

DG Transportation, Inc.  
Form 424B3  
March 24, 2009

**Filed Pursuant to Rule 424(b)(3)**

**Registration Nos. 333-150096, 333-150096-01 to 333-150096-08 and**

**333-150096-12 to 333-155096-16**

DOLLAR GENERAL CORPORATION

SUPPLEMENT NO. 10 TO

MARKET MAKING PROSPECTUS DATED

APRIL 16, 2008

THE DATE OF THIS SUPPLEMENT IS MARCH 24, 2009

On March 24, 2009, Dollar General Corporation filed the attached Annual Report on Form 10-K for the fiscal year ended January 30, 2009.

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended January 30, 2009

Commission file number: 001-11421

**DOLLAR GENERAL CORPORATION**

*(Exact name of registrant as specified in its charter)*

**TENNESSEE**

*(State or other jurisdiction of  
incorporation or organization)*

**61-0502302**

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

**100 MISSION RIDGE**

**GOODLETTSVILLE, TN 37072**

*(Address of principal executive offices, zip code)*

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

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  
Yes [ ] No [X]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes [ ] No [X]

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

The aggregate fair market value of the registrant's common stock outstanding and held by non-affiliates as of August 1, 2008 was \$3,230,750, all of which was owned by employees of the registrant and not traded on a public market. For this purpose, directors, executive officers and greater than 10% record shareholders are considered the affiliates of the registrant.

The registrant had 556,227,947 shares of common stock outstanding on March 17, 2009.

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## INTRODUCTION

### General

This report contains references to years 2009, 2008, 2007, 2006, 2005 and 2004, which represent fiscal years ending or ended January 29, 2010, January 30, 2009, February 1, 2008, February 2, 2007, February 3, 2006 and January 28, 2005, respectively. All of the discussion and analysis in this report should be read with, and is qualified in its entirety by, the Consolidated Financial Statements and related notes.

### Forward Looking Statements

Forward-looking statements within the meaning of the federal securities laws are included throughout this report, particularly under the headings Business and Management's Discussion and Analysis of Financial Condition and Results of Operations, among others. You can identify these statements because they are not solely statements of historical fact or they use words such as may, will, should, believe, anticipate, project, plan, expect, estimate, objective, forecast, goal, intend, will likely result, or will continue and similar expressions that concern our future plans or intentions. For example, all statements relating to our estimated and projected earnings, costs, expenditures, cash flows and financial results, our plans and objectives for future operations, growth or initiatives, 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 change at any time, so our actual results may differ materially from those that we expected. We derive many of these statements from our operating budgets and forecasts, which are based on many detailed assumptions that we believe are reasonable. However, it is very difficult to predict the impact of known factors, and we cannot anticipate all factors that could affect our actual results. Important factors that could cause actual results to differ materially from the expectations expressed in our forward-looking statements are disclosed under Risk Factors in Part I, Item 1A and elsewhere in this document (including, without limitation, in conjunction with the forward-looking statements themselves and under the heading Critical Accounting Policies and Estimates). All written and oral forward-looking statements we make in the future are expressly qualified in their entirety by these cautionary statements as well as other cautionary statements that we make from time to time in our other SEC filings and public communications. You should evaluate all of our forward-looking statements in the context of these risks and uncertainties.

The forward-looking statements included in this report are made only as of the date hereof. We undertake no obligation to publicly update or revise any forward-looking statement as a result of new information, future events or otherwise, except as otherwise required by law.



**PART I**

**ITEM 1.**

**BUSINESS**

**General**

We are the largest discount retailer in the United States by number of stores, with 8,414 stores located in 35 states, primarily in the southern, southwestern, midwestern and eastern United States, as of February 27, 2009. We serve a broad customer base and offer a focused assortment of everyday items, including basic consumable merchandise and other home, apparel and seasonal products. A majority of our products are priced at \$10 or less and approximately 25% of our products are priced at \$1 or less.

We offer a compelling value proposition for our customers based on convenient store locations, easy in and out shopping and quality name brand and private brand merchandise at highly competitive everyday low prices. We believe our combination of value and convenience distinguishes us from other discount, convenience and drugstore retailers, who typically focus on either value or convenience. Our business model is focused on strong and sustainable sales growth, attractive margins, and limited maintenance capital expenditure and working capital needs, which, in combination, result in significant cash flow from operations (before interest).

We were founded in 1939 as J.L. Turner and Son, Wholesale. We opened our first dollar 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 as a Tennessee corporation in 1998. In 2007, we entered into a merger transaction with an entity controlled by investment funds affiliated with Kohlberg Kravis Roberts & Co., L.P. ( KKR or Sponsor ), as discussed in more detail under Our 2007 Merger below.

We have increased our total number of stores from 6,700 on January 30, 2004, to 8,362 on January 30, 2009, a 4.5% compounded annual growth rate ( CAGR ). Over the same period, we grew our net sales from \$6.9 billion to \$10.5 billion (8.8% CAGR), driven by growth in number of stores as well as same store sales growth. We slowed new store growth in 2007 and 2008 and closed approximately 400 stores in 2007 to improve our profitability and to enable us to focus on improving the performance of existing stores. In 2008, we opened 207 new stores, closed 39 stores, and relocated or remodeled 404 existing stores. Net sales in 2008 were driven primarily by a same-store sales increase of 9.0%. See our Consolidated Financial Statements for net sales and net income (loss) for each of our last three fiscal years and total assets for each of our last two fiscal years. We intend to accelerate our new store growth in 2009 with plans to open approximately 450 new stores and to remodel or relocate approximately 400 stores.

