchases in 2006 included the following approximate amounts: $66 million for distribution and transportation-related capital expenditures (including approximately $30 million related to our distribution center in Marion, Indiana which opened in 2006); $66 million for new stores; $50 million for a capital project designed to improve inventory flow from our distribution centers to consumers; and $38 million for capital projects in existing stores. During 2006 we opened 537 new stores and remodeled or relocated 64 stores.

Purchases and sales of short-term investments in 2006, which equaled net sales of $1.9 million, reflect our investment activities in tax-exempt auction rate securities as well as investing activities of our captive insurance subsidiary. Purchases of long-term investments are related to the captive insurance subsidiary.

Capital expenditures for the 2009 fiscal year are projected to be approximately $300 to $325 million. We anticipate funding our 2009 capital requirements with cash flows from operations and, if necessary, borrowings under our ABL Facility.

Cash flows from financing activities. We had no borrowings or repayments under our ABL Facility in the 26-week period ended July 31, 2009, and had no borrowings and repayments of $102.5 million under this facility in the 26-week period ended August 1, 2008, representing all borrowing and repayment activity under this facility in 2008. As of January 30, 2009 and July 31, 2009, we had no borrowings under the revolving credit facility.

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During 2008, we repurchased $44.1 million of our outstanding senior subordinated notes.

In the 2007 Successor period, to finance our merger, we issued long-term debt of approximately $4.2 billion and issued common stock in the amount of approximately $2.8 billion (primarily relating to the cash equity contributions from the Investors); we incurred costs associated with the issuance of merger-related long-term debt of $87.4 million; we completed a cash tender offer for our 2010 Notes, resulting in the valid tender of approximately 99% of the 2010 Notes resulting in repayments of long-term debt and related consent fees in the amount of $215.6 million; and incurred borrowings, net of repayments, under our ABL Facility of $102.5 million as discussed above.

Cash flows used in financing activities during 2006 included the repurchase of approximately 4.5 million shares of the Predecessor's common stock at a total cost of $79.9 million, cash dividends paid of $62.5 million, or $0.20 per share, on the Predecessor's outstanding common stock, and $14.1 million to reduce our outstanding capital lease and financing obligations. These uses of cash were partially offset by proceeds from the exercise of stock options during 2006 of $19.9 million.

The borrowings and repayments under the revolving credit agreements in 2008, the 2007 Successor period and 2006 were primarily a result of activity associated with periodic cash needs.

Critical Accounting Policies and Estimates

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect reported amounts and related disclosures. In addition to the estimates presented below, there are other items within our financial statements that require estimation, but are not deemed critical as defined below. We believe these estimates are reasonable and appropriate. However, if actual experience differs from the assumptions and other considerations used, the resulting changes could have a material effect on the financial statements taken as a whole.

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

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

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

- applying the RIM to a group of products that is not fairly uniform in terms of its cost and selling price relationship and turnover;
- applying the RIM to transactions over a period of time that include different rates of gross profit, such as those relating to seasonal merchandise;

- inaccurate estimates of inventory shrinkage between the date of the last physical inventory at a store and the financial statement date; and

- inaccurate estimates of LCM and/or LIFO reserves.

Factors that reduce potential distortion include the use of historical experience in estimating the shrink provision (see discussion below) and an annual LIFO analysis whereby all SKUs are considered in the index formulation. An actual valuation of inventory under the LIFO method is made at the end of each year based on the inventory levels and costs at that time. Accordingly, interim LIFO calculations are based on management's estimates of expected year-end inventory levels, sales for the year and the expected rate of inflation/deflation for the year and are thus subject to adjustment in the final year-end LIFO inventory valuation. We also perform interim inventory-aging analysis for determining obsolete inventory. Our policy is to write down inventory to an LCM value based on various management assumptions including estimated markdowns and sales required to liquidate such aged inventory in future periods. Inventory is reviewed on a quarterly basis and adjusted as appropriate to reflect write-downs determined to be necessary.

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

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

Goodwill and Other Intangible Assets. We amortize intangible assets over their estimated useful lives unless such lives are deemed indefinite. If impairment indicators are noted, amortizable intangible assets are tested for impairment based on projected undiscounted cash flows, and, if impaired, written down to fair value based on either discounted projected cash flows or appraised values. Future cash flow projections are based on management's projections. Significant judgments required in this testing process may include projecting future cash flows, determining appropriate discount rates and other assumptions. Projections are based on management's best estimates given recent financial performance, market trends, strategic plans and other available information. Changes in these estimates and assumptions could materially affect the determination of fair value or impairment. Future indicators of impairment could result in an asset impairment charge.

Under SFAS No. 142, *Goodwill and Other Intangible Assets*, we are required to test goodwill and intangible assets with indefinite lives for impairment annually, or more frequently if impairment indicators occur. The goodwill impairment test is a two-step process that requires management to make judgments in determining what assumptions to use in the calculation. The first step of the process consists of estimating the fair value of our reporting unit based on valuation techniques (including a discounted cash flow model using revenue and profit forecasts) and comparing that estimated fair value with the recorded carrying value, which includes goodwill. If the estimated fair value is less than the carrying value, a second step is performed to compute the amount of the impairment by determining an "implied fair value" of goodwill. The determination of the "implied fair value" of goodwill would require us to allocate the estimated fair value of our reporting unit to its assets and liabilities. Any unallocated fair value represents the "implied fair value" of goodwill, which would be compared to its corresponding carrying value.

We performed our annual impairment tests of goodwill and indefinite-lived intangible assets during the third quarter of 2008 based on conditions as of the end of our second quarter, and subsequently reviewed such results as of the end of 2008. These analyses indicated that no impairment was necessary. We are not currently projecting a decline in cash flows that could be expected to have an adverse effect such as a violation of debt covenants or future impairment charges.

Purchase Accounting. Our 2007 merger was accounted for as a reverse acquisition in accordance with the purchase accounting provisions of SFAS 141, *Business Combinations*, under which our assets and liabilities have been accounted for at their estimated fair values as of the date of our 2007 merger. The aggregate purchase price was allocated to the tangible and intangible assets acquired and liabilities assumed, based upon an assessment of their relative fair values as of the date of our 2007 merger. These estimates of fair values, the allocation of the purchase price and other factors related to the accounting for our 2007 merger are subject to significant judgments and the use of estimates.

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

Impairment of Long-lived Assets. We review the carrying value of all long-lived assets for impairment at least annually, and whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. In accordance with SFAS 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, we review for impairment stores open for approximately two years or more for which recent cash flows from operations are negative. Impairment results when the carrying value of the assets exceeds the estimated undiscounted future cash flows over the life of the lease. Our estimate of undiscounted future cash flows over the lease term is based upon historical operations of the stores and estimates of future store profitability which encompasses many factors that are subject to variability and are difficult to predict. If a long-lived asset is found to be impaired, the amount recognized for impairment is equal to the difference between the carrying value and the asset's estimated fair value. The fair value is estimated based primarily upon projected future cash flows (discounted at our credit adjusted risk-free rate) or other reasonable estimates of fair value in accordance with U.S. GAAP.

We recorded impairment charges included in SG&A expense of approximately $5.0 million in the second quarter of 2009, $4.0 million in 2008, $0.2 million in the 2007 Predecessor period and $9.4 million in 2006 to reduce the carrying value of certain of our stores' assets as deemed necessary based on our evaluation that such amounts would not be recoverable, primarily due to insufficient sales or excessive costs resulting in negative projected future cash flows at these locations. Such assets with remaining fair value, to the extent still functional, are held for use in other store locations. The majority of the 2006 charges were recorded pursuant to certain strategic initiatives discussed above in " Results of Operations Fiscal Year 2008, 2007 Successor and Predecessor Periods, and Fiscal Year 2006."

Insurance Liabilities. We retain a significant portion of the risk for our workers' compensation, employee health insurance, general liability, property loss and automobile coverage. These costs are significant primarily due to the large employee base and number of stores. Provisions are made to these insurance liabilities on an undiscounted basis based on actual claim data and estimates of incurred but not reported claims developed using actuarial methodologies based on historical claim trends. If future claim trends deviate from recent historical patterns, we may be required to record additional expenses or expense reductions, which could be material to our future financial results.

Contingent Liabilities Income Taxes. Income tax reserves are determined using the methodology established by the Financial Accounting Standards Board ("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 process. A determination is first made as to whether it is more likely than not that the position will be sustained, based upon the technical merits, upon examination by the taxing authorities. If the tax position is expected to meet the more likely than not criteria, the benefit recorded for the tax position equals the largest amount that is greater than 50% likely to be realized upon ultimate settlement of the respective tax position. Uncertain tax positions require determinations and estimated liabilities to be made based on provisions of the tax law which may be subject to change or varying interpretation. If our determinations and estimates prove to be inaccurate, the resulting adjustments could be material to our future financial results.

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

Lease Accounting and Excess Facilities. The majority of our stores are subject to short-term leases (usually with initial or current terms of 3 to 5 years) with multiple renewal options when available. We also have stores subject to build-to-suit arrangements with landlords, which typically carry a primary lease term of 10 years with multiple renewal options. As of January 30, 2009, approximately 42% of our stores had provisions for contingent rentals based upon a percentage of defined sales volume. We recognize contingent rental expense when the achievement of specified sales targets is considered probable. We recognize rent expense over the term of the lease. We record minimum rental expense on a straight-line basis over the base, non-cancelable lease term commencing on the date that we take physical possession of the property from the landlord, which normally includes a period prior to store opening to make necessary leasehold improvements and install store fixtures. When a lease contains a predetermined fixed escalation of the minimum rent, we recognize the related rent expense on a straight-line basis and record the difference between the recognized rental expense and the amounts payable under the lease as deferred rent. Tenant allowances, to the extent received, are recorded as deferred incentive rent and amortized as a reduction to rent expense over the term of the lease. We reflect as a liability any difference between the calculated expense and the amounts actually paid. Improvements of leased properties are amortized over the shorter of the life of the applicable lease term or the estimated useful life of the asset.

For store closures (excluding those associated with a business combination) where a lease obligation still exists, we record the estimated future liability associated with the rental obligation on the date the store is closed in accordance with SFAS 146, *Accounting for Costs Associated with Exit or Disposal Activities* ("SFAS 146"). Based on an overall analysis of store performance and expected trends, management periodically evaluates the need to close underperforming stores. Liabilities are established at the point of closure for the present value of any remaining operating lease obligations, net of estimated sublease income, and at the communication date for severance and other exit costs, as prescribed by SFAS 146. Key assumptions in calculating the liability include the timeframe expected to terminate lease agreements, estimates related to the sublease potential of closed locations, and estimation of other related exit costs. If actual timing and potential termination costs or realization of sublease income differ from our estimates, the resulting liabilities could vary from recorded amounts. These liabilities are reviewed periodically and adjusted when necessary.

Share-Based Payments. Our share-based stock option awards are valued on an individual grant basis using the Black-Scholes-Merton closed form option pricing model. The application of this valuation model involves assumptions that are judgmental and highly sensitive in the valuation of stock options, which affects compensation expense related to these options. These assumptions include an estimate of the fair value of our common stock, the term that the options are expected to be outstanding, an estimate of the volatility of our stock price (which is based on a peer group of publicly traded companies), applicable interest rates and the dividend yield of our stock. Other factors involving judgments that affect the expensing of share-based payments include estimated forfeiture rates of share-based awards. If our estimates differ materially from actual experience, we may be required to record additional expense or reductions of expense, which could be material to our future financial results.

Fair Value Measurements. We measure fair value of assets and liabilities in accordance with SFAS 157, which requires that fair values be determined based on the assumptions that market participants would use in pricing the asset or liability. 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). Therefore, Level 3 inputs are typically based on an entity's own assumptions, as there is little, if any, related market activity, and thus requires the use of significant judgment and estimates.

Our fair value measurements are primarily associated with our derivative financial instruments, intangible assets, property and equipment, and to a lesser degree our investments. The values of our derivative financial instruments are determined using widely accepted valuation techniques, including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves. The fair values of interest rate swaps are determined using the market standard methodology of netting the discounted future fixed cash payments (or receipts) and the discounted expected variable cash receipts (or payments). The variable cash receipts (or payments) are based on an expectation of future interest rates (forward curves) derived from observable market interest rate curves.

Derivative Financial Instruments. We account for derivative instruments in accordance with SFAS 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended and interpreted ("SFAS 133"). SFAS 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives), and for hedging activities. SFAS 133 requires that every derivative instrument be recorded in the balance sheet as either an asset or liability measured at its fair value, and that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. See "Fair Value Measurements" above for a discussion of derivative valuations. Special accounting for qualifying hedges allows a derivative's gains and losses to either offset related results on the hedged item in the statement of operations or be accumulated in other comprehensive income, and requires that a company formally document, designate, and assess the effectiveness of transactions that receive hedge accounting. We use derivative instruments to manage our exposure to changing interest rates, primarily with interest rate swaps.

In addition to making valuation estimates, we also bear the risk that certain derivative instruments that have been designated as hedges and currently meet the strict hedge accounting requirements of SFAS 133 may not qualify in the future as "highly effective," as defined, as well as the risk that hedged transactions in cash flow hedging relationships may no longer be considered probable to occur. Further, new interpretations and guidance related to SFAS 133 may be issued in the future, and we cannot predict the possible impact that such guidance may have on our use of derivative instruments going forward.

Adoption of Accounting Standards

In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles* ("SFAS 162"). SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (GAAP) in the United States (the GAAP hierarchy). SFAS 162 became effective in November 2008. The adoption of this standard did not have a material impact on our financial statements.

We adopted the provisions of SFAS 161, *Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133* ("SFAS 161"), during the first quarter of 2009. SFAS 161 amends and expands the disclosure requirements of 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.

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations*. The new standard establishes the requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any non-controlling interest (formerly minority interest) in an acquiree; provides updated requirements for recognition and measurement of goodwill acquired in the business combination or a gain from a bargain purchase; and provides updated disclosure requirements to enable users of financial statements to evaluate the nature and financial effects of the business combination. This Statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Early adoption is not allowed. Unless a qualifying transaction is consummated subsequent to the effective date, the adoption of this standard on our financial statements is expected to be limited to any future adjustments to uncertain tax positions resulting from our 2007 merger that would, if subsequently recognized, impact our results of operations rather than goodwill.

In September 2006, the FASB issued SFAS 157, which provides guidance for using fair value to measure assets and liabilities. The standard also requires expanded information about the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. For financial assets and liabilities, SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. For non-financial assets and liabilities, SFAS 157 is effective for all fiscal years beginning after November 15, 2008. 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. On February 2, 2008, we adopted certain components of SFAS 157 relative to financial assets and liabilities. During the first quarter of 2009 we changed our accounting for the fair value of our nonfinancial assets and liabilities in connection with the adoption of SFAS 157.