**Our 2007 Merger**

On July 6, 2007, we completed a merger (the 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 KKR. KKR, GS Capital Partners VI Fund, L.P. and affiliated funds (affiliates of Goldman, Sachs & Co.), Citi Private Equity, Wellington Management



Company, LLP, CPP Investment Board (USRE II) Inc., and other equity co-investors (collectively, the Investors ) indirectly own a substantial portion of our capital stock through their investment in Parent.

As a result of the Merger, our outstanding common stock is now owned by Parent and certain members of management. Our common stock is not registered with the Securities and Exchange Commission ( SEC ) and is not traded on a national securities exchange.

We entered into the following debt financings in conjunction with the Merger:

We entered into a credit agreement and related security and other agreements consisting of a \$2.3 billion senior secured term loan facility, which matures on July 6, 2014 (the Term Loan Facility ).

We entered into a credit agreement and related security and other agreements consisting of a senior secured asset-based revolving credit facility of up to \$1.125 billion (of which \$432.3 million was drawn at closing and \$132.3 million was paid down on the same day), subject to borrowing base availability, which matures July 6, 2013 (the ABL Facility and, with the Term Loan Facility, the Credit Facilities ).

We issued \$1.175 billion aggregate principal amount of 10.625% senior notes due 2015, which mature on July 15, 2015, and \$725 million aggregate principal amount of 11.875%/12.625% senior subordinated toggle notes due 2017, which mature on July 15, 2017. We repurchased \$25.0 million and \$44.1 million of the senior subordinated toggle notes in the fourth quarter of fiscal 2007 and in the fourth quarter of fiscal 2008, respectively.

Accounting periods before and after the Merger are referred to as the Predecessor and Successor, respectively.

### **Overall Business Strategy**

Our mission is Serving Others. To carry out this mission, we have developed a business strategy of providing our customers with a focused assortment of everyday low priced merchandise in a convenient, small-store format.

*Our Customers.* In general, we locate our stores and base our merchandise selection on the needs of households seeking value and convenience, with an emphasis on rural and small markets. However, much of our merchandise, intended to serve the basic consumable, household, apparel and seasonal needs of these targeted customers, also appeals to a much broader and higher income customer base.

*Our Stores.* The traditional Dollar General® store has, on average, approximately 7,000 square feet of selling space and generally serves customers who live within three miles of the store. Of our 8,414 stores operating as of February 27, 2009, more than 60% serve communities

with populations of 20,000 or less. We believe that our target customers prefer the convenience of a small, neighborhood store with a focused merchandise assortment at value prices.

*Our Merchandise.* Our merchandising strategy combines a low-cost operating structure with a focused assortment of products, consisting of quality basic consumable, household, apparel and seasonal merchandise at competitive everyday low prices. Our strategic combination of name brands, quality private brand products and other great value brands allows us to offer our customers a compelling value proposition. We believe our merchandising strategy and focused assortment generate frequent repeat customer purchases and encourage customers to shop at our stores for their everyday household needs.

*Our Prices.* We distribute quality, consumable merchandise at everyday low prices. Our strategy of maintaining a low-cost operating structure and a focused assortment of merchandise allows us to offer quality merchandise at competitive prices. As part of this strategy, we emphasize even-dollar prices on many of our items. In the typical Dollar General store, the majority of the products are priced at \$10 or less, with approximately 25% of the products priced at \$1 or less.

*Our Cost Controls.* We aggressively manage our overhead cost structure and generally seek to locate stores in neighborhoods where rental and operating costs are relatively low. Our stores typically have low fixed costs, including lean staffing. In recent years, we implemented EZstore<sup>™</sup>, our proprietary process designed to improve inventory flow from our distribution centers, or DCs, to consumers. The EZstore process has allowed us to reallocate store labor hours to more customer-focused activities, improving the work content in our stores.

We also attempt to control operating costs by implementing new technology when feasible. In recent years we have improved our store labor scheduling, store replenishment, and our supply chain and warehousing systems. We are in the process of expanding our technological capabilities by installing store computers throughout the chain. This initiative is expected to improve store communications and execution and reduce costs.

*Strategic Initiatives Project Alpha.* In 2007, we executed strategic initiatives launched in the fourth quarter of 2006 aimed at improving our merchandising and real estate strategies, which we refer to collectively as Project Alpha. Project Alpha was based upon a comprehensive analysis of the performance of each of our stores and the impact of our inventory management model on our ability to effectively serve our customers.

The execution of this merchandising initiative has moved us away from our traditional inventory packaway model, where unsold seasonal, apparel and home products inventory items were stored on-site and returned to the sales floor until the items were eventually sold, damaged or discarded. In connection with this initiative, in fiscal 2007 we began taking end-of-season markdowns on current-year non-replenishable merchandise. With limited and planned exceptions, we eliminated, through end-of-season and other markdowns, our seasonal, home products and basic clothing packaway merchandise and out of season current year merchandise by the end of fiscal 2007. In addition to allowing us to carry newer, fresher merchandise, particularly in our seasonal, apparel and home categories, we believe

this strategy change has

enhanced the appearance of our stores and has positively impacted customer satisfaction as well as our store employees' ability to manage stores.

Project Alpha also encompassed significant improvements to our real estate practices. We have integrated the functions of site selection, lease renewals, relocations, remodels and store closings and have defined and are implementing rigorous analytical processes for decision-making in those areas. As a first step in our initiative to revitalize our store base, we performed a comprehensive real estate review resulting in the identification of approximately 400 underperforming stores, all of which we closed by mid-2007. These closings were in addition to stores that are typically closed in the normal course of business, which over the last 10 years constituted approximately 1% to 2% of our store base per year. In 2008, our store closings were more in line with historic levels, as we closed 39 stores. As part of Project Alpha, we moderated our new store growth rate beginning in 2007 to enable us to focus on improving the performance of existing stores, including increasing the number of store remodels and relocations in order to improve productivity and enhance the shopping experience for our customers. We intend to accelerate our new store growth in 2009 by opening approximately 450 new stores and remodeling or relocating approximately 400 stores.

As a result of opening new stores and remodeling existing stores, as of February 27, 2009, approximately 1,600 stores are operating in our racetrack format, which is designed with improved merchandise adjacencies and wider, more open aisles to enhance the overall guest shopping experience. We plan to continue to review and refine all of our existing store layouts, including the racetrack format, as well as test new layouts to further drive sales growth and margin enhancements through improved merchandising.

## **Our Industry**

We compete in the deep discount segment of the U.S. retail industry. Our competitors include traditional dollar stores, as well as other retailers offering discounted convenience items. The dollar store sector differentiates itself from other forms of retailing in the deep discount segment by offering consistently low prices in a convenient, small-store format. Unlike other formats that have suffered with the rise of Wal-Mart and other discount supercenters, the dollar store sector has grown despite the presence of the discount supercenters. We believe it is our substantial convenience advantage, at prices comparable to those of supercenters, that allows Dollar General to compete so effectively.

We believe that there is considerable room for growth in the dollar store sector. According to data from Nielsen Homescan Panel ( Nielsen ), dollar stores have been able to increase their penetration across all income brackets in recent years, climbing from 45% in 1997 to 64% in 2008. Though traditional dollar stores have high customer penetration, according to Nielsen the sector as a whole accounts for only approximately 1.5% of retail spending, which we believe leaves ample room for growth. Our merchandising initiatives are aimed at increasing our stores share of customer spending.

See **Our Competitive Strengths** and **Competition** below for additional information regarding our competitive situation.



## **Our Competitive Strengths**

*Market Leader in an Attractive Sector with a Growing Customer Base.* We are the largest discount retailer in the U.S. by number of stores, with 8,414 stores in 35 states as of February 27, 2009. We are the largest player in the U.S. small box deep discount segment based on sales. We believe we are well positioned to further increase our market share as we continue to execute our business strategy and implement our operational initiatives. Our target customers are those seeking value and convenience. According to Nielsen, recent trip consolidation has caused decreased total outlet trips per shopper by approximately 2.5%. At the same time the dollar store channel grew trips per shopper by approximately 2.5%, faster than any other retail channel and the only channel other than warehouse clubs that increased trips per shopper.

*Consistent Sales Growth and Strong Cash Flow Generation.* For 19 consecutive years, we have experienced positive annual same store sales growth. Approximately two-thirds of our net sales come from the sale of consumable products, which are less susceptible to economic pressures (such as increased fuel costs and unemployment), with the remaining one-third comprised mainly of seasonal, basic clothing and home products which are subject to little trend or fashion risk. We have a low cost operating model with attractive operating margins, low capital expenditures and low working capital needs, resulting in generation of significant cash flow from operations (before interest).

*Differentiated Value Proposition.* Our ability to deliver highly competitive everyday low prices in a convenient location and shopping format provides our customers with a compelling shopping experience and distinguishes us from other discount retailers, as well as from convenience and drugstore retailers.

*Compelling Unit Economics.* The traditional Dollar General store size, design and location requires an initial investment for fixtures, equipment, signage and inventory of approximately \$230,000. The low initial investment and maintenance capital expenditures, when combined with strong average unit volumes, provide for a quick recovery of store start-up costs. The ability of our successful stores to generate strong cash flows with minimal investment often results in a short payback period.

*Efficient Supply Chain.* We believe our distribution network is an integral component of our efforts to reduce transportation expenses and effectively support our growth. In recent years, we have made significant investments in technological improvements and upgrades which have increased our efficiency and capacity to support our merchandising and operations initiatives and new store growth.

*Experienced Management Team.* In January 2008, we hired Richard Dreiling, who has 39 years of retail experience, to serve as our Chief Executive Officer. Over the past several years we strengthened our management team with the hiring of David Beré, our President and Chief Strategy Officer, and Todd Vasos, our Executive Vice President, Division President and Chief Merchandising Officer. We also replaced a majority of our senior merchandising and real estate teams.





## 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 the current fiscal year as well as each of the quarters of the two 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).

<i>(in millions)</i>	<b>1<sup>st</sup> Quarter</b>	<b>2<sup>nd</sup> Quarter</b>	<b>3<sup>rd</sup> Quarter</b>	<b>4<sup>th</sup> Quarter</b>
<b>Year Ended January 30, 2009</b>				
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
<b>Year Ended February 1, 2008(a)</b>				
Net sales	2,275.3	(a)	2,312.8	2,559.6
Gross profit (b)	633.1	(a)	646.8	740.4
Net income (loss) (b)	34.9	(a)	(33.0)	55.4
<b>Year Ended February 2, 2007</b>				
Net sales	2,151.4	2,251.1	2,213.4	2,554.0
Gross profit (b)	584.3	611.5	526.4	646.0
Net income (loss) (b)	47.7	45.5	(5.3)	50.1

(a)

The Merger was completed during the second quarter of 2007. Net sales, Gross profit, and Net (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 (its formation) through July 6, 2007 (reflecting the change in fair value of interest rate swaps).