We adopted the provisions of FIN 48 effective February 3, 2007. The adoption resulted in an $8.9 million decrease in retained earnings and a reclassification of certain amounts between deferred income taxes and other noncurrent liabilities to conform to the balance sheet presentation requirements of FIN 48. As of the date of adoption, the total reserve for uncertain tax benefits was $77.9 million. This reserve excludes the federal income tax benefit for the uncertain tax positions related to state income taxes which is now included in deferred tax assets. As a result of the adoption of FIN 48, the reserve for interest expense related to income taxes was increased to $15.3 million and a reserve for potential penalties of $1.9 million related to uncertain income tax positions was recorded. As of the date of adoption, approximately $27.1 million of the reserve for uncertain tax positions would have impacted our effective income tax rate subsequently if we were to recognize the tax benefit for these positions.

Subsequent to the adoption of FIN 48, we elected to record income tax related interest and penalties as a component of the provision for income tax expense.

Quantitative and Qualitative Disclosures About Market Risk

Financial Risk Management

We are exposed to market risk primarily from adverse changes in interest rates, and to a lesser degree, commodity prices. To minimize this risk, we may periodically use financial instruments, including derivatives. As a matter of policy, we do not buy or sell financial instruments for speculative or trading purposes and all derivative financial instrument transactions must be authorized and executed pursuant to approval by the Board of Directors. All financial instrument positions taken by us are intended to be used to reduce risk by hedging an underlying economic exposure. Because of high correlation between the derivative financial instrument and the underlying exposure being hedged, fluctuations in the value of the financial instruments are generally offset by reciprocal changes in the value of the underlying economic exposure.

Interest Rate Risk

We manage our interest rate risk through the strategic use of fixed and variable interest rate debt and, from time to time, derivative financial instruments. Our principal interest rate exposure relates to outstanding amounts under our Credit Facilities. Our Credit Facilities provide for variable rate borrowings of up to $3.331 billion including up to $1.031 billion under our ABL Facility, subject to the borrowing base. In order to mitigate a portion of the variable rate interest exposure under the Credit Facilities, we entered into interest rate swaps which became effective on July 31, 2007. Pursuant to the swaps, we swapped three month LIBOR rates for fixed interest rates, resulting in the payment of an all-in fixed rate of 7.68% on an original notional amount of $2.0 billion originally scheduled to amortize on a quarterly basis until maturity at July 31, 2012.

On October 3, 2008, a counterparty to one of our 2007 swap agreements declared bankruptcy, which constituted a technical default under this contract and on October 30, 2008, we terminated this swap agreement. We subsequently cash settled the swap on November 10, 2008 for approximately $7.6 million, including interest accrued to the date of termination. As of July 31, 2009, the notional amount under the remaining 2007 swaps is $1.47 billion.

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Effective February 28, 2008, we entered into a $350.0 million step-down interest rate swap in order to mitigate an additional portion of the variable rate interest exposure under the Credit Facilities. Under the terms of this agreement we swapped one month LIBOR rates for fixed interest rates, which will result in the payment of an all-in fixed rate of 5.58% on a notional amount of $350.0 million for the first year and $150.0 million for the second year.

Effective December 31, 2008, we entered into a $475.0 million interest rate swap in order to mitigate an additional portion of the variable rate interest exposure under the Credit Facilities. This swap is scheduled to mature on January 31, 2013. Under the terms of this agreement we swapped one month LIBOR rates for fixed interest rates, which will result in the payment of an all-in fixed rate of 5.06% on a notional amount of $475.0 million through April 2010, $400.0 million from May 2010 to October 2011, and $300.0 million to maturity.

A change in interest rates on variable rate debt impacts our pre-tax earnings and cash flows; whereas a change in interest rates on fixed rate debt impacts the economic fair value of debt but not our pre-tax earnings and cash flows. Our interest rate swaps qualify for hedge accounting as cash flow hedges. Therefore, changes in market fluctuations related to the effective portion of these cash flow hedges do not impact our pre-tax earnings until the accrued interest is recognized on the derivatives and the associated hedged debt. Based on our outstanding debt as of January 30, 2009 and assuming that our mix of debt instruments, derivative instruments and other variables remain the same, the annualized effect of a one percentage point change in variable interest rates would have a pretax impact on our earnings and cash flows of approximately $6.2 million.

The interest rate swaps are accounted for in accordance with SFAS 133. SFAS 133 establishes accounting and reporting standards for derivative instruments and hedging activities. SFAS 133 requires that all derivatives be recognized as either assets or liabilities at fair value.

The conditions and uncertainties in the global credit markets have substantially increased the credit risk of other counterparties to our swap agreements. In the event such counterparties fail to perform under our swap agreements and we are unable to enter into new swap agreements on terms favorable to us, our ability to effectively manage our interest rate risk may be materially impaired. We attempt to manage counterparty credit risk by periodically evaluating the financial position and creditworthiness of such counterparties, monitoring the amount for which we are at risk with each counterparty, and where possible, dispersing the risk among multiple counterparties. There can be no assurance that we will manage or mitigate our counterparty credit risk effectively.

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BUSINESS

We are the largest discount retailer in the United States by number of stores, with 8,577 stores located in 35 states as of July 31, 2009, primarily in the southern, southwestern, midwestern and eastern United States. We offer a broad selection of merchandise, including consumable products such as food, paper and cleaning products, health and beauty products and pet supplies, and non-consumable products such as seasonal merchandise, home décor and domestics, and apparel. Our merchandise includes high quality national brands from leading manufacturers, as well as comparable quality private brand selections with prices at substantial discounts to national brands. We offer our customers these national brand and private brand products at everyday low prices (typically $10 or less) in our convenient small-box (small store) locations. We believe our convenient store format and broad selection of high quality products at compelling values have driven our substantial growth and financial success over the years. From 1968 through the end of 2008, we grew our store base from 215 in 13 states to 8,362 in 35 states, mostly through organic growth, and grew our annual sales from $40 million to $10.5 billion, which represents compound annual growth rates of 9.6% and 14.9%, respectively.

Our Business Model

Our compelling value and convenience proposition has driven our same-store sales growth regardless of economic conditions. Our small-box stores (averaging approximately 7,000 square feet) and our attractive store economics lead to strong returns on investment and, we believe, provide ample opportunity for growth. These elements combine for a profitable business model with wide appeal allowing us to be successful in varied markets. We believe these elements will continue to provide a foundation for profitable growth in our existing store base as well as a significant opportunity to open new stores. The fundamentals of our model are as follows:

Our value and convenience proposition: Our proposition to consumers is: "*Save time. Save money. Every day!*" We deliver on that pledge with convenient locations, a time-saving shopping experience and everyday low prices on quality basic merchandise. We are able to offer these everyday low prices because of our operating efficiencies, purchasing scale and sourcing capabilities. Our well-situated neighborhood locations drive customer loyalty and trip frequency and make us an attractive alternative to large discount and other big-box (large store) retail stores. Finally, our stores' small size and convenient layout enable quick store navigation, while our focused product offerings within categories allow customers to quickly satisfy most of their basic daily household purchasing needs.

Our consistent growth: We are now in our 20^{th} year of consecutive annual same-store sales growth. This timeframe includes periods of economic growth and contraction during all of which we have had sales growth. We believe this success is driven by our necessity-weighted product mix and the strength of our value and convenience proposition, both of which attract consumers in all economic environments. We expect this combination will continue to provide a foundation for profitable same-store sales growth.

Our store economics: Our store economics are based on low capital investment to open stores, rapid sales increases after opening, consistent sales volumes in mature stores and low ongoing operating costs, which together result in an attractive return on capital. Our new stores are typically cash flow positive in their first year, generally pay back capital in under two years, and, we believe, deliver attractive returns relative to our competitors. Our model has been effective in both rural and small communities as well as in more densely populated and metropolitan areas that typically include a larger number of competitors.

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Our History

J.L. Turner founded our Company in 1939 as J.L. Turner and Son, Wholesale. We opened our first store in 1955, when we were incorporated as a Kentucky corporation under the name J.L. Turner & Son, Inc. We changed our name to Dollar General Corporation in 1968 and reincorporated in 1998 as a Tennessee corporation. Our common stock was publicly traded from 1968 until July 2007, when we merged with an entity controlled by investment funds affiliated with KKR. We are now a subsidiary of Parent, a Delaware limited partnership controlled by KKR. Following completion of this offering, Buck Holdings, L.P. will beneficially own approximately 89.5% of our outstanding common stock (or approximately 88% if the underwriters exercise their option to purchase additional shares in full).

Progress Since our 2007 Merger

Strengthening our management team has been one of our top priorities since our 2007 merger. In January 2008, we hired Richard W. Dreiling, who has 39 years of retail experience, to serve as our Chief Executive Officer. Including Mr. Dreiling, we have added or replaced eight executives at the Senior Vice President level or higher in our core merchandising and distribution functions and in key support roles including human resources, finance and information technology.

Ensuring superior execution of our operating priorities is one of our key strategic goals. Our operating priorities include: driving productive sales growth; increasing gross margins; leveraging process improvements and information technology to reduce costs; and strengthening and expanding Dollar General's culture of "serving others." Since our 2007 merger, our management team has focused on executing against these priorities, making a number of specific operational improvements supported by enhanced business processes and data-driven analytical and measurement tools. Business process and operational improvements have encompassed most key functions, including merchandising, distribution and transportation, store operations and real estate, and include changes such as redefined merchandise line reviews, expanded price benchmarking, markdown strategies, enhanced real estate site selection modeling, new shrink detection metrics and more disciplined store employee hiring practices. These improvements have been critical to the successful implementation of our recent initiatives in merchandising, private brand development, store operations, real estate and expense management. Examples of our progress since our 2007 merger include:

Merchandising

- Optimized our product assortment through eliminating unproductive and less productive SKUs and allocating more space to productive ones
- Improved product adjacencies and enhanced product presentation standards and consistency
- Raised the profile of shelving to introduce key new products and categories
- Implemented new markdown strategies to sell through end-of-season merchandise
- Added new product fixtures near the checkout stands to promote impulse sales

Private Brand

- Implemented new private branding strategy by increasing the number of products under existing private brands for consumables and non-consumables and adding new DG-branded products related to home, health, baby and office supplies. We also updated the packaging for most products to obtain a fresh and consistent message of quality and value to our customers.
- Improved quality standards for our private brand products. These quality standards have been established based on national brand equivalents. Our private brands are available at lower prices to the customer, yet result in higher gross profit rates than national brands. Our products are

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tested by revamped internal and external testing facilities to ensure that quality standards are met and maintained.

Added exclusive or proprietary brands with broad name recognition for other products such as motor oil and vitamins through licensing agreements.

Introduced approximately 600 net new private brand items since 2007 and grew private brand penetration to approximately 21% of consumables sales in the 2009 year-to-date period, up from approximately 17% in 2007

Store Operations

Instituted a "model store" program to develop a consistent look and feel of a Dollar General store throughout the chain focusing on cleanliness, recovery, in-stock levels and merchandising product presentations within the store. Developed rigorous measurement tools which are used to report model store status to operations management and senior management.

Lowered store manager turnover by increasing the number of human resource recruiting positions to locate more talented store managers and by providing more training and leadership development materials to the store managers through new computers in the store. Work processes have been streamlined by providing more specific guidelines to the stores on how to properly merchandise the stores in addition to improving the flow and decreasing the amount of work required to transfer merchandise from the truck to the store shelves.

Customized store hours to better accommodate customer demand

Significantly reduced inventory shrink rate through implementation and detailed monitoring of key metrics, rigorous training and increased field management discipline. The key metrics employed by field management (defined as store, district and region managers) include shrink indicators such as returns, damages and refunds. Training sessions were developed by loss prevention teams and presented to field management teams to train stores on key shrink indicators. Shrink metrics are reviewed weekly by store managers with their teams to ensure consistent focus and discipline is achieved.

Further refined store work processes and implemented additional safety measures, yielding improved labor efficiencies and significantly reduced workers' compensation expense

Real Estate

Implemented more sophisticated customer focused market analysis for store site selection, including population, demographic and customer segmentation modeling tools. Additionally, we have developed improved financial modeling routines to facilitate improved financial returns.

Enhanced our new real estate vetting processes, contributing to increased first year sales in new stores by 20% between 2006 and 2008

Improved our effectiveness in renegotiating lease terms and assessing opportunities to remodel or relocate stores

Opened 207 new stores and remodeled or relocated 404 stores in 2008 and accelerated new store growth for 2009; we plan to open approximately 500 new stores and to relocate or remodel approximately 450 stores in 2009

Expense and Working Capital Management

Instituted a process whereby we employ analytical tools and processes to mine for cost reduction opportunities, particularly in the expense areas of distribution, labor, rent and general overhead

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Pursued a variety of distribution and transportation initiatives to reduce costs and leverage overhead

Implemented additional cost reductions related to energy management initiatives by investing in energy management systems in stores and reducing waste management costs through our cardboard box recycling effort.

Improved inventory turns by rigorous review and better management of store stock levels based on sell-though. We continue to work with our vendors to reduce product case sizes to support our optimal stock levels.

These initiatives, along with more stringent business processes, have improved our operating and financial performance since our 2007 merger and we believe have laid the foundation for ongoing improvement. We generated strong sales growth of 10.1% in 2008, including annual same-store sales growth of 9.0%. For the first half of 2009, our total sales growth was 13.3%, including same-store sales growth of 10.8% following 7.8% same-store sales growth in the first half of 2008. These initiatives also allowed us to expand our gross profit margin to 29.3% in fiscal 2008, up from 27.3% for the 2007 predecessor period and 28.2% for the 2007 successor period, and 31.0% in the first half of 2009 as compared to 28.9% in the first half of 2008. We had net income of $108.2 million for the full fiscal year 2008 and $176.6 million for the first half of 2009, compared to $33.6 million for the first half of 2008. Since our 2007 merger, we have reduced our total outstanding long-term obligations by $539.8 million but remain highly leveraged, with $4.1 billion of total outstanding long-term obligations as of July 31, 2009.

Industry Overview

We compete primarily in the U.S. market for basic consumer packaged goods in categories including food, beverages, health and beauty care, paper products, pet supplies and other general merchandise, including basic apparel and home products. These categories encompass most of the everyday needs of consumers. According to Nielsen Homescan Panel data, the U.S. market for these products is approximately $843 billion, and grew at an average annual growth rate of 2.8% between 2001 and 2008. Nielsen Homescan Panel data indicates that sales in the discount retail channel grew at an average annual rate of 4.6% during the 2001-2008 period, including an increase in customer trips, whereas total customer trips for the overall consumer packaged goods market declined during the 2001 through 2008 period. Our current share of the $843 billion basic consumer packaged goods market is only 1.2% which, when coupled with our attractive value and convenience proposition, we believe provides substantial opportunity for growth.