(b)

Results for the 3<sup>rd</sup> and 4<sup>th</sup> quarters of 2006 and all of 2007 reflect the impact of certain strategic real estate and inventory management initiatives as discussed above in Overall Business Strategy.

### **Merchandise**

We separate our merchandise into the following four categories for reporting purposes: highly consumable, seasonal, home products, and basic clothing. Highly consumable consists of packaged food, candy, snacks and refrigerated products, health and beauty aids, home cleaning supplies and pet supplies; seasonal consists of seasonal and holiday-related items, toys, stationery and hardware; home products consists of housewares and domestics; and basic

clothing consists of casual everyday apparel. The percentage of net sales of each of our four categories of merchandise for the period indicated below was as follows:

	2008	2007	2006
Highly consumable	69.3 %	66.5 %	65.7 %
Seasonal	14.6 %	15.9 %	16.4 %
Home products	8.2 %	9.2 %	10.0 %
Basic clothing	7.9 %	8.4 %	7.9 %

Our home products and seasonal categories typically account for the highest gross profit margin, and the highly consumable category typically accounts for the lowest gross profit margin.

We currently maintain approximately 7,300 core stock-keeping units, or SKUs, per store and an additional 3,200 non-core SKUs that get rotated in and out of the store over the course of a year.

We purchase our merchandise from a wide variety of 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. We directly imported approximately 10% of our purchases at cost (14% at retail) in 2008.

### **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 two or more sales clerks. Approximately 53% are in freestanding buildings, 45% of our stores are located in strip shopping centers and 2% are in downtown buildings. We attempt to locate primarily in small towns or in neighborhoods of more densely populated areas where occupancy expenses are relatively low.

We generally have not encountered difficulty locating suitable store sites in the past, and although management does not currently anticipate experiencing material difficulty in finding future suitable locations, the current conditions in the real estate and financing markets could make this process more difficult than in recent years.



Our recent store growth is summarized in the following table:

<b>Year</b>	<b>Stores at Beginning of Year</b>	<b>Stores Opened</b>	<b>Stores Closed (a)</b>	<b>Net Store Increase/(Decrease)</b>	<b>Stores at End of Year</b>
2006	7,929	537	237	300	8,229
2007	8,229	365	400	(35)	8,194
2008	8,194	207	39	168	8,362

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

## **Employees**

As of February 27, 2009, we employed approximately 72,500 full-time and part-time employees, including divisional and regional managers, district managers, store managers, and DC and administrative personnel. Management believes our relationship with our employees is generally good, and we currently are not a party to any collective bargaining agreements.

## **Competition**

We operate in the discount retail merchandise business, 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 in the dollar store retail category include Family Dollar, Dollar Tree, Fred's, 99 Cents Only and various local, independent operators. Competitors from other retail categories include 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.

The dollar store category differentiates itself 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 in the dollar store retail category and our focused assortment of merchandise.

## **Trademarks**

We own marks that are registered with the United States Patent and Trademark Office, including 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.

## Available Information

Our Web site address is [www.dollargeneral.com](http://www.dollargeneral.com). We make available through this address, without charge, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after they are electronically filed or furnished to the SEC.

## ITEM 1A.

### RISK FACTORS

Investing in our securities involves a degree of risk. Persons buying our securities should carefully consider the risks described below and the other information contained in this report and other filings that we make from time to time with the SEC, including our consolidated financial statements and accompanying notes. Any of the following risks could materially and adversely affect our business, financial condition or results of operations. In addition, the risks described below are not the only risks we face. Our business, financial condition or results of operations could also be adversely affected by additional factors that apply to all companies generally, as well as other risks that are not currently known to us or that we currently view to be immaterial. In any such case, the trading price of our securities could decline or we may not be able to make payments of principal and interest on our outstanding notes, and you may lose all or part of your original investment. While we attempt to mitigate known risks to the extent we believe to be practicable and reasonable, we can provide no assurance, and we make no representation, that our mitigation efforts will be successful.

**The fact that we have substantial debt could adversely affect our ability to raise additional capital to fund our operations, limit our ability to react to changes in the economy or our industry, expose us to interest rate risk to the extent of our variable rate debt and prevent us from meeting our obligations under our outstanding debt securities.**

We have substantial debt which could have important consequences, including:

·  
increasing difficulty in making payments on our outstanding debt;

·  
increasing our vulnerability to general economic and industry conditions;

.

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;

.

exposing us to the risk of interest rate fluctuations as certain of our borrowings bear interest based on market interest rates;

.

limiting our ability to obtain additional financing for working capital, capital expenditures, debt service requirements, acquisitions and general corporate or other purposes; and



limiting our ability to adjust to changing market conditions and placing us at a competitive disadvantage compared to our competitors who are less highly leveraged.

In addition, the borrowings under 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. We and our subsidiaries may be able to incur substantial additional indebtedness in the future, subject to the restrictions contained in our Credit Facilities and the indentures governing our debt securities. If new indebtedness is added to our current debt levels, the related risks that we now face could intensify.

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

Our Credit Facilities and the indentures governing our debt securities contain various covenants that 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 debt securities. 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 ABL Facility will, if excess availability under that facility is less than a certain amount, be subject to the satisfaction of a specified financial ratio. 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.

**General economic factors may adversely affect our financial performance and other aspects of our business.**

A further slowdown in the economy or other economic conditions affecting disposable consumer income, such as unemployment levels, inflation, business conditions, fuel and other energy costs, consumer debt levels, lack of available credit, interest rates, tax rates and changes in tax laws, may adversely affect our business by reducing overall consumer spending or by causing customers 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 sales and our selling, general and administrative expenses, and we have no control or limited ability to control such factors.

In addition, many of the factors discussed above, along with current 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 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 impacts which we are unable to fully anticipate. See also our disclosures under Part II, Item 7A. Quantitative and Qualitative Disclosures About Market Risk below.

**Our plans depend significantly on initiatives designed to 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 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. 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 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. 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. We directly imported approximately 10% of our purchases 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, labor problems experienced by our suppliers, the availability 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. 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.

All of our vendors must comply with applicable product safety laws, and we are dependent on them to ensure that the products we buy comply with all safety standards. 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.

As we increase our imports of merchandise from foreign vendors, the risks associated with foreign imports will increase.

**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. 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 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 the disclosure under the heading *Legal Proceedings* in Note 8 to the Consolidated Financial Statements herein for further details regarding certain of these pending matters.

**Failure to attract and retain qualified employees 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. Our ability to meet our labor needs, while controlling our labor costs, is subject to many external factors, including the 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 is constrained.

Also, our stores are decentralized and are managed through a network of geographically dispersed management personnel. Our inability to effectively and efficiently operate our stores, including the ability to control losses resulting from inventory and cash shrinkage, may negatively affect our sales and/or operating margins.





**We are dependent upon the smooth functioning of our distribution network, the capacity of our distribution centers, and the timely receipt of inventory.**

We rely upon the ability to replenish depleted inventory through deliveries to our distribution centers from vendors and from the distribution centers to our stores by various means of transportation, including shipments by sea and truck. Labor shortages in the transportation industry could negatively affect transportation costs. In addition, long-term disruptions to the national and international transportation infrastructure that lead to delays or interruptions of service would adversely affect our business.

**Our planned future growth will be impeded, which would adversely affect sales, if we cannot open new stores on schedule or if we close a number of stores materially in excess of anticipated levels.**

Our growth is dependent on both increases in sales in existing stores and the ability to open profitable new stores. 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; 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. 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. A seasonal merchandise inventory imbalance could result if our net sales during the Christmas selling season were to fall below either seasonal norms or expectations. If our fourth quarter 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 discount retail merchandise business, 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 discount retail merchandise sector (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, grocery, drug, convenience, variety and other specialty stores. Certain of our competitors have greater financial, distribution, marketing and other resources than we do. 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. See **Business Our Industry**, **Competitive Strengths**, and **Competition** for additional discussion of our competitive situation.

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 the dollar store industry in a significant way. Generally, we expect an increase in competition.

**Natural disasters, unusually adverse weather conditions, pandemic outbreaks, boycotts and geo-political events could adversely affect our financial performance.**

The occurrence of one or more natural disasters, such as hurricanes and earthquakes, unusually adverse weather conditions, pandemic outbreaks, boycotts and geo-political events, such as civil unrest in countries in which our suppliers are located and acts of terrorism, or similar disruptions could adversely affect our operations and financial performance. These events could result in physical damage to one or more of our properties, increases in fuel (or other energy) prices or a fuel shortage, the temporary or permanent closure of one or more of our stores or distribution centers, 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 following a destructive hurricane season. These factors could otherwise disrupt and adversely affect our operations and financial performance.

**The efficient operation of our business is heavily dependent upon our information systems.**

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 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 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.

**The Investors control us and may have conflicts of interest with us now or in the future.**

The Investors indirectly own, through their investment in Parent, a substantial portion of our common stock. As a result, the Investors 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. For example, the Investors could cause us to make acquisitions that increase the amount of indebtedness that is secured or that is senior to our outstanding notes or to sell assets, which may impair our ability to make payments under our outstanding notes.

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.



**ITEM 2.****PROPERTIES**

As of February 27, 2009, we operated 8,414 retail stores located in 35 states as follows:

<b>State</b>	<b>Number of Stores</b>	<b>State</b>	<b>Number of Stores</b>
Alabama	465	Nebraska	80
Arizona	52	New Jersey	22
Arkansas	227	New Mexico	42
Colorado	21	New York	232
Delaware	23	North Carolina	487
Florida	424	Ohio	473
Georgia	476	Oklahoma	276
Illinois	307	Pennsylvania	399
Indiana	318	South Carolina	333
Iowa	171	South Dakota	12
Kansas	145	Tennessee	419
Kentucky	309	Texas	983
Louisiana	332	Utah	9
Maryland	57	Vermont	4
Michigan	237	Virginia	248
Minnesota	16	West Virginia	153
Mississippi	266	Wisconsin	85
Missouri	311		

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 February 27, 2009, we operated nine distribution centers, as described in the following table:

<b>Location</b>	<b>Year Opened</b>	<b>Approximate Square Footage</b>	<b>Approximate Number of Stores Served</b>
Scottsville, KY	1959	720,000	930

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Ardmore, OK	1994	1,310,000	1,236
South Boston, VA	1997	1,250,000	806
Indianola, MS	1998	820,000	833
Fulton, MO	1999	1,150,000	1,099
Alachua, FL	2000	980,000	777
Zanesville, OH	2001	1,170,000	1,145
Jonesville, SC	2005	1,120,000	759
Marion, IN	2006	1,110,000	829

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.

**ITEM 3.**

**LEGAL PROCEEDINGS**

The information contained in Note 8 to the consolidated financial statements under the heading Legal proceedings contained in Part II, Item 8 of this report is incorporated herein by this reference.

**ITEM 4.**

**SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

No matters were submitted to a vote of shareholders during the fourth quarter of 2008.