Our Competitive Strengths

We believe our key competitive strengths that will enable us to execute our growth strategy include:

Compelling Value and Convenience Proposition. Our ability to deliver highly competitive prices on national brand and quality private brand products in convenient locations and our easy in and out shopping format provide a compelling shopping experience and distinguish us from other discount, convenience and drugstore retailers. Our slogan, "*Save time. Save money. Every day!"* summarizes our appeal to customers. We believe our ability to effectively deliver both value and convenience distinguishes us from many of our competitors and allows us to succeed in small markets with limited shopping alternatives, as well as to profitably coexist alongside larger retailers in more competitive markets.

We are in our 20th consecutive year of same-store sales growth. This growth, regardless of economic conditions, suggests that we have a less cyclical model than most retailers and, we believe, is a result of our strong value and convenience proposition. In fact, both customer traffic and average transaction amount have increased during 2008 and 2009 despite the difficult economic environment, and our research indicates that the vast majority of new and existing customers plan to continue shopping with us after the economy recovers.

Our compelling value and convenience proposition is evidenced by the following attributes of our business model:

Convenient Locations. Our stores are conveniently located in a variety of rural, suburban and urban communities, currently with more than 60% serving communities with populations of less than 20,000. In more densely populated areas, our small-box stores typically serve the closely surrounding neighborhoods. The majority of our customers live within three miles, or a 10-minute drive, of our stores. Our close proximity to customers drives customer loyalty and trip frequency, and makes us an attractive alternative to large discount and other large-box retail and grocery stores which are often located farther away. Unlike large-box retailers, our low cost economic model enables us to serve many areas with fewer than 2,000 households.

Time-Saving Shopping Experience. We also provide customers with a highly convenient shopping experience. Our stores' smaller size allows us to locate parking near the front entrance and offers quick store navigation, providing a distinct convenience advantage over large-box stores and supercenters. Significant work to upgrade our in-store shopping experience over the past two years includes efforts aimed to unclutter aisles, improve signage and product adjacencies, and to better organize and stock shelves. We have also added shopping carts and extended our store hours, enhancing our convenience to customers. Our product mix offers most necessities such as basic packaged and refrigerated food and dairy products, cleaning supplies, paper products and health and beauty care items, as well as items such as greeting cards, apparel, housewares, hardware and automotive supplies, among others. Our focused product offering within categories allows customers to fulfill their routine shopping needs, minimizing their need to shop elsewhere.

Everyday Low Prices on Quality Merchandise. We offer quality consumable merchandise and other basic items at everyday low prices. Our strategy of maintaining a low-cost operating structure and a broad assortment of merchandise allows us to offer quality products at competitive prices. Our research indicates that we offer a price advantage over most food and drug retailers and that our prices are highly competitive with even the largest discount retailers. As part of this strategy, we attempt to maintain a limited number of SKUs per category which we believe helps us maintain strong purchasing power. We also emphasize even dollar price points on many of our items. In the typical Dollar General store, most items are priced below $10, with approximately 25% of items at $1 or less. We are able to offer at these everyday low prices quality national brands from companies such as Procter & Gamble, Kimberly Clark, Unilever, Kellogg's, General Mills, and Nabisco, Coca-Cola and PepsiCo, in addition to our own comparable quality private brands at value prices.

Attractive Store Economics. The traditional Dollar General store size, design and location requires minimal initial investment and low maintenance capital expenditures. Our typical locations involve a modest, no-frills building design, which helps keep our rental and other fixed overhead costs relatively low. When coupled with our new stores' ability to generally deliver positive cash flow in the first year, this low capital expenditure requirement typically results in pay back of capital in under two years, and delivers what we believe to be attractive returns on capital relative to our competitors. Moreover, the financial performance of recently-opened stores appears to be outpacing many of our existing stores, which we believe is a result of significant enhancements to our market analysis, real estate site selection and new store marketing program. Our ability to continue to achieve these results depends on our being able to find and secure new store locations that meet our defined real estate requirements.

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Our decision to accelerate new store openings in 2009 and in the future is supported by the following improvements:

- We have significantly enhanced our market analysis and real estate site selection and approval processes, increasing our ability to optimize selection of our new locations.

- Our lean store staffing model, which has been strengthened in the last two years by improved employee retention, contributes to relatively low operating costs and more efficient and effective store operations.

- Recent improvements to our new store marketing program have led to stronger first year sales volumes, accelerating our ability to recover initial capital costs.

Substantial Growth Opportunities. We believe we have substantial growth opportunities through both improved profitability of existing stores and new store openings. We are pursuing a number of initiatives to drive same-store sales growth, increase gross margins and reduce operating costs, leading to continued improvement in the profitability of our existing store base. In addition, we have identified significant opportunities to add new stores in both existing and new markets. We believe we have the long-term potential in the U.S. to more than double our existing store base while maintaining or improving our return on capital. See "Our Growth Strategy" for additional details.

Experienced Management Team with a Proven Track Record. Our experienced senior management team has an average of 25 years of retail experience. In total, we have added eight senior executives (Senior Vice President or higher) with significant retail experience since our 2007 merger, in addition to numerous executives at the Vice President level, primarily in our merchandising, distribution and transportation functions, and in key support roles including human resources, finance and information technology. Alongside our veteran Dollar General executives, our newly expanded team has enhanced leadership capabilities and has made significant progress in developing and implementing world-class retailing processes at Dollar General.

Our Growth Strategy

Our long history of profitable growth is founded on a commitment to a relatively simple business model: providing a broad base of customers with their basic everyday and household needs, supplemented with a variety of general merchandise items, at everyday low prices in conveniently located, small-box stores.

We believe we have the right strategy and execution capabilities to capitalize on the considerable growth opportunities afforded by our business model. We derive our growth from three distinct sources, including increasing store sales, expanding operating profit margins and growing our store base.

Increasing Sales. We believe the combination of our necessity-driven product mix and our attractive value proposition, including a well-balanced merchandising approach, provide a strong basis for increased sales. Our average sales per square foot increased to $180 in 2008 from $165 in 2007 and $163 in 2006. We believe we will continue to have additional opportunities to increase our store productivity through continued improvements in space utilization, better in-stock positions and additional operating and merchandising initiatives, including:

- *New products and categories.* We have redefined our product line review processes significantly over the past two years, aiding our efforts to identify areas for new product expansion and to more quickly identify and eliminate underperforming items, resulting in substantial sales increases.

- *Improved space utilization.* We intend to continue to expand product offerings and increase sales per square foot through improved space utilization, including increased shelf height, the elimination of unplanogrammed floor and shelf space, the addition of new impulse displays at the checkout stands, and improved product adjacencies.

Improved execution in home, apparel and seasonal. Most of our merchandising focus and the recent changes we have made have centered on consumables which have demonstrated strong sales growth as a result. In 2009 we are bringing the same focus and intensity to our apparel, home and seasonal categories. We have recently improved our merchandising management team in these areas, adding individuals with significant experience in basic consumer trends, merchandise presentation, pricing and managing end-of-season sell-through. We expect to start realizing the favorable impact from these changes in 2010, although there can be no assurance that our customers will respond favorably to these changes.

Improving store standards and operating hours. In 2008-09, we have continued to define and improve our store standards and to adjust our store hours to better enhance our customers' experience. We believe that these improvements will continue to increase customer traffic and average transaction amount.

Expanding our loyal customer base. Our research indicates that over 85% of our customers have shopped at Dollar General for over two years, indicating that we have a highly loyal customer base. In addition, our most recent surveys indicate that our retention rate of new customers has increased significantly over the past year, with over 94% indicating that they plan to continue shopping in our stores with either the same or increased frequency. We believe these merchandising initiatives will result in increased traffic and sales and will continue to drive growth in our customer base.

Remodels and Relocations. We believe we have significant opportunities available for our relocation and remodel programs, which will further drive sales growth.

Expanding Operating Profit Margins. Another key component of our growth strategy is improving our operating profit margin through enhanced gross profit and expense reduction initiatives. Our financial results during the 2008 and 2009 to-date periods reflect the favorable outcome of many of these initiatives. We believe that we can build on our recent strong financial results by continuing to enhance these initiatives, which include:

Merchandising. We continue to improve the overall profitability of our merchandising decisions. Our new line review processes have resulted in improved product selection and pricing decisions. These line reviews have contributed to our improved gross profit margins despite an increase in sales of consumables. We expect these expanded line reviews to continue to positively impact our overall sales and operating profit margins.

Sourcing. Increasing our direct foreign sourcing has not been a top priority for us until recently. In 2008, we imported approximately $700 million of goods, or 10% of total purchases at cost. We believe we have the potential to directly source a larger portion of our products at significant savings to current costs. We are currently increasing our direct foreign sourcing efforts, which we believe offers significant opportunity for gross profit margin enhancement in the future.

Private Brand. Improving the consistency, quality, appearance and breadth of our private brand offerings has yielded increased penetration, and we intend to continue to drive our private brand penetration going forward. Generally, private brand items have higher gross profit margins than similar national brand items. Our private brand program complements our model of offering customers nationally branded merchandise at everyday low prices. Since 2007, we have added approximately 600 net new private brand items, predominantly in consumables, increasing our total number of such items to over 1,100 SKUs. As a percentage of consumables sales, we increased private brand penetration from approximately 17% in 2007 to approximately 21% in the first half of 2009. We expect to expand on these efforts in the future in addition to greatly increasing the role of private brands in our non-consumable offerings.

Inventory Shrink Rate Reduction. The reduction in shrink rate since 2007 has played a key role in increasing our gross profit margin, primarily the result of the focus and relentless efforts of our field management team and the introduction of improved indicator metrics at the stores, in conjunction with improved hiring practices, and lower store manager turnover. We continue to improve and automate our shrink indicator tools, and we believe we have opportunity for further shrink improvement.

Other Cost Reduction Efforts. We continually look for ways to improve our cost structure and enhance efficiencies throughout the organization. Of most significance to date, we have made good progress in leveraging our costs of distribution and reducing our workers' compensation expense. Other cost reduction efforts include identifying additional efficiencies in distribution and transportation, labor productivity initiatives, continuing our store rent reduction work, implementing more energy management tools, and improving employee retention.

Growing Our Store Base. Based on a detailed, market-by-market analysis, we believe we have significant potential to increase our number of stores in existing and new markets. Our recent market analysis suggests there are as many as 12,000 opportunities, the majority of which are located in the 35 states where we currently operate. Also included are significant opportunities to open stores in new markets, most notably in states on the Pacific coast and in certain areas of the Northeast. Based on the initial successes of our 2008 and 2009 new store openings, we have confidence in our real estate disciplines and in our ability to identify, open and operate successful new stores. As a result, we believe that our present level of new store growth is sustainable for the foreseeable future. In addition, we also believe that in the current real estate market environment there may be opportunities to negotiate lower rent and construction costs and to improve the overall quality of our sites at attractive rental rates, increasing our opportunity to improve profitability.

Our Merchandise

We offer a focused assortment of everyday necessities, which drive frequent customer visits, and key items in a broad range of general merchandise categories. Our product assortment provides the opportunity for our customers to address most of their basic shopping needs with one trip. We sell high quality national brands from leading manufacturers such as Procter & Gamble, Kimberly Clark, Unilever, Kellogg's, General Mills, Nabisco, Coca-Cola and PepsiCo, which are typically found at higher retail prices elsewhere. Additionally, our private brand selections offer consumers even greater value with options to purchase entry price point items and national brand equivalent products at substantial discounts to the national brand.

Our stores currently offer approximately 10,000 total SKUs per store, of which approximately 70% are core items that are replenished on a weekly basis. The remaining 30% are rotated in and out of the stores over the course of a year. A majority of our products are priced at $10 or less and approximately 25% of our products are priced at $1 or less.

We separate our merchandise into the following categories:

Consumables is our largest category and includes the following:

Paper and Cleaning: Paper towels, toilet paper, paper dinnerware, trash and storage bags, laundry and other home cleaning supplies. National brands include items manufactured by Procter & Gamble, Kimberly Clark, Unilever, Tide, Clorox, Hefty and others. Our private brands will include DG home and Smart & Simple.

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Food: Packaged food and perishables. National brands include Kellogg's, General Mills, Nabisco, Campbell's and others. Our private brands include Clover Valley. We also carry quality regional brands of milk, eggs and other perishable items.

Beverages and Snacks: Beverages, candy and snacks. National brands include Coke and Pepsi and others. Our private brands include Clover Valley and will include Sweet Smiles.

Health and Beauty: Health aids, over-the-counter medicines and personal care products. National brands include Theraflu, Prilosec, Olay, Covergirls, Johnson & Johnson, Pantene and others. Our private brands include DG health and DG body. Additionally, we are the only retailer that carries the full line of Rexall-branded vitamins and supplements.

Pet: Pet supplies. National brands include Alpo, Purina, Pedigree, Milkbone and others. Our private brands are EverPet and EverPet Basics.

Seasonal: Seasonal includes seasonal decorations, toys, batteries, small electronics, greeting cards, stationery, prepaid cell phones and accessories, gardening supplies, hardware and home office supplies. National brands include Mead stationary. Our private brands are DG Office, DG home and Holiday Style. Additional private brands will include True Living Kids.

Home Products: Home Products include kitchen supplies, cookware, small appliances, light bulbs, storage containers, frames, candles, craft supplies, bed and bath soft goods. National brands include Procter Silex and Black and Decker small appliances. Our private brands include DG home and True Living.

Apparel: Apparel includes casual everyday apparel for infants, toddlers, girls, boys, women and men, as well as socks, underwear, shoes and accessories. Our private brands are DG baby, DG toddler and Open Trails. We hold an exclusive license to Bobbie Brooks clothing. We also hold a license to Fisher Price on certain items of children's clothing.

The percentage of net sales of each of our categories of merchandise for the period indicated below was as follows:

	2006	**2007**	**2008**
Paper and Cleaning	21%	20%	20%
Food	14%	15%	16%
Beverages and Snacks	13%	13%	15%
Health and Beauty	13%	13%	13%
Pet	4%	5%	5%
Total Consumables	66%	67%	69%
Seasonal	16%	16%	15%
Home Products	10%	9%	8%
Apparel	8%	8%	8%

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The Dollar General Store

The average Dollar General store has approximately 7,000 square feet of selling space and is typically operated by a manager, an assistant manager and three or more sales clerks. Approximately 54% of our stores are in freestanding buildings, 44% in strip shopping centers and 2% are in downtown buildings. Most of our customers live within three miles, or a 10-minute drive, of our stores. Our store strategy features low initial capital expenditures, limited maintenance capital, low occupancy and operating costs, and a focused merchandise offering within a broad range of categories, allowing us to deliver low retail prices while generating strong cash flows and investment returns. A typical new store in 2009 is estimated to require approximately $230,000 of equipment, fixtures and initial inventory, net of payables.