**PART II**

**ITEM 5.**

**MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

Our outstanding common stock is privately held, and there is no established public trading market for our common stock. There were approximately 188 shareholders of record of our common stock as of March 17, 2009.

Our Board of Directors declared a quarterly 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. Our Board of Directors did not declare a dividend thereafter. See Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources for a description of the restrictions on our ability to pay dividends.



**ITEM 6.**

**SELECTED FINANCIAL DATA**

The following table sets forth selected consolidated financial information of Dollar General Corporation as of the dates and for the periods indicated. 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 have been derived from our historical audited consolidated financial statements included elsewhere in this report. 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 have been derived from audited consolidated financial statements not included in this report.

On July 6, 2007, we completed a merger (the Merger) and, as a result, we are a subsidiary of a Delaware limited partnership controlled by investment funds affiliated with Kohlberg Kravis Roberts & Co., L.P. As a result of the Merger of the Company and Buck Acquisition Corp. ( Buck ), 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 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 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 Merger and related transactions that occurred in 2007, the 2008 and 2007 Successor financial information is not comparable to that of the Predecessor periods presented in the accompanying table.

The information set forth below should be read in conjunction with, and is qualified by reference to, the Consolidated Financial Statements and related notes included in Part II, Item 8 of this report and the Management's Discussion and Analysis of Financial Condition and Results of Operations included in Part II, Item 7 of this report.

	Successor			Predecessor		
	Year Ended		February	Year Ended		
<i>(Amounts in millions, excluding number of stores, selling square feet, and net sales per square foot)</i>	January 30, 2009	March 6, 2007 through February 1, 2008(1)(2)	3, 2007 through July 6, 2007(2)	February 2, 2007(2)	February 3, 2006(3)	January 28, 2005
<b>Statement of Operations Data:</b>						
Net sales	\$ 10,457.7	\$ 5,571.5	\$ 3,923.8	\$ 9,169.8	\$ 8,582.2	\$ 7,660.9
Cost of goods sold	7,396.6	3,999.6	2,852.2	6,801.6	6,117.4	5,397.7
Gross profit	3,061.1	1,571.9	1,071.6	2,368.2	2,464.8	2,263.2
Selling, general and administrative	2,448.6	1,324.5	960.9	2,119.9	1,903.0	1,706.2
Litigation settlement and related costs, net	32.0	-	-	-	-	-
Transaction and related costs	-	1.2	101.4	-	-	-
Operating profit	580.5	246.1	9.2	248.3	561.9	557.0
Interest income	(3.1)	(3.8)	(5.0)	(7.0)	(9.0)	(6.6)
Interest expense	391.9	252.9	10.3	34.9	26.2	28.8
Other (income) expense	(2.8)	3.6	-	-	-	-
Income (loss) before income taxes	194.4	(6.6)	4.0	220.4	544.6	534.8
Income tax expense (benefit)	86.2	(1.8)	12.0	82.4	194.5	190.6
Net income (loss)	\$ 108.2	\$ (4.8)	\$ (8.0)	\$ 137.9	\$ 350.2	\$ 344.2
<b>Statement of Cash Flows Data:</b>						
Net cash provided by (used in):						
Operating activities	\$ 575.2	\$ 239.6	\$ 201.9	\$ 405.4	\$ 555.5	\$ 391.5
Investing activities	(152.6)	(6,848.4)	(66.9)	(282.0)	(264.4)	(259.2)
Financing activities	(144.8)	6,709.0	25.3	(134.7)	(323.3)	(245.4)
Total capital expenditures	(205.5)	(83.6)	(56.2)	(261.5)	(284.1)	(288.3)

**Other Financial  
and Operating  
Data:**

Same store sales growth (4)	9.0%	1.9%	2.6%	3.3%	2.2%	3.2%
Same store sales (4)	\$ 10,118.5	\$ 5,264.2	\$ 3,656.6	\$ 8,327.2	\$ 7,555.8	\$ 6,589.0
Number of stores included in same store sales calculation	8,153	7,735	7,655	7,627	7,186	5,932
Number of stores (at period end)	8,362	8,194	8,205	8,229	7,929	7,320
Selling square feet (in thousands at period end)	58,803	57,376	57,379	57,299	54,753	50,015
Net sales per square foot (5)	\$ 179.7	\$ 165.4	\$ 163.9	\$ 162.6	\$ 159.8	\$ 159.6
Highly consumable sales	69.3%	66.4%	66.7%	65.7%	65.3%	63.0%
Seasonal sales	14.6%	16.3%	15.4%	16.4%	15.7%	16.5%
Home product sales	8.2%	9.1%	9.2%	10.0%	10.6%	11.5%
Basic clothing sales	7.9%	8.2%	8.7%	7.9%	8.4%	9.0%
Rent expense	\$ 389.6	\$ 214.5	\$ 150.2	\$ 343.9	\$ 312.3	\$ 268.8

**Balance Sheet  
Data (at period  
end):**

Cash and cash equivalents and short-term investments	\$ 378.0	\$ 119.8		\$ 219.2	\$ 209.5	\$ 275.8
Total assets	8,889.2	8,656.4		3,040.5	2,980.3	2,841.0
Total debt	4,137.1	4,282.0		270.0	278.7	271.3
Total shareholders equity	2,831.7	2,703.9		1,745.7	1,720.8	1,684.5

(1)

Includes the results of Buck for the period prior to the Merger with and into Dollar General Corporation from March 6, 2007 (its 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.

(2)

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

(3)

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

(4)

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. The Company excludes 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 the Company's 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.

## ITEM 7.

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

#### General

*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 2008 and 2006 were 52-week accounting periods. As discussed below, 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 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 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 Merger are discussed separately. This discussion and analysis should be read with, and is qualified in its entirety by, the Consolidated Financial Statements and the notes thereto. It also should be read in conjunction with the Forward-Looking Statements/Risk Factors disclosures set forth in the Introduction and in Item 1A of this report.

*Purpose of Discussion.* We intend for this discussion to provide the reader with information that will assist in understanding our company and the critical economic factors that affect our company. In addition, it should help the reader understand our financial statements, the changes in certain key items in those financial statements from year to year, the primary factors that accounted for those changes, as well as how certain accounting principles affect our financial statements.

#### Our 2007 Merger

On July 6, 2007, we completed a merger (the 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. ( KKR or Sponsor ). KKR, GS Capital Partners VI Fund, L.P. and affiliated funds (affiliates of Goldman, Sachs & Co.), Citi Private Equity, Wellington Management Company, LLP, CPP Investment Board (USRE II) Inc., and other equity co-investors (collectively, the Investors ) indirectly own 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 the debt financings discussed below. Our outstanding common stock is now owned by Parent and certain members of management. Our common stock is no longer registered with the Securities and Exchange Commission ( SEC ) and is no longer traded on a national securities exchange.





We entered into the following debt financings in conjunction with the Merger:

.  
A credit agreement and related security and other agreements consisting of a \$2.3 billion senior secured term loan facility, which matures on July 6, 2014 (the Term Loan Facility ).

.  
A credit agreement and related security and other agreements consisting of a senior secured asset-based revolving credit facility of up to \$1.125 billion subject to borrowing base availability, which matures July 6, 2013 (the ABL Facility and, with the Term Loan Facility, the Credit Facilities ).

.  
\$1.175 billion aggregate principal amount of 10.625% senior notes due 2015, which mature on July 15, 2015, and \$725 million aggregate principal amount of 11.875%/12.625% senior subordinated toggle notes due 2017, which mature on July 15, 2017. We have repurchased \$69.1 million of the senior subordinated toggle notes since the Merger.

## **Executive Overview**

We are the largest discount retailer in the United States by number of stores, with approximately 8,400 stores located in 35 states, primarily in the southern, southwestern, midwestern and eastern United States. We serve a broad customer base and offer a focused assortment of everyday items, including basic consumable merchandise and other home, apparel and seasonal products. A majority of our products are priced at \$10 or less, and approximately 25% of our products are priced at \$1 or less. We seek to offer a compelling value proposition for our customers based on convenient store locations, easy in and out shopping and quality merchandise in a friendly shopping environment at highly competitive prices. We believe our combination of value and convenience distinguishes us from other discount, convenience and drugstore retailers, who typically focus on either value or convenience.

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. It is important for you to read our more detailed discussion of financial and operating results below under Results of Operations. Basis points or bps amounts referred to below are equal to 0.01 percent as a percentage of sales.

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. In 2008, consumers faced severe economic challenges, including high gasoline and fuel costs, rising food costs, increased unemployment, and the downturn in the housing and credit markets. We believe that we benefited to some extent from the impact of consumers searching for good values on their basic purchases.

At the beginning of 2008, we defined four operating priorities as follows: 1) drive productive sales growth, 2) increase our gross margins, 3) leverage process improvements and information technology to reduce costs, and 4) strengthen and expand Dollar General's culture of serving others. These continue to be our principal operating priorities in 2009. Coupled with the changes we made to our operations during the year in connection with these priorities, which are discussed in more detail below, we achieved the following financial highlights in fiscal 2008:

Total sales in fiscal 2008 were \$10.5 billion, a 10.1% increase from 2007. Sales in same-stores increased 9.0% and were 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 highly consumable 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 more timely 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%. This compares to 23.8% in the 2007 Successor period and 24.5% in the 2007 Predecessor period. Our increased sales levels favorably impacted 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.

We recorded litigation expense of \$32 million to reflect the settlement and related expenses, net of insurance proceeds, of a class action lawsuit filed as a result of the Merger in 2007. 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 relates primarily to interest on debt incurred to finance the 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 senior subordinated notes.

For fiscal 2008, we reported net income of \$108.2 million. This compares 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 which included significant costs related to the Merger and other strategic initiatives as more fully described in the discussion below of 2008 vs 2007.

We generated \$575.2 million of cash from operating activities, a portion of which we used to invest in our stores and to reduce long-term obligations. At year end, our cash balance of \$378 million included \$310 million invested in money market funds. Because of uncertainties in the current financial markets, we believe maintaining excess liquidity is prudent.

During 2008, we opened 207 new stores, remodeled or relocated 404 stores, and closed 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.

*Discussion of Operating Priorities.* 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 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 convenience foods and beverages, added new impulse racks at the checkout stands, and expanded our store operating hours. To further increase space utilization, we have begun the process of raising the height of merchandise fixtures in our stores, starting with the food area.

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, 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. In 2008, higher sales volumes contributed to our ability to leverage transportation and distribution costs, and we were able to offset the impact of higher average fuel costs for the year 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 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 communities, this means giving back to our store communities.

In 2009, we plan to continue to focus on these same four operating priorities. We will 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 in 2009. 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. 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. By the end of 2009, we expect each of our store managers to have access to a back office computer which will improve reporting and communications with the stores and, consequently, should assist us in improving store productivity.