We generally have not encountered difficulty locating suitable store sites in the past. Given the size of the communities that we are targeting, we believe that there is ample opportunity for new store growth in existing and new markets. In addition, the current real estate market is providing an opportunity for us to access higher quality sites at lower rates than we have seen historically. Also, we believe we have significant opportunities available for our relocation and remodel programs.

Our recent store growth is summarized in the following table:

Period	Stores at Beginning of Year	Stores Opened	Stores Closed(a)	Net Store Increase/ (Decrease)	Stores at End of Period
2006	7,929	537	237	300	8,229
2007	8,229	365	400	(35)	8,194
2008	8,194	207	39	168	8,362
First half 2009	8,362	225	10	215	8,577

(a) Includes 128 stores and 275 stores closed in 2006 and 2007, respectively as a result of certain strategic initiatives.

Our Customers

Our customers seek value and convenience. Primarily depending on their economic needs and geographic proximity, customers rely on Dollar General for varying levels of their basic needs, including fill-in shopping, periodic routine trips to stock up on household items, and weekly or more frequent trips to meet most of the customer's essential needs. Our convenient locations, time-saving shopping experience and everyday low prices on quality merchandise make our stores a compelling alternative for purchasing everyday needs. In the last year, we have seen increases in the annual number of shopping trips that our existing customer makes to Dollar General as well as the amount spent during each trip. In addition, we believe that our value proposition is attracting customers from a wide range of income brackets and life stages and that those customers are planning to continue shopping with us for the foreseeable future.

In 2008, we engaged Nielsen to assist us in updating our proprietary customer research in an effort to better understand our customers, their purchasing habits and preferences. The results of this study indicate that our highest frequency and highest spending customers, comprising approximately 50% our sales, are those for whom low prices and value are critical to their everyday shopping decisions. In August of 2009, we updated this study with a customer survey designed to give us insight into the changes in our customer base. The results of this new survey indicate that, while the description of our core customer remains the same, our stores are now attracting customers who had not shopped at our stores previously because of their perception of image or quality. In addition, the percentage of shoppers classified as one stop shoppers has increased. We believe that recent additions to our merchandise offering, improvements to store operations and expansion of operating hours, coupled with our value proposition, are resonating well with our existing customers and have been critical to our success in attracting and retaining new customers. Management believes based on additional proprietary survey results that in excess of 95% of our current customers expect to shop our stores with the same or greater frequency after the economy improves.

Based on Nielsen Homescan Panel estimates of Dollar General shoppers, we estimate that only 41% of the population in our trade areas, defined as the counties in which we have stores, has shopped at Dollar General in the past year. We believe that the remaining 59% represents an opportunity to grow our customer base. We are striving to persistently improve on the quality, selection and pricing of our merchandise and to continually upgrade our store standards in order to attract and retain increasing numbers and demographics of customers.

Our Suppliers

We purchase merchandise from a wide variety of suppliers and maintain direct buying relationships with many producers of national brand name merchandise, such as Procter & Gamble, Kimberly Clark, Unilever, Kellogg's, General Mills, Nabisco, Coca-Cola and PepsiCo. Despite our broad offering, we maintain only a limited number of SKUs per category, giving us a pricing advantage in dealing with our suppliers.

Approximately 10% of our purchases in 2008 were from The Procter & Gamble Company. Our next largest supplier accounted for approximately 6% of our purchases in 2008. Our private brands rely upon a diversified supplier base. We directly imported approximately 10% of our purchases at cost (14% of our purchases at retail) in 2008. Our vendor arrangements generally provide for payment for such merchandise in U.S. Dollars.

We have not experienced any difficulty in obtaining sufficient quantities of core merchandise, and believe that if one or more of our current sources of supply became unavailable, we would be able to obtain alternative sources without experiencing a substantial disruption of our business.

Distribution, Transportation and Inventory Management

Our stores are supported by nine distribution centers located strategically throughout our geographic footprint. Of these nine, we lease three and own the other six. We lease additional temporary warehouse space as necessary to support our distribution needs. We believe that our distribution network is well-positioned to support our planned growth. Over the past few years we have made significant investments in facilities, technological improvements and upgrades, and we continue to improve work processes, all of which increase our efficiency and ability to support our merchandising and operations initiatives as well as our new store growth. We continually analyze and rebalance the network to ensure that it remains efficient and provides the service our stores require. We believe our current distribution network is sufficiently flexible and capable of supporting our growth within our current operating areas for several years. See " Properties" for additional information pertaining to our distribution centers.

In addition, we have actively sought to improve our inventory turns. Initiatives along this front have included reducing excess inventory in stores and better inventory tracking. We turned our inventory approximately 5.1 times over the most recent four quarters, and we believe that there is opportunity for continued improvement.

Seasonality

Our business is seasonal to a certain extent. Generally, our highest sales volume occurs in the fourth quarter, which includes the Christmas selling season, and the lowest occurs in the first quarter. In addition, our quarterly results can be affected by the timing of new store openings and store closings, the amount of sales contributed by new and existing stores, as well as the timing of certain holidays. We purchase substantial amounts of inventory in the third quarter and incur higher shipping costs and higher payroll costs in anticipation of the increased sales activity during the fourth quarter. In addition, we carry merchandise during our fourth quarter that we do not carry during the rest of the year, such as gift sets, holiday decorations, certain baking items, and a broader assortment of toys and candy.

The following table reflects the seasonality of net sales, gross profit, and net income (loss) by quarter for each of the quarters of our three most recent fiscal years. All of the quarters reflected below are comprised of 13 weeks (see note (a) regarding results for the second quarter of 2007).

(in millions)	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Year Ended January 30, 2009				
Net sales	$2,403.5	$2,609.4	$2,598.9	$2,845.8
Gross profit	693.1	758.0	772.3	837.7
Net income (loss)	5.9	27.7	(7.3)	81.9
Year Ended February 1, 2008(a)				
Net sales	2,275.3	(a)	2,312.8	2,559.6
Gross profit	633.1	(a)	646.8	740.4
Net income (loss)	34.9	(a)	(33.0)	55.4
Year Ended February 2, 2007				
Net sales	2,151.4	2,251.1	2,213.4	2,554.0
Gross profit	584.3	611.5	526.4	646.0
Net income (loss)	47.7	45.5	(5.3)	50.1

(a) Our merger was completed during the second quarter of 2007. Net sales, Gross profit, and Net income (loss) were $1,648.5, $438.5 and $(42.9), respectively, for the Predecessor period from May 5, 2007 to July 6, 2007, and were $699.1, $184.7 and $(27.2), respectively, for the Successor period from March 6, 2007 to August 3, 2007. For comparison purposes, these Successor results include the results of operations for Buck Acquisition Corp. for the period prior to the merger from March 6, 2007 (Buck's formation) through July 6, 2007 (reflecting the change in fair value of interest rate swaps).

Our Competition

We operate in the basic consumer packaged goods market, which is highly competitive with respect to price, store location, merchandise quality, assortment and presentation, in-stock consistency, and customer service. We compete with discount stores and with many other retailers, including mass merchandise, grocery, drug, convenience, variety and other specialty stores. These other retail companies operate stores in many of the areas where we operate, and many of them engage in extensive advertising and marketing efforts. Our direct competitors include Family Dollar, Dollar Tree, Fred's, 99 Cents Only and various local, independent operators as well as Wal-Mart, Walgreens, CVS, Rite Aid, Target and Costco, among others. Certain of our competitors have greater financial, distribution, marketing and other resources than we do.

We differentiate ourselves from other forms of retailing by offering consistently low prices in a convenient, small-store format. We believe that our prices are competitive due in part to our low cost operating structure and the relatively limited assortment of products offered. Historically, we have minimized labor by offering fewer price points and a reliance on simple merchandise presentation. We maintain strong purchasing power due to our leadership position and our focused assortment of

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merchandise within categories. See "Our Competitive Strengths" above for further discussion of our competitive situation.

Our Employees

As of July 31, 2009, we employed approximately 77,200 full-time and part-time employees, including divisional and regional managers, district managers, store managers and distribution center and administrative personnel. We have increasingly focused on recruiting, training, motivating and retaining employees, and we believe that the quality, performance and morale of our employees have increased as a result. Our store manager turnover on an annual basis has decreased by approximately 14% since the time of our 2007 merger. We currently are not a party to any collective bargaining agreements.

Our Trademarks

We own marks that are registered with the United States Patent and Trademark Office and are protected under applicable intellectual property laws, including without limitation the trademarks Dollar General®, Dollar General Market®, Clover Valley®, DG®, DG Guarantee and the Dollar General price point designs, along with variations and formatives of these trademarks as well as certain other trademarks. We attempt to obtain registration of our trademarks whenever practicable and to pursue vigorously any infringement of those marks. Our trademark registrations have various expiration dates; however, assuming that the trademark registrations are properly renewed, they have a perpetual duration. This prospectus also contains trademarks, service marks, copyrights and trade names of other companies, which are the property of their respective owners. Solely for convenience, our trademarks and tradenames referred to in this prospectus may appear without the ® symbol, but such references are not intended to indicate, in any way, that we will not assert, to the fullest extent under applicable law, our rights or the right of the applicable licensor to these trademarks and tradenames.

Properties

As of July 31, 2009, we operated 8,577 retail stores located in 35 states as follows:

State	Number of Stores	State	Number of Stores
Alabama	473	Nebraska	80
Arizona	53	New Jersey	22
Arkansas	237	New Mexico	42
Colorado	22	New York	233
Delaware	24	North Carolina	495
Florida	434	Ohio	475
Georgia	485	Oklahoma	282
Illinois	312	Pennsylvania	405
Indiana	325	South Carolina	345
Iowa	171	South Dakota	12
Kansas	150	Tennessee	431
Kentucky	319	Texas	999
Louisiana	339	Utah	9
Maryland	58	Vermont	4
Michigan	239	Virginia	252
Minnesota	16	West Virginia	154
Mississippi	278	Wisconsin	85
Missouri	317		

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Most of our stores are located in leased premises. Individual store leases vary as to their terms, rental provisions and expiration dates. The majority of our leases are relatively low-cost, short-term leases (usually with current terms of three to five years) often with multiple renewal options. We also have stores subject to build-to-suit arrangements with landlords, which typically carry a primary lease term of 10 years with multiple renewal options. In recent years, an increasing percentage of our new stores have been subject to build-to-suit arrangements. In 2008, approximately 85% of our new stores were build-to-suit arrangements.

As of July 31, 2009, we operated nine distribution centers, as described in the following table:

Location	Year Opened	Approximate Square Footage	Approximate Number of Stores Served
Scottsville, KY	1959	720,000	956
Ardmore, OK	1994	1,310,000	1,307
South Boston, VA	1997	1,250,000	820
Indianola, MS	1998	820,000	809
Fulton, MO	1999	1,150,000	1,122
Alachua, FL	2000	980,000	794
Zanesville, OH	2001	1,170,000	1,155
Jonesville, SC	2005	1,120,000	776
Marion, IN	2006	1,110,000	838

We lease the distribution centers located in Oklahoma, Mississippi and Missouri and own the other six distribution centers. Approximately 7.25 acres of the land on which our Kentucky distribution center is located is subject to a ground lease. We lease additional temporary warehouse space as necessary to support our distribution needs.

Our executive offices are located in approximately 302,000 square feet of leased space in Goodlettsville, Tennessee.

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. We 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.

We believe that our 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. We intend 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 we will be

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successful in the defense on the merits or otherwise. If we are not successful in our efforts to defend this action, the resolution could have a material adverse effect on our financial statements as a whole.

On May 18, 2006, we were 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, we believe that this action is not appropriate for either collective or class treatment and that our wage and hour policies and practices comply with both federal and state law. We plan 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 we are not successful, the resolution of this action could have a material adverse effect on our 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 our 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. We 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. We 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. We expect 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, we believe 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. We intend to vigorously defend the action; however, no assurances can be given that we will be successful in the defense on the merits or otherwise. If we are not successful in defending the Calvert action, its resolution could have a material adverse effect on our financial statements as a whole.

On July 30, 2008, we were 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 we discriminate against pregnant employees on the basis of sex and retaliate 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, we believe that the case is not appropriate for class treatment and that our policies and practices comply with the Iowa Civil Rights Act. We intend to vigorously defend the action; however, no assurances can be given that we will be successful in the defense on the merits or otherwise. If we are not successful in defending this action, its resolution could have a material adverse effect on our 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 we violated the Fair Labor Standards Act by failing to pay for all hours worked, including overtime hours. We resolved this matter for an amount that is not material.

Subsequent to the announcement of the agreement relating to our 2007 merger, we and our directors were named in seven putative class actions alleging claims for breach of fiduciary duty arising out of our proposed sale to investment funds affiliated with KKR. Each of the complaints alleged, among other things, that our directors engaged in "self-dealing" by agreeing to recommend the transaction to our 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 us on the date of the merger. The defendants filed for summary judgment.

On November 24, 2008, all defendants, including us, reached an agreement in principle to settle this lawsuit, subject to final documentation and court approval. We 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, we 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, we funded the $40.0 million settlement and on February 11, 2009, the court approved the terms of the settlement.

From time to time, we are a party to various other legal actions involving claims incidental to the conduct of our 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. We believe, 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 our 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 our results of operations, cash flows, or financial position. In addition, certain of these lawsuits, if decided adversely to us or settled by us, may result in liability material to our financial position or may negatively affect operating results if changes to our business operation are required.

MARKET AND INDUSTRY DATA

We obtained the industry, market and competitive position data used throughout this prospectus from our own internal estimates and research as well as from industry publications and research, surveys and studies conducted by third parties.

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MANAGEMENT

Directors and Executive Officers

Information regarding our directors, director nominees and executive officers as of the date of this prospectus is set forth below. Each of our directors holds office for a term of 1 year or until a successor is elected and qualified. Each of our executive officers serves at the pleasure of our Board of Directors and is elected annually by the Board to serve until a successor is duly elected. There are no familial relationships between any of our directors, director nominees or executive officers.

Name	Age	Position
Richard W. Dreiling	56	Director; Chairman & Chief Executive Officer
David L. Bere	56	President & Chief Strategy Officer
David M. Tehle	53	Executive Vice President & Chief Financial Officer
Kathleen R. Guion	58	Executive Vice President, Division President, Store Operations & Store Development
Todd J. Vasos	48	Executive Vice President, Division President & Chief Merchandising Officer
Susan S. Lanigan	47	Executive Vice President & General Counsel
Anita C. Elliott	44	Senior Vice President & Controller
John W. Flanigan	58	Senior Vice President, Global Supply Chain
Robert D. Ravener	50	Senior Vice President & Chief People Officer
Raj Agrawal	36	Director
Michael M. Calbert	47	Director
Adrian Jones	45	Director
Warren F. Bryant	63	Director Nominee
William C. Rhodes, III	44	Director Nominee

Mr. Dreiling joined Dollar General in January 2008 as Chief Executive Officer and a member of our Board. He was appointed Chairman of the Board on December 2, 2008. Prior to joining Dollar General, Mr. Dreiling served as Chief Executive Officer, President and a director of Duane Reade Holdings, Inc. and Duane Reade Inc., the largest drugstore chain in New York City, from November 2005 until January 2008 and as Chairman of the Board of Duane Reade from March 2007 until January 2008. Mr. Dreiling previously served as Executive Vice President Chief Operating Officer of Longs Drug Stores Corporation, an operator of a chain of retail drug stores on the West Coast and Hawaii, since March 2005, after having joined Longs in July 2003 as Executive Vice President and Chief Operations Officer. From 2000 to 2003, Mr. Dreiling served as Executive Vice President Marketing, Manufacturing and Distribution at Safeway, Inc., a food and drug retailer. Prior to that, Mr. Dreiling served from 1998 to 2000 as President of Vons, a Southern California food and drug division of Safeway.

Mr. Bere joined Dollar General in December 2006 as President and Chief Operating Officer. He also served as our Interim Chief Executive Officer from July 6, 2007 to January 21, 2008. In April 2008, he was named President and Chief Strategy Officer. He served as a member of our Board of Directors from 2002 until March 2008. Mr. Bere served from December 2003 until June 2005 as Corporate Vice President of Ralcorp Holdings, Inc. and as the President and Chief Executive Officer of Bakery Chef, Inc., a leading manufacturer of frozen bakery products that was acquired by Ralcorp Holdings in December 2003. Mr. Bere was retired from June 2005 to December 2006. From 1998 until the acquisition, Mr. Bere was the President and Chief Executive Officer of Bakery Chef, Inc., and also served on its board of directors. From 1996 to 1998, he served as President and Chief Executive Officer of McCain Foods USA, a manufacturer and marketer of frozen foods and a subsidiary of McCain Foods Limited. From 1978 to 1995, Mr. Bere worked for The Quaker Oats Company and served as

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President of the Breakfast Division from 1992 to 1995 and President of the Golden Grain Division from 1990 to 1992.

Mr. Tehle joined Dollar General in June 2004 as Executive Vice President and Chief Financial Officer. He served from 1997 to June 2004 as Executive Vice President and Chief Financial Officer of Haggar Corporation, a manufacturing, marketing and retail corporation. From 1996 to 1997, he was Vice President of Finance for a division of The Stanley Works, one of the world's largest manufacturers of tools, and from 1993 to 1996, he was Vice President and Chief Financial Officer of Hat Brands, Inc., a hat manufacturer. Earlier in his career, Mr. Tehle served in a variety of financial-related roles at Ryder System, Inc. and Texas Instruments. Mr. Tehle currently serves as a director of Jack in the Box, Inc.

Ms. Guion joined Dollar General in October 2003 as Executive Vice President, Store Operations. She was named Executive Vice President, Store Operations and Store Development in February 2005, and was promoted to Executive Vice President, Division President, Store Operations and Store Development in November 2005. From 2000 until joining Dollar General, Ms. Guion served as President and Chief Executive Officer of Duke and Long Distributing Company, a convenience store chain operator and wholesale distributor of petroleum products. Prior to that time, she served as an operating partner for Devon Partners (1999-2000), where she developed operating plans and assisted in the identification of acquisition targets in the convenience store industry, and as President and Chief Operating Officer of E-Z Serve Corporation (1997-1998), an owner/operator of convenience stores, mini-marts and gas marts. From 1987 to 1997, Ms. Guion served as the Vice President and General Manager of the largest division (Chesapeake Division) of company-owned stores at 7-Eleven, Inc., a convenience store chain. Other positions held by Ms. Guion during her tenure at 7-Eleven include District Manager, Zone Manager, Operations Manager, and Division Manager (Midwest Division).

Mr. Vasos joined Dollar General in December 2008 as Executive Vice President, Division President and Chief Merchandising Officer. Prior to joining Dollar General, Mr. Vasos served in executive positions with Longs Drug Stores Corporation for 7 years, including Executive Vice President and Chief Operating Officer (February 2008 through November 2008) and Senior Vice President and Chief Merchandising Officer (2001-2008), where he was responsible for all pharmacy and front-end marketing, merchandising, procurement, supply chain, advertising, store development, store layout and space allocation, and the operation of three distribution centers. He also previously served in leadership positions at Phar-Mor Food and Drug Inc. and Eckerd Drug Corp.

Ms. Lanigan joined Dollar General in July 2002 as Vice President, General Counsel and Corporate Secretary. She was promoted to Senior Vice President in October 2003 and to Executive Vice President in March 2005. Prior to joining Dollar General, Ms. Lanigan served as Senior Vice President, General Counsel and Secretary at Zale Corporation, a specialty retailer of fine jewelry. During her six years with Zale, Ms. Lanigan held various positions, including Associate General Counsel. Prior to that, she held legal positions with both Turner Broadcasting System, Inc. and the law firm of Troutman Sanders LLP.

Ms. Elliott joined Dollar General as Senior Vice President and Controller in August 2005. Prior to joining Dollar General, she served as Vice President and Controller of Big Lots, Inc., a closeout retailer, from May 2001 to August 2005. Overseeing a staff of 140 employees at Big Lots, she was responsible for accounting operations, financial reporting and internal audit. Prior to serving at Big Lots, she served as Vice President and Controller for Jitney-Jungle Stores of America, Inc., a grocery retailer, from April 1998 to March 2001. At Jitney-Jungle, Ms. Elliott was responsible for the accounting operations and the internal and external financial reporting functions. Prior to serving at Jitney-Jungle, she practiced public accounting for 12 years, 6 of which were with Ernst & Young LLP.

Mr. Flanigan joined Dollar General as Senior Vice President, Global Supply Chain, in May 2008. He has 25 years of management experience in retail logistics. Prior to joining Dollar General, he was group vice president of logistics and distribution for Longs Drug Stores Corporation from October 2005 to April 2008. In this role, he was responsible for overseeing warehousing, inbound and outbound transportation and facility maintenance to service 500+ retail outlets. From September 2001 to October 2005 he served as the Vice President of Logistics for Safeway Inc. where he oversaw distribution of food products from Safeway distribution centers to all retail outlets, inbound traffic and transportation. He also held distribution and logistics leadership positions at Vons a Safeway company, Specialized Distribution Management Inc., and Crum & Crum Logistics.

Mr. Ravener joined Dollar General as Senior Vice President and Chief People Officer in August 2008. Prior to joining Dollar General, he served as the Senior Vice President of U.S. Partner Resources for Starbucks Coffee Company from April 2007 to August 2008. In this role, Mr. Ravener oversaw all aspects of human resources activity for more than 10,000 stores. He also served as Starbucks' Vice President, Partner Resources-Eastern Division, from September 2005 to March 2007. Prior to serving at Starbucks, Mr. Ravener held Vice President of Human Resources roles for The Home Depot's Store Support Center and a domestic field division from April 2003 to September 2005. Mr. Ravener also served in executive roles in both human resources and operations at Footstar, Inc. and roles of increasing leadership at PepsiCo.

Mr. Agrawal joined KKR in May 2006 and is a member of the Infrastructure team. He previously was a member of KKR's Retail and Energy industry teams. From 2002 to May 2006, he was a Vice President with Warburg Pincus, where he participated in the execution and oversight of a number of investments in the energy sector. Mr. Agrawal's prior experience also includes Thayer Capital Partners and McKinsey & Co., where he provided strategic and mergers and acquisitions advice to clients in a variety of industries. He has been a member of our Board since July 2007. KKR's affiliates indirectly own a substantial portion of our outstanding common stock through their investment in Buck Holdings, LLC and Buck Holdings, L.P.

Mr. Calbert has been with KKR for over nine years and during that time has been directly involved with several portfolio companies. He heads the Retail industry team. Mr. Calbert is currently on the board of directors of Toys "R" Us, Inc. and U.S. Foodservice. He joined Randall's Food Markets as the Chief Financial Officer in 1994, ultimately taking the company through a transaction with KKR in June 1997. He left Randall's Food Markets after the company was sold in September 1999 and joined KKR. Mr. Calbert started his professional career as a consultant with Arthur Andersen Worldwide, where his primary focus was on the retail/consumer industry. He has been a member of our Board since July 2007 and served as our Chairman until December 2008. KKR's affiliates indirectly own a substantial portion of our outstanding common stock through their investment in Buck Holdings, LLC and Buck Holdings, L.P.

Mr. Jones has been with Goldman, Sachs & Co. since 1994. He is a managing director in Principal Investment Area (PIA) in New York where he focuses on consumer-related and healthcare opportunities. The GS Investors indirectly own a substantial portion of our outstanding common stock through their investment in Buck Holdings, LLC and Buck Holdings, L.P. Mr. Jones is currently on the board of directors of Biomet, Inc., Education Management Corporation, HealthMarkets, Inc. and Signature Hospital, LLC. He has been a member of our Board since July 2007.

Mr. Bryant served as the President and Chief Executive Officer of Longs Drug Stores Corporation, a retail drugstore chain on the West Coast and in Hawaii, from 2002 through 2008 and as its Chairman of the Board from 2003 through his retirement in 2008. Prior to joining Longs Drug Stores, Mr. Bryant served as the Senior Vice President of The Kroger Co., a retail grocery chain, from 1999 to 2002. Mr. Bryant is a director of OfficeMax Incorporated.

Mr. Rhodes was elected Chairman of AutoZone, a specialty retailer and distributor of automotive replacement parts and accessories, in June 2007. He has served as President, Chief Executive Officer, and a director of AutoZone since 2005. Prior to his appointment as President and Chief Executive

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Officer, Mr. Rhodes was Executive Vice President Store Operations and Commercial. Prior to fiscal 2005, he had been Senior Vice President Supply Chain and Information Technology since fiscal 2002, and prior thereto had been Senior Vice President Supply Chain since 2001. Prior to that time, he served in various capacities within AutoZone, including Vice President Stores in 2000, Senior Vice President Finance and Vice President Finance in 1999 and Vice President Operations Analysis and Support from 1997 to 1999. Prior to 1994, Mr. Rhodes was a manager with Ernst & Young, LLP.

Controlled Company Exception

Our Board of Directors consists of Richard Dreiling, Michael Calbert, Raj Agrawal and Adrian Jones. Messrs. Calbert and Agrawal serve on our Audit Committee and, along with Mr. Jones, on our Compensation Committee. David Bere served on our Board until March 2008, and Dean Nelson served on our Board until March 2009. Upon completion of this offering, we intend to appoint William C. Rhodes and Warren F. Bryant to our Board of Directors.

After completion of this offering, the Investors will continue to control a majority of our outstanding common stock. As a result, we are a "controlled company" within the meaning of the New York Stock Exchange corporate governance standards. Under the New York Stock Exchange rules, a company of which more than 50% of the voting power is held by an individual, group or another company is a "controlled company" and may elect not to comply with certain New York Stock Exchange corporate governance standards, including:

- the requirement that a majority of the Board of Directors consist of independent directors;
- the requirement that we have a nominating/corporate governance committee that is composed entirely of independent directors with a written charter addressing the committee's purpose and responsibilities;
- the requirement that we have a compensation committee that is composed entirely of independent directors with a written charter addressing the committee's purpose and responsibilities; and
- the requirement for an annual performance evaluation of the nominating/corporate governance and compensation committees.

Following this offering, we intend to utilize these exemptions. As a result, we will not have a majority of independent directors, our nominating/corporate governance committee and compensation committee will not consist entirely of independent directors and such committees will not be subject to annual performance evaluations. Accordingly, you will not have the same protections afforded to shareholders of companies that are subject to all of the New York Stock Exchange corporate governance requirements.

Committees of the Board of Directors

Audit Committee. Our audit committee currently consists of Messrs. Calbert and Agrawal. Upon completion of this offering, the current audit committee members will resign, and we intend to appoint Messrs. Rhodes and Bryant to our audit committee. Our Board has affirmatively determined that each of such nominees meets the definition of "independent director" for purposes of the New York Stock Exchange rules and the independence requirements of Rule 10A-3 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Our Board intends to name Mr. Rhodes as the member of our audit committee who qualifies as an "audit committee financial expert" under SEC rules and regulations. We intend to appoint an additional independent director to our audit committee within one year following completion of this offering.

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Our audit committee will be responsible for:

- selecting the independent registered public accounting firm,
- pre-approving all audit engagement fees and terms, as well as audit and permitted non-audit services to be provided by the independent registered public accounting firm,
- at least annually, obtaining and reviewing a report of the independent registered public accounting firm describing the independent registered public accounting firm's internal quality-control procedures and any material issues raised by its most recent review of internal quality controls,
- annually evaluating the qualifications, performance and independence of the independent registered public accounting firm,
- discussing the scope of the audit and any problems or difficulties,
- setting policies regarding the hiring of current and former employees of the independent registered public accounting firm,
- discussing the annual audited and quarterly unaudited financial statements with management and the independent registered public accounting firm,
- discussing types of information to be disclosed in earnings press releases and provided to analysts and rating agencies,
- discussing policies governing the process by which risk assessment and risk management is to be undertaken,
- reviewing disclosures made by the CEO and CFO regarding any significant deficiencies or material weaknesses in our internal control over financial reporting,
- reviewing internal audit activities, projects and budget,
- establishing procedures for receipt, retention and treatment of complaints received by the Company regarding accounting or internal controls and the submission of anonymous employee concerns regarding accounting,
- discussing with our general counsel legal matters having an impact on financial statements,
- periodically reviewing and reassessing the audit committee charter,
- providing information to our Board that may be relevant to the annual evaluation of performance and effectiveness of the Board and its committees,

preparing the report required by the SEC to be included in our proxy statement and

evaluating and making recommendations to the Board concerning shareholder proposals relating to matters of which the committee has expertise.

Our Board of Directors will update its written charter for the audit committee which will be available on our website.

Compensation Committee. Our compensation committee currently consists of Messrs. Agrawal, Calbert and Jones. Upon completion of this offering, we intend to appoint Messrs. Rhodes and Bryant as additional members of our compensation committee. Our Board of Directors has affirmatively determined that each of such newly-appointed nominees meets the definition of "independent director" for purposes of the New York Stock Exchange rules, the definition of "outside director" for purposes of Section 162(m) of the Internal Revenue Code of 1986, as amended, and the definition of "non-employee director" for purposes of Section 16 of the Exchange Act. In addition, we intend to establish a sub-committee of our compensation committee consisting of Messrs. Rhodes and Bryant for purposes of approving any compensation that may otherwise be subject to Section 162(m) of the Internal Revenue Code of 1986, as amended. Our compensation committee is responsible for:

- reviewing and approving corporate goals and objectives relevant to the compensation of our chief executive officer,
- determining the compensation of our officers and directors,
- recommending, when appropriate, changes to our compensation philosophy and principles,
- administration of overall compensation and benefits programs,
- recommending to our Board any changes in our incentive compensation and equity-based plans that are subject to Board approval,
- reviewing and discussing with management, prior to the filing of the proxy statement, the disclosure prepared regarding executive compensation, including the CD&A and compensation tables (in addition to preparing a report on executive compensation for the proxy statement),
- providing information to our Board that may be relevant to the annual evaluation of performance and effectiveness of the Board and its committees,
- evaluating and making recommendations to our Board concerning shareholder proposals relating to matters of which the committee has expertise, and
- periodically reviewing and reassessing the compensation committee charter.

Our Board of Directors will update its written charter for the compensation committee which will be available on our website.

Nominating and Corporate Governance Committee. Immediately prior to the closing of this offering, we will form a nominating and corporate governance committee that will consist of Messrs. Calbert, Agrawal and Jones. The nominating and corporate governance committee will be responsible for (1) developing and recommending criteria for selecting new directors, (2) screening and recommending to the Board of Directors individuals qualified to become members of our Board and (3) handling such other matters that are specifically delegated to the nominating and corporate governance committee by the Board of Directors from time to time.

Our Board of Directors will adopt a written charter for the nominating and corporate governance committee which will be available on our website.

Executive Compensation

We refer to the persons included in the Summary Compensation Table below as our "named executive officers." References to "2008," "2007," and "2006" mean, respectively, our fiscal years ended January 30, 2009, February 1, 2008 and February 2, 2007. References to the "merger" or the "2007 merger" mean our merger, discussed more fully elsewhere in this document, that occurred on July 6, 2007 as a result of which we became a subsidiary of Buck Holdings, L.P. ("Buck" or "Parent"), a Delaware limited partnership controlled by investment funds affiliated with Kohlberg Kravis Roberts & Co., L.P. ("KKR" or "Sponsor").

Compensation Discussion and Analysis

Executive Compensation Philosophy and Objectives

We strive to attract, retain and motivate persons with superior ability, to reward outstanding performance, and to align the interests of our named executive officers with the long-term interests of our shareholders. The material compensation principles applicable to the 2008 compensation of our named executive officers included the following, all of which are discussed in more detail in "Elements of 2008 Named Executive Officer Compensation" below:

- We generally target total compensation at the benchmarked median of our market comparator group, but we make adjustments based on circumstances, such as unique job descriptions and our particular niche in the retail sector, that are not reflected in the market data. For competitive reasons, our levels of total compensation or any component of compensation may exceed the median of our comparator group.

- We set base salaries to reflect the responsibilities, experience and contributions of the named executive officers and the salaries for comparable benchmarked positions, subject to minimums set forth in employment agreements.

- We reward named executive officers who enhance our performance by linking cash and equity incentives to the achievement of our financial goals.

- We promote share ownership to align the interests of our named executive officers with those of our shareholders.

The Compensation Committee of our Board of Directors utilizes employment agreements with the named executive officers which, among other things, set forth minimum levels of certain compensation components. The Committee believes such arrangements are a common protection offered to named executive officers at comparable companies and help ensure continuity and aid in retention. The agreements also provide for standard protections to both the officer and to Dollar General should the officer's employment terminate.

Named Executive Officer Compensation Process

Oversight. The Compensation Committee of our Board of Directors is responsible for recommending CEO compensation to our Board and for approving compensation of other named executive officers. The Board retains sole authority to determine CEO compensation. The Committee members include Messrs. Calbert, Agrawal and Jones.

Use of Outside Advisors. Prior to our 2007 merger, the former Compensation Committee selected Hewitt Associates ("Hewitt") as its compensation consultant and approved a written agreement with Hewitt which describes the general terms of the working relationship. Hewitt remains a consultant to the Company subsequent to our 2007 merger, and while the written agreement with Hewitt has not been formally renewed, we continue to operate consistent with its terms.

The written agreement with Hewitt specifies that Hewitt may perform compensation consulting services upon management or Committee request, which services may include competitive market pay analyses, support regarding legal, regulatory or accounting considerations impacting compensation programs, redesign of those programs, assistance with market data, trends and competitive practices, meeting preparation and attendance and other miscellaneous work.

While the Committee or any of its members may consult directly with Hewitt should it or they choose to do so, subsequent to our 2007 merger Hewitt has directly dealt solely with Mr. Dreiling, Ms. Challis Lowe (while she served as our EVP of Human Resources) and Mr. Robert Ravener (since he became our SVP and Chief People Officer) (Ms. Lowe or Mr. Ravener, during the applicable time period, our "Senior HR Officer"), as well as with non-executive members of our human resources group, both with respect to management's work in connection with named executive officer compensation (as described below under "Management's Role") and in connection with general employee compensation and benefits matters. Our Committee Chairman, Mr. Calbert, reviews with

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Mr. Dreiling and our Senior HR Officer information provided by Hewitt, along with Mr. Dreiling's and our Senior HR Officer's executive compensation recommendations.

Management's Role. Mr. Dreiling and the Senior HR Officer, along with non-executive members of the human resources group, assist Hewitt in gathering and analyzing relevant competitive data and identifying and evaluating various alternatives for named executive officer compensation (including their own). Mr. Dreiling and the Senior HR Officer regularly provide and discuss their recommendations regarding named executive officer pay components, typically based on Hewitt benchmarking data, to the Compensation Committee Chairman between Committee meetings and to the full Committee at Committee meetings. Mr. Dreiling assesses named executive officer performance (with Mr. Bere's assistance with respect to fiscal 2007 performance) for purposes of determining whether each named executive officer is eligible, as a threshold matter, for a base salary increase and for a Teamshare bonus payout in the event the relevant EBITDA performance level is achieved (each as discussed more fully below under "Elements of 2008 Named Executive Officer Compensation").

While the Board and the Committee members valued and welcomed such input from management, the Board and the Committee ultimately made all 2008 named executive officer compensation decisions.

Use of Market Benchmarking Data. To attract and retain named executive officers who we believe will enhance our long-term business results, we must pay compensation that is competitive with the external market for executive talent. We believe that this primary talent market consists of retail companies with revenues and business models similar to ours because those companies have executive positions similar in breadth, complexity and scope of responsibility to our named executive officer positions. For 2008, Hewitt provided data to management regarding total and individual compensation elements from its proprietary salary survey database and from the proxy statements of selected retail companies that met these criteria. We refer to this combined group as the market comparator group. In 2008, this group consisted of Advance Auto Parts, AutoZone, Big Lots, Family Dollar, Kohl's, Limited Brands, Longs Drug Stores, Nordstrom, OfficeMax, Payless Shoe Source, Retail Ventures, Staples, J.C. Penney, The Gap, Macy's, Blockbuster, The Pantry, Ross Stores, and SuperValu Inc. Hewitt was also asked to provide summary market data from all of the retail companies in their data base and from the proxy statement information for certain other significantly larger retail companies (Wal-Mart, Target, Walgreen's and CVS) as additional reference points in assessing the appropriateness of the compensation levels of our named executive officers.

For 2009 compensation decisions, the same market comparator group of nineteen companies was used except for five companies (Advance Auto Parts, Kohl's, Limited Brands, Retail Ventures and SuperValu) that discontinued their participation in the Hewitt study. These companies were replaced by 7-Eleven, Genuine Parts, McDonald's, PetSmart, and Yum Brands which were chosen due to their relative comparability to the companies in the existing market comparator group.

The Committee believes that the median range of the competitive market generally is the appropriate target for a named executive officer's total compensation, and the Committee takes into account the value of the named executive officer's long-term compensation when determining the levels of the cash compensation components. The Committee recognizes, however, that it is difficult to compare equity granted by a private company to equity granted by a public company because of liquidity and other comparability issues. In addition, the Committee does not make annual equity grants to the named executive officers, as it believes that the long-term equity previously granted to the named executive officers in fiscal 2007 or at the time they were employed, as applicable, is sufficiently retentive and otherwise adequately meets our compensation objectives as discussed under "Long-Term Incentive Program" below.

Elements of 2008 Named Executive Officer Compensation

We provide compensation in the form of base salary, short-term cash incentives, long-term equity incentives, benefits and perquisites. As discussed in more detail below, the Compensation Committee believes that each of these elements is a necessary component of the compensation package and is consistent with compensation programs at competing companies.

Base Salary. Base salary generally promotes the recruiting and retention functions of our compensation principles by reflecting the salaries for comparable positions in the competitive marketplace and by providing a stable and predictable source of income for our executives. The Committee believes that we would be unable to attract or retain quality named executive officers in the absence of competitive base salary levels. For this reason, base salary constitutes a significant portion of a named executive officer's total compensation. Base salary also furthers the pay for performance role of our philosophy because, as a threshold matter, a named executive officer is not eligible for a salary increase unless he or she achieves a satisfactory overall subjective performance evaluation.

Following fiscal 2007, Mr. Dreiling (with input from Mr. Bere) subjectively assessed each named executive officer in the context of that officer's job responsibilities and made a determination as to whether that officer's performance for fiscal 2007 was satisfactory or unsatisfactory on an overall basis. A determination of unsatisfactory performance would have precluded that named executive officer from receiving an increase in 2008 base salary. A threshold determination of satisfactory performance did not by itself result in any variation in a named executive officer's compensation. Rather, satisfactory performance merely created the possibility of an increase in base salary. Once a named executive officer's eligibility was established, the magnitude of any salary increase was determined on the basis of benchmarking information from Hewitt regarding the compensation and role of each named executive officer within our management structure in comparison to the compensation that companies in our market comparator group provide to similarly situated executives. Because Mr. Dreiling determined that each such person performed satisfactorily overall, as a threshold matter each named executive officer was eligible to be considered for a 2008 salary increase.

In determining each named executive officer's 2008 base salary, the Compensation Committee reviewed the composition of the market comparator group, as described above, and Ms. Lowe informed the Compensation Committee of the results of the benchmarking analysis, which had been discussed in detail separately with the Committee's chairman. This benchmarking data showed that there was significant movement in the market median for Ms. Guion's position and, as a result, the Committee adjusted her pay accordingly which resulted in an approximate 15.5% base salary increase. The Committee approved 3% base salary increases for all other named executive officers (other than Mr. Dreiling, who was not considered for an increase given his recent hiring in January 2008) in order to maintain base salaries within the median range of the market comparator group.

Subsequent to the fiscal 2008 year end, the Compensation Committee considered the 2009 base salary increases for each named executive officer. Mr. Dreiling advised the Committee that he had subjectively assessed the overall performance of each named executive officer and determined that each had performed the duties and responsibilities of his or her respective position in a satisfactory manner. As in prior years, a determination of unsatisfactory performance would have precluded that named executive officer from receiving an increase in base salary, and the threshold determination of satisfactory performance did not by itself result in any variation in compensation. Rather, satisfactory performance merely created the possibility of an increase in base salary. The magnitude of the salary increase was determined on the basis of benchmarking information from Hewitt regarding data from our market comparator group.

After reviewing a summary of the Hewitt data, the Committee determined that a 2.25% increase in base salary for each named executive officer (other than Mr. Dreiling and Ms. Lanigan) was within the competitive median range of base salary increases within the market comparator group. The benchmarking data showed that there was additional movement in the market median for

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Ms. Lanigan's position and, as a result, the Committee adjusted her pay accordingly which resulted in an approximate 5% base salary increase. All such increases were effective April 1, 2009.

The Committee also met with Mr. Dreiling privately to subjectively review his performance in fiscal 2008 in the context of his job responsibilities. The Committee determined that Mr. Dreiling's fiscal 2008 performance was satisfactory on an overall basis, thus also qualifying him for a 2009 base salary increase. As with other named executive officers, such determination did not by itself result in any variation in Mr. Dreiling's compensation, but rather merely created the possibility of a base salary increase. Based on the same Hewitt market data reviewed for the other named executive officers, the Committee recommended, and the non-management members of the Board of Directors approved, a 12.1% base salary increase for Mr. Dreiling, effective April 1, 2009, in order to maintain his base salary within the median range of the market comparator group.

Short-Term Incentive Plan. Our short-term incentive plan, called Teamshare, serves to motivate named executive officers to achieve certain pre-established, objective financial goals. For our named executive officers, the Teamshare program operates pursuant to the terms of the Dollar General Corporation Annual Incentive Plan (the "AIP"). Under the AIP, "covered employees" under Section 162(m) of the Code, any of our executive officers and such other of our employees as may be selected by the Compensation Committee (including our named executive officers) have the opportunity to earn up to $5,000,000 (up to $2,500,000 in fiscal 2008 and 2009) in respect of a given fiscal year of our company, subject to the achievement of any performance targets based on any one of the following performance measures: net earnings or net income (before or after taxes), earnings per share, net sales or revenue growth, gross or net operating profit, return measures (including, but not limited to, return on assets, capital, invested capital, equity, sales, or revenue), cash flow (including, but not limited to, operating cash flow, free cash flow, and cash flow return on capital), earnings before or after taxes, interest, depreciation, and/or amortization, gross or operating margins, productivity ratios, share price (including, but not limited to, growth measures and total shareholder return), expense targets, margins, operating efficiency, customer satisfaction, working capital targets, economic value added, volume, capital expenditures, market share, costs, regulatory ratings, asset quality, net worth, or safety. The AIP is administered by the Compensation Committee, and the Compensation Committee also has the power to amend or terminate the AIP at any time.

As a threshold matter, unless required by contract, a named executive officer is not eligible to receive a bonus under the 2008 Teamshare program if that officer receives an "unsatisfactory" overall subjective individual performance rating, and payment of any bonus is in the Compensation Committee's discretion if the officer receives a "needs improvement" overall individual performance rating. Accordingly, Teamshare fulfills an important part of our pay for performance philosophy while aligning the interests of our named executive officers and our shareholders. Teamshare also helps meet our recruiting and retention objectives by providing compensation opportunities that are consistent with those prevalent in our market comparator group.

(a) *2008 Teamshare Structure.* Teamshare provides an opportunity for each named executive officer to receive a cash bonus payment equal to a certain percentage of base salary based upon Dollar General's achievement of a pre-established financial performance measure. As it did in 2007, the Compensation Committee selected as the 2008 Teamshare financial performance measure a measure based upon earnings before interest, taxes, depreciation and amortization ("EBITDA"), with adjustments similar to those made for the purposes of calculating performance targets for our long-term incentive program, including exclusions for the impact of:

- any fee paid to KKR, Goldman, Sachs & Co. and any affiliates thereof pursuant to the terms of the Monitoring Fee Letter Agreement dated July 6, 2007;

- all consulting, accounting, legal, valuation, banking, filing, disclosure and similar costs, fees and expenses directly related to the consideration, negotiation, approval and consummation of our

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2007 merger and related financing and any related litigation or settlement of any related litigation; and

any unplanned items of a non-recurring or extraordinary nature as determined in good faith by the CEO and CFO and approved by the Committee.

The Committee established the target financial performance level for purposes of the 2008 Teamshare program at $815 million, which, consistent with prior practice, was equal to our annual financial objective. It also was similar to the fiscal 2008 level for vesting of performance-based options granted on July 6, 2007 to the named executive officers. The Committee established the threshold financial performance level, below which no bonus would be paid under the 2008 Teamshare program, at 95% of the target financial performance level. This differed from prior practice, which established the threshold level at 90% of the target level as the Committee believed that a threshold level of 95% of target was more consistent with other companies within the KKR portfolio.

Unlike the Teamshare program in prior years, there was no maximum level of EBITDA performance associated with the 2008 Teamshare program. The Committee felt that setting a maximum EBITDA performance level could discourage employees to strive to achieve EBITDA results beyond the maximum level.

The Committee considered the 2008 Teamshare program target financial performance level to be challenging and generally consistent with the level of difficulty of achievement associated with our performance-based awards for prior years. We did not achieve the threshold Teamshare performance level in fiscal years 2006 or 2005. We achieved Teamshare performance levels between threshold and target in fiscal years 2004 and 2002, between target and maximum in fiscal year 2007, and at maximum in fiscal year 2003.

The bonus payable to each named executive officer if Dollar General reached the 2008 target financial performance level was equal to the applicable percentage of each officer's salary as set forth in the chart below. Such payout levels, which are consistent with prior years' payout levels, were selected because they are within the median range of the Hewitt data for the market comparator group.

Name	Target Payout Percentage
Mr. Dreiling(1)	100%
Mr. Bere(2)	70%
Mr. Tehle	65%
Ms. Guion	65%
Ms. Lanigan	65%
Mr. Buley	65%
Ms. Lowe	65%

(1) Mr. Dreiling's threshold and target bonus percentages are established in his employment agreement with us, and he was guaranteed a payout at least at the threshold level (50% of his target level) for fiscal 2008.

(2) Per Mr. Bere's April 9, 2008 letter agreement with us (the "Letter Agreement"), to the extent earned for February and March of 2008, any payout would be based on the Threshold Bonus (35%), Target Bonus (140%) and Maximum Bonus (280%) levels of his base salary which were contemplated in Mr. Bere's employment agreement entered into with us in fiscal 2007 (such payout levels had been settled upon as a result of active renegotiations with Mr. Bere when he assumed the position of Interim Chief Executive Officer and were deemed necessary to secure the critical services of Mr. Bere at that time). We entered into the Letter Agreement at the end of the transition period which followed Mr. Dreiling's hiring in January 2008 and ran through the date of the Letter

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Agreement (the "Transition Period"). The Committee believed it was fair to use the bonus payout levels that were in place under the employment agreement during the Transition Period, but to modify those levels for all months after the Transition Period (as reflected in this table) to reflect the Hewitt data for the market comparator group relative to Mr. Bere's new position of President and Chief Strategy Officer.

Payments for financial performance below or above the target level are prorated on a graduated scale commensurate with performance levels in accordance with the following schedule.

% of Target Performance Level	**% of Bonus Target**
95%	50%
96%	60%
97%	70%
98%	80%
99%	90%
100%	100%
101%	110%
102%	120%
103%	130%
104%	140%
105%	150%
106%	160%
107%	170%
108%	180%
109%	190%
110%(1)	200%(1)

(1) For every 1% EBITDA increase over 110%, each named executive officer was eligible to receive an additional 7.1491% of his or her bonus target. Individual awards were capped at $2.5 million for fiscal 2008 per the AIP in effect at that time.

This pro ration schedule, through 110% of the target EBITDA performance level (the prior maximum EBITDA performance level), is consistent with the pro ration schedule in prior years. The Committee determined that the pro ration schedule for EBITDA performance above 110% of target should approximate a sharing between Dollar General and the Teamshare participants of 20% of the EBITDA dollars earned above that level. When calculated against the total incentive dollars that would be paid at 110% of the target EBITDA performance level, the incremental incentive payout equated to an additional 7.1491% of each named executive officer's bonus target for each additional 1% of EBITDA earned above 110% of the target level.

(b) *2008 Teamshare Results.* Following fiscal 2008, Mr. Dreiling assessed each named executive officer in the context of that officer's job responsibilities and made a subjective determination as to whether that officer's performance for fiscal 2008 was satisfactory or unsatisfactory on an overall basis. A determination of unsatisfactory performance would have precluded that named executive officer from receiving a Teamshare payout for 2008 performance (unless otherwise contractually provided) regardless of whether we achieved our overall, objective EBITDA performance target for fiscal 2008. A threshold determination of satisfactory performance did not by itself result in any variation in the named executive officer's incentive compensation. Rather, satisfactory performance merely created the possibility of a payout under the Teamshare program. Once a named executive officer's eligibility was established, the Teamshare payout was determined based upon our objective EBITDA performance. Because Mr. Dreiling determined that each such person performed satisfactorily overall, as a threshold matter each named executive officer was eligible to receive a 2008 Teamshare payout to the extent we achieved the relevant EBITDA performance level.

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The Committee also subjectively reviewed Mr. Dreiling's individual performance for 2008 in a manner similar to Mr. Dreiling's evaluations of the other named executive officers discussed above. The Committee determined that he had performed satisfactorily and as a threshold matter, he was therefore also eligible to receive a 2008 Teamshare payout to the extent we achieved the relevant EBITDA performance level.

In March 2009, the Compensation Committee approved the EBITDA performance level at 217.63% of target. Accordingly, Teamshare payouts in the amount reflected in the "Non-Equity Incentive Plan Compensation" column of the Summary Compensation Table were made to each named executive officer (other than Mr. Buley and Ms. Lowe who are no longer employed by Dollar General) at the following percentages of base salary: Mr. Dreiling, 217.63%; Mr. Bere, 177.73%; Mr. Tehle, 141.46%; Ms. Guion, 141.46%; and Ms. Lanigan, 141.46%.

(c) *2009 Teamshare Structure.* As it did in 2008, the Compensation Committee selected as the 2009 Teamshare financial performance measure a measure based upon earnings before interest, taxes, depreciation and amortization ("EBITDA"), with adjustments similar to those described above pertaining to the 2008 Teamshare structure. The Committee established the target financial performance level for purposes of the 2009 Teamshare program at a level equal to our annual financial objective, which was consistent with past practice. The Committee considers the 2009 Teamshare program target financial performance level to be challenging and generally consistent with the level of difficulty of achievement associated with the our performance-based awards for prior years (see "2008 Teamshare Structure" above for a discussion of the level of achievement in recent years of the financial performance targets).

As in 2008 and for the same reasons identified under "2008 Teamshare Structure" above, the Committee established the threshold financial performance level, below which no bonus may be paid under the 2009 Teamshare program, at 95% of the target financial performance level, and the Committee did not establish a maximum level of EBITDA performance under the 2009 Teamshare program.

The bonus payable to each named executive officer if Dollar General reaches the 2009 target financial performance level is equal to the applicable percentage of each officer's salary as set forth in the chart below. Such payout levels, which are consistent with prior years' payout levels, were selected because they are within the median range of the Hewitt data for the market comparator group.

Name	**Target Payout Percentage**
Mr. Dreiling(1)	100%
Mr. Bere	70%
Mr. Tehle	65%
Ms. Guion	65%
Ms. Lanigan	65%

(1) Mr. Dreiling's threshold and target bonus percentages are established in his employment agreement with us.

Payments for financial performance below or above the target level are prorated on the same graduated scale commensurate with performance levels as described under "2008 Teamshare Structure" above, except that for every 1% EBITDA increase over 110% of target, each named executive officer is eligible to receive an additional 9.14% of his or her bonus target.

Long-Term Incentive Program. Long-term equity incentives motivate named executive officers to focus on long-term success for shareholders. These incentives provide a balance between short-term and long-term goals and are also important to our compensation program's recruiting and retention objectives because most of the companies in our market comparator group offer them. Our long-term

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incentives are designed to compensate named executive officers for a long-term commitment to us, while motivating sustained increases in our financial performance. We believe that our long-term equity incentive program provides significant motivation and retention value to us for many reasons, most notably:

- Due to limitations on transferability until the earlier to occur of the fifth anniversary of certain specified dates or certain liquidity events, an investment in our common stock generally is illiquid while the executive remains employed by us. If an executive's employment with us terminates, we may generally compel him or her to sell that stock back to us for a price determined in accordance with the Management Stockholder's Agreement between us and that executive.

- Half of all option awards are time-based and vest over a five-year period, provided the executive continues to be employed by us. The other half are intended to be performance-based and generally require that Dollar General achieve specified financial targets before those options will vest, provided that the executive continues to be employed by us over the applicable performance periods. These terms are further discussed below.

Equity awards are made under our Board-adopted and shareholder-approved 2007 Stock Incentive Plan for Key Employees of Dollar General Corporation and its affiliates (the "2007 Plan").

The 2007 Plan generally provides the Committee the authority to grant equity-based awards, including stock options, stock appreciation rights, restricted stock, restricted stock units, and other equity-based awards (including dividend equivalent rights). Awards under the 2007 Plan may be made to any of our employees, non-employee members of our Board of Directors, any consultant or other person having a service relationship with our company, as may be determined by the Committee. The 2007 Plan is administered by the Committee, and the Committee has the power to amend any awards outstanding under the 2007 Plan in any manner that is not adverse to the holder of such award (other than in a de minimis manner). In the event of any stock split, spin-off, share combination, reclassification, recapitalization, liquidation, dissolution, reorganization, merger, change in control of our company (as defined in the 2007 Plan), payment of a dividend (other than a cash dividend paid as part of a regular dividend program) or other similar transaction or occurrence which affects the equity securities of the Company or the value thereof, the Committee is required to adjust outstanding awards under the plan (including the number and kind of securities subject to the award and, if applicable the exercise price), in each case as it deems reasonably necessary to address, on an equitable basis, the effect of the applicable corporate event on the 2007 Plan and any outstanding awards. In the event of a change in control of our company (as defined under the 2007 Plan), the Committee may accelerate the vesting of any outstanding awards, cancel for fair value (as determined in its sole discretion) outstanding awards, substitute new awards that will substantially preserve the otherwise applicable terms and value of the awards being substituted, or provide for a period at of least 10 business days prior to the change in control that any stock option or stock appreciation right will be fully exercisable, and then shall terminate upon the change of control. The Board has the power to amend or terminate the 2007 Plan, except that shareholder approval is required to increase the aggregate number of shares available for awards under the Plan, to decrease the exercise price of outstanding stock options or stock appreciation rights, to change the requirements relating to the Committee, or to extend the term of the 2007 Plan. The 2007 Plan currently expires July 6, 2017, although awards made on or before expiration of the 2007 Plan may extend beyond the expiration date. As of July 31, 2009, there were 15,714,285 shares authorized for issuance under the 2007 Plan, approximately 1,504,642 of which remained available for future grants (912,517 of which were available to be granted subject to options). Since July 31, 2009, our Board of Directors and shareholders approved an amended and restated 2007 Plan, to be effective upon the closing of this offering which, among other things, increased the number of shares authorized for issuance to 31,142,858 (no more than 4,500,000 of which may be granted in the form of stock options and stock appreciation rights, and no more than 1,500,000 of which may be

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granted in the form of other stock-based awards, in each case to any one participant in any given fiscal year) in order to provide us with a pool of shares of our common stock that is reasonably sufficient for our Committee to be able to make grants of equity-based awards in a manner that is competitive.

In connection with the special dividend paid to our shareholders on September 11, 2009, the Committee adjusted the exercise price of options granted under our 2007 Plan as required by the terms of such options to reflect the effects of the special dividend on such options.

Under the current equity award program, a personal financial investment in Dollar General is a prerequisite to eligibility to receive an option grant under the 2007 Plan. In 2007, that personal investment could be made in the form of cash, rollover of stock and/or rollover of in-the-money options issued prior to our 2007 merger. Each named executive officer (other than Mr. Dreiling who joined us in 2008 and is discussed separately below) met the personal investment requirement and, accordingly, received option grants in 2007 under the 2007 Plan. Because the named executive officers received options in 2007, they were not granted any further options in 2008 and are not expected to receive additional options in 2009 absent a job promotion or other special circumstance.

The options granted to the named executive officers in 2007 under the 2007 Plan are divided so that half are time-vested and half are performance-vested based on a comparison of an EBITDA-based performance metric, as described below, against pre-set goals for that performance metric. The combination of time and performance based vesting of these awards is designed to compensate executives for long-term commitment to us, while motivating sustained increases in our financial performance. These options have an exercise price of $8.75 per share, which was the fair market value of one share of our common stock on the grant date of the options as determined by our Board of Directors.

The time-vested options vest and become exercisable ratably on each of the five anniversary dates of July 6, 2007 solely based upon continued employment with us over that time period. The performance-vested options are eligible to vest and become exercisable ratably at the end of each of the five fiscal years ending after the grant date of the option, based upon continued employment with us over that time period and if the Board determines in good faith that we achieve specified annual performance targets for each of these fiscal years based on EBITDA and adjusted as described below. For fiscal year 2007 and fiscal year 2008 that target was $700 million and $828 million, respectively, which targets were based on the long-term financial plan at the time of our 2007 merger and anticipated permitted adjustments, primarily to account for unique expenses related to our 2007 merger. If a performance target for a given fiscal year is not met, the performance-based options may still vest and become exercisable on a "catch up" basis if, at the end of a subsequent fiscal year through fiscal year 2012, a specified cumulative EBITDA-based performance target is achieved. Because the performance targets are based on our long-term financial plan, at the time of grant we believed these levels, while attainable, would require strong performance and execution.

For purposes of calculating the achievement of performance targets for our long-term incentive program, "EBITDA" means earnings before interest, taxes, depreciation and amortization plus transaction, management and/or similar fees paid to KKR and/or its affiliates. In addition, the Board is required to fairly and appropriately adjust the calculation of EBITDA to reflect, to the extent not contemplated in our financial plan, the following: acquisitions, divestitures, any change required by generally accepted accounting principles ("GAAP") relating to share-based compensation or for other changes in GAAP promulgated by accounting standard setters that, in each case, the Board in good faith determines require adjustment to the EBITDA performance metric we use for our long-term incentive program. Adjustments to EBITDA for purposes of calculating performance targets for our long-term incentive program may not in all circumstances be identical to adjustments to EBITDA for other purposes, including our Teamshare targets and the covenants contained in our principal financial agreements. Accordingly, comparability of such measures is limited.

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The specified adjusted EBITDA performance targets were achieved for both fiscal year 2007 and fiscal year 2008.

We expect to make grants of stock options out of the 2007 Plan to certain of our newly hired and recently promoted employees who agree to make a personal investment in our common stock. We anticipate that these option grants will be effective as of the date the offering price is established, with the exercise price of such options to be equal to the fair market value of our common stock on such date (which will be the offering price of our common stock).

Benefits and Perquisites. We provide benefits and limited perquisites to named executive officers for retention and recruiting purposes, to promote tax efficiency for such persons, and to replace benefit opportunities lost due to regulatory limits. We also provide named executive officers with benefits and perquisites as additional forms of compensation that are believed to be consistent and competitive with benefits and perquisites provided to similar positions in our market comparator group and our industry. Most of the perquisites were established prior to our 2007 merger by our former compensation committee, which believed these benefits and perquisites help to attract and retain executive talent. Along with certain benefits offered to named executive officers on the same terms that are offered to all of our salaried employees (such as health and welfare benefits and matching contributions under our 401(k) plan), we provide such persons with certain additional benefits and perquisites.

The named executive officers have the opportunity to participate in the Compensation Deferral Plan (the "CDP") and the defined contribution Supplemental Executive Retirement Plan (the "SERP", and together with the CDP, the "CDP/SERP Plan"). Our Compensation Committee determined in 2008 to no longer offer SERP participation to persons to whom employment offers are made after May 28, 2008, including newly hired executive officers.

We provide each named executive officer a life insurance benefit equal to 2.5 times his or her base salary up to a maximum of $3 million. We pay the premiums and gross up such person's income to pay the tax cost of this benefit. We also provide each named executive officer a disability insurance benefit that provides income replacement of 60% of base salary up to a maximum monthly benefit of $20,000. We pay the cost of this benefit and gross up such officer's income to pay the tax cost of the premiums of this benefit to the extent necessary to provide benefits comparable to the group plan applicable to all salaried employees.

Each named executive officer may choose either a leased automobile (for which we pay for gasoline, repairs, service and insurance) or a fixed monthly automobile allowance. We provide a gross-up payment to pay the tax cost of the imputed income for both programs. Since the Compensation Committee believes that executive automobile programs are no longer typical in the competitive retail market, the Committee determined in 2008 to no longer offer an automobile lease or allowance program to persons to whom employment offers are made after May 28, 2008, including newly hired executive officers, and terminated the program for existing named executive officers as of July 6, 2009 (as of April 1, 2009 for Mr. Dreiling).

We also provide a relocation assistance program to named executive officers under a policy applicable to officer-level employees, which policy is similar to that offered to certain other employees. In 2008, we incurred relocation expenses for Mr. Dreiling in accordance with this policy and his employment agreement (as discussed below in "Compensation of Mr. Dreiling") and for Mr. Bere in accordance with the policy. The significant differences between the relocation assistance available to officers from the relocation assistance available to non-officers are as follows:

- We provide a pre-move allowance of 5% of the officer's annual base salary (we cap this allowance at $5,000 for other employees);

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- We provide home sale assistance by offering to purchase the officer's prior home at an independently determined appraised value in the event the prior home is not sold to an outside buyer (we do not offer this service to other employees);

- We reimburse officers for all reasonable and customary home purchase closing costs (we limit our reimbursement to other employees to 2% of the purchase price to a maximum of $2,500) except for loan origination fees which are limited to 1%; and

- We provide 60 days of temporary living expenses (we limit temporary living expenses to 30 days for all other employees).

Compensation of Mr. Dreiling

Mr. Dreiling entered into an employment agreement with a term of five years, and automatic one-year renewals thereafter, to become CEO and a member of our Board effective January 21, 2008. Key compensatory provisions of the agreement include:

- Minimum annual base salary of $1,000,000.

- Annual bonus payout range of 50% (threshold), 100% (target) and up to no less than 200% (maximum) of base salary based upon EBITDA performance. For 2008, Mr. Dreiling was guaranteed to earn at least a threshold level bonus.

- A signing bonus of $2,000,000.

- Equity grants consisting of 508,572 shares of restricted stock and options to purchase 1,428,570 shares of Dollar General at $8.75 per share (the fair market value of one share of common stock on the grant date). The restricted stock is scheduled to vest upon the earlier to occur of the last day of fiscal 2011, a change in control, an initial public offering, termination without cause or due to death or disability, or resignation with good reason. Half of the options are time-vested and the other half are performance-vested. These options vest upon the same terms as the other options that have been granted under the 2007 Plan.

- Payment of the premiums on his personal long-term disability insurance policies.

- Use of our plane for Mr. Dreiling and his spouse for up to nine trips per year between our headquarters and his second home in California.

- Reimbursement and gross-up for taxes of all closing costs and expenses, including broker's fees, loan origination and/or loan discount fees (not to exceed 2 points in total), and attorney fees incurred to purchase a residence in the Nashville, Tennessee area and for up to 2 months' lease cancellation on his apartment in the New York metropolitan area. Reimbursement and/or payment of and gross-up for taxes of temporary living expenses for 120 days as well as 2 house hunting trips not to exceed 7 nights/8 days. Relocation also includes the payment of packing, loading, transporting, storing and delivering his household goods including the movement of 1 car and a miscellaneous cash allowance equal to $25,000 less applicable taxes.

- Reimbursement of legal fees up to $35,000, grossed-up for taxes, incurred in negotiating and preparing the employment agreement and documents associated with Mr. Dreiling's equity grants.

- Payment of monthly membership fees and costs related to his membership in professional clubs selected by him, grossed-up for any taxes.

Mr. Dreiling was chosen for the CEO position after a lengthy and careful search. The Board firmly believes he is the right leader for the Company as we move forward. The terms of his employment agreement summarized above were settled after negotiation with Mr. Dreiling, and the Board believes that they are fair and appropriate given CEO compensation and benefits at comparable companies and given Mr. Dreiling's experience and leadership ability. These arrangements were also necessary to entice Mr. Dreiling to resign from his previous employer and to give him the opportunity to offset the potential financial gain he would be foregoing by leaving that employer.

Severance Arrangements

As noted above, we have an employment agreement with each of our named executive officers that, among other things, provides for such officer's rights upon a termination of employment. We believe that reasonable severance benefits are appropriate to protect the named executive officer against circumstances over which he or she does not have control and as consideration for the promises of non-disclosure, non-competition, non-solicitation and non-interference that we require in our employment agreements.

All of our severance provisions in the event of a change-in-control operate under a double trigger, requiring both a change-in-control and a termination event, except for the provisions related to long-term equity incentives under our 2007 Plan. As required by applicable securities laws, we have included a summary of these arrangements as they existed as of the end of our fiscal year 2008 (that is, as of January 30, 2009) under the "Potential Payments upon Termination or Change-in-Control as of January 30, 2009" discussion below. However, effective April 1, 2009, we entered into new employment agreements with each of our named executive officers, other than Messrs. Dreiling and Bere. These new employment agreements contain substantially all of the same terms as the employment agreements that were in effect on January 30, 2009, with the following exceptions:

- The definition of "good reason" has been revised (1) to exclude our failure to continue any significant compensation plan or benefit without replacing it with a similar plan or a compensation equivalent if such action is in connection with across-the-board changes or terminations similarly affecting 100 percent of officers at the same grade level; and (2) to clarify that the assignment to the executive by us of duties inconsistent with, or the significant reduction of the title, powers and functions associated with, the officer's position, title or office as described in the employment agreement, unless such action is the result of a restructuring or realignment of duties and responsibilities by us, for business reasons, that leaves the officer at the same rate of base salary and annual target bonus opportunity (the prior employment agreements only referred to "compensation"), and officer level and with a similar level of responsibility, or unless such action is the result of the officer's failure to meet pre-established and objective performance criteria;

- The definition of "cause" as set forth in each employment agreement has been modified to include (1) any material act of misconduct relating to the officer's performance of his or her duties under the agreement; (2) any material violation of our Code of Business Conduct and Ethics (or the equivalent code in place at that time); or (3) the officer's willful or repeated refusal or failure substantially to perform the officer's material obligations and duties thereunder or those reasonably directed by the officer's supervisor, the CEO and/or the Board (except in connection with a disability);

- If we fail to offer to renew, extend or replace the named executive officer's employment agreement before, at or within 6 months (the prior employment agreements required only 60 days) after the end of the agreement's term (unless we enter into a mutually acceptable severance arrangement or the resignation is a result of the named executive officer's voluntary retirement or termination), and the officer resigns within 60 days after any such failure, the officer will be entitled to the same severance payments and benefits to which he or she would be entitled upon a termination of employment without cause by us or for good reason by the officer;

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Upon a termination of employment without cause by us or for good reason by the officer (or upon any resignation by the officer for the reasons described in the immediately preceding paragraph), instead of a lump sum payment equal to 2 times the named executive officer's target incentive bonus then in effect, the officer will instead be entitled to receive a lump sum payment equal to 2 times the amount of the average percentage of target bonus paid or to be paid to employees at the same job grade level as the named executive officer (if any) under the annual bonus programs for officers for Dollar General's two fiscal years immediately preceding the fiscal year in which the termination date occurs;

Upon a termination of employment without cause by us or for good reason by the officer (or upon any resignation by the officer for the reasons described in the third paragraph above), the lump sum payment equal to 2 times the annual contribution that we would have made in respect of the plan year in which the officer's termination of employment occurs for the officer's participation in our medial, dental and vision benefits program also now includes for the officer's participation in our pharmacy benefits program;

Most importantly, if the named executive officer is involuntarily terminated without cause or resigns for good reason at any time on or after a change-in-control of Dollar General, so long as the employment agreement remains in effect, he or she will receive the same severance payments and benefits as described under "Voluntary Termination with Good Reason or After Failure to Renew the Employment Agreement", absent a change-in-control occurring (that is, the new employment agreements do not contain the special severance payment due upon such a termination of employment that occurs within the two-year period following any change-in-control); consequently, there is also now no definition of "change-in-control" of our company that applies in the employment agreements, other than as described in the immediately following paragraph;

If any payments or benefits provided to the officer in connection with a change-in-control (as defined in Section 280G of the Code) would be subject to the "golden parachute" excise tax under federal income tax rules, we will pay an additional amount to the named executive officer to cover the excise tax and any other excise and income taxes resulting from this payment. However, if after receiving this payment the named executive officer's after-tax benefit would not be at least $50,000 (in the prior employment agreements, this limit was $25,000) more than it would be without this payment, then this payment will not be made and the severance and other benefits due to the named executive officer will be reduced so that the golden parachute excise tax is not incurred.

Payments to Mr. Buley and Ms. Lowe in Connection with Employment Separation

Mr. Buley's and Ms. Lowe's employment with us ended in April 2008 and September 2008, respectively. Payments and other benefits to Mr. Buley and Ms. Lowe in connection with these employment terminations are itemized under "Potential Payments Upon Termination or Change-in-Control as of January 30, 2009" below and generally were in accordance with the terms of their employment agreements. In recognition of her service to Dollar General, we transferred to Ms. Lowe title to her Company-leased automobile in connection with her separation from our employment. In addition, we extended health insurance coverage benefits to Ms. Lowe and her eligible dependents from the date of her employment termination through December 31, 2008. Ms. Lowe bore the entire cost of this coverage extension.

Considerations Associated with Regulatory Requirements

Section 162(m) of the Internal Revenue Code generally disallows a tax deduction to any publicly held corporation for individual compensation over $1 million paid in any taxable year to each of the

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persons who were, at the end of the fiscal year, the Company's CEO or one of the other named executive officers (other than our Chief Financial Officer). Section 162(m) specifically exempts certain performance-based compensation from the deduction limit.

Prior to our 2007 merger, our policy historically was, generally, to design our compensation plans and programs to ensure full deductibility. The Compensation Committee attempted to balance this policy with compensation programs designed to motivate management to maximize shareholder value. After the offering is completed, if our Compensation Committee determines that the shareholders' interests are best served by the implementation of compensation policies that are affected by Section 162(m), our policies will not restrict the Compensation Committee from exercising discretion to approve compensation packages even though that flexibility may result in certain non-deductible compensation expenses.

Our 2007 Plan will be amended and restated before the completion of the offering and will be approved by our current shareholders. We believe this Plan will satisfy the requirements of Section 162(m), so that compensation expense realized in connection with stock options and stock appreciation rights, and in connection with performance-based restricted stock and restricted stock unit awards, will be deductible. However, restricted stock or restricted stock units granted to executive officers that solely vest over time are not "performance-based" compensation under Section 162(m), so that compensation expense realized in connection with those time-vested awards to executive officers covered by Section 162(m) will not be deductible by the Company.

In addition, any salary, signing bonuses or other annual compensation paid or imputed to the executive officers covered by Section 162(m) that causes non-performance-based compensation to exceed the $1 million limit will not be deductible by the Company.

The Compensation Committee administers our compensation programs with the good faith intention of complying with Section 409A of the Internal Revenue Code, which relates to the taxation of nonqualified deferred compensation arrangements.

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Summary Compensation Table

The following table summarizes compensation paid to or earned by our named executive officers in each of fiscal 2008, fiscal 2007 and fiscal 2006. We have omitted from this table the column for Change in Pension Value and Nonqualified Deferred Compensation Earnings as no amounts are required to be reported in such column for any named executive officer.

Name and Principal Position(1)	Year	Salary ($)(2)	Bonus ($)(3)	Stock Awards ($)(4)	Option Awards ($)(5)	Non-Equity Incentive Plan Compensation ($)(6)	All Other Compensation ($)	Total ($)
Richard W. Dreiling,	2008	1,000,038		1,103,306	1,395,576	2,176,300	343,397(7)	6,018,617
Chairman & Chief Executive Officer	2007	34,615						