Finally, in 2009, we plan to open 450 new stores within the 35 states in which we currently operate, and to remodel or relocate an additional 400 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. With regard to new store expansion in fiscal 2009, our 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 2009's new store sites have been identified and terms agreed to. However, due to uncertainties in the economy and its potential impact on commercial real estate sites and developers, there is a heightened level of risk that these stores may not open as scheduled.

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.

*Key Financial Metrics.* We have identified the following as our most critical financial metrics for 2008 and 2009:

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Same-store sales growth / sales per square foot;

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Gross profit, as a percentage of sales;

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Inventory turnover;

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Cash flow; and

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Earnings before interest, taxes and depreciation and amortization ( EBITDA ).

Readers should refer to the detailed discussion of our operating results below for additional comments on financial performance in the current year periods as compared with the prior year periods.

**Results of Operations**

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

<i>(amounts in millions)</i>	Successor		Predecessor	
	2008	2007(a)	2007(b)	2006(c)
<u>Net sales by category:</u>				
Highly consumable	\$ 7,248.4	\$ 3,701.7	\$ 2,615.1	\$ 6,022.0
<i>% of net sales</i>	69.31%	66.44%	66.65%	65.67%
Seasonal	1,521.5	908.3	604.9	1,510.0
<i>% of net sales</i>	14.55%	16.30%	15.42%	16.47%
Home products	862.2	507.0	362.7	914.4
<i>% of net sales</i>	8.24%	9.10%	9.24%	9.97%
Basic clothing	825.6	454.4	341.0	723.5
<i>% of net sales</i>	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
<i>% of net sales</i>	70.73%	71.79%	72.69%	74.17%
Gross profit	3,061.1	1,571.9	1,071.6	2,368.2
<i>% of net sales</i>	29.27%	28.21%	27.31%	25.83%
Selling, general and administrative expenses	2,448.6	1,324.5	960.9	2,119.9
<i>% of net sales</i>	23.41%	23.77%	24.49%	23.12%
Litigation settlement and related costs, net	32.0	-	-	-
<i>% of net sales</i>	0.31%	-	-	-
Transaction and related costs	-	1.2	101.4	-
<i>% of net sales</i>	-	0.02%	2.58%	-
Operating profit	580.5	246.1	9.2	248.3
<i>% of net sales</i>	5.55%	4.42%	0.24%	2.71%
Interest income	(3.1)	(3.8)	(5.0)	(7.0)
<i>% of net sales</i>	(0.03)%	(0.07)%	(0.13)%	(0.08)%
Interest expense	391.9	252.9	10.3	34.9
<i>% of net sales</i>	3.75%	4.54%	0.26%	0.38%
Other (income) expense	(2.8)	3.6	-	-
<i>% of net sales</i>	(0.03)%	0.07%	-	-
Income (loss) before income taxes	194.4	(6.6)	4.0	220.4
<i>% of net sales</i>	1.86%	(0.12)%	0.10%	2.40%
Income taxes	86.2	(1.8)	12.0	82.4

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<i>% of net sales</i>	0.82%	(0.03)%	0.31%	0.90%
Net income (loss)	\$ 108.2	\$ (4.8)	\$ (8.0)	\$ 137.9
<i>% of net sales</i>	1.03%	(0.09)%	(0.20)%	1.50%

(a)

Includes the results of operations of Buck Acquisition Corp. for the period prior to its Merger with and into Dollar General Corporation from March 6, 2007 (its 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.

(b)

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

(c)

Includes the impacts of certain strategic real estate and inventory management initiatives as described under the heading Strategic Initiatives Project Alpha in Item 1 above.

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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 the Merger occurred during our 2007 second quarter, we believe this information aids in the comparison between the years presented. The pro forma information does not purport to represent what our results of operations would have been had the 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.

	Pro Forma			2008 vs. 2007 Pro Forma		2007 Pro Forma vs. 2006 Pro Forma	
	2008	2007	2006	\$	%	\$	%
<i>(amounts in millions)</i>				change	change	change	change
<b>Net sales by category:</b>							
Highly consumable	\$ 7,248.4	\$ 6,316.8	\$ 6,022.0	\$ 931.6	14.7%	\$ 294.8	4.9%
<i>% of net sales</i>	<i>69.31%</i>	<i>66.53%</i>	<i>65.67%</i>				
Seasonal	1,521.5	1,513.2	1,510.0	8.2	0.5	3.2	0.2
<i>% of net sales</i>	<i>14.55%</i>	<i>15.94%</i>	<i>16.47%</i>				
Home products	862.2	869.8	914.4	(7.5)	(0.9)	(44.6)	(4.9)
<i>% of net sales</i>	<i>8.24%</i>	<i>9.16%</i>	<i>9.97%</i>				
Basic clothing	825.6	795.4	723.5	30.2	3.8	72.0	9.9
<i>% of net sales</i>	<i>7.89%</i>	<i>8.38%</i>	<i>7.89%</i>				
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
<i>% of net sales</i>	<i>70.73%</i>	<i>72.17%</i>	<i>74.19%</i>				
Gross profit	3,061.1	2,642.8	2,366.7	418.3	15.8	276.1	11.7
<i>% of net sales</i>	<i>29.27%</i>	<i>27.83%</i>	<i>25.81%</i>				
Selling, general and administrative expenses	2,448.6	2,310.9	2,180.9	137.7	6.0	130.0	6.0
<i>% of net sales</i>	<i>23.41%</i>	<i>24.34%</i>	<i>23.78%</i>				
Litigation settlement and related costs, net	32.0	-	-	32.0	-	-	-
<i>% of net sales</i>	<i>0.31%</i>	-	-				
Transaction and related costs	-	1.2	-	(1.2)	-	1.2	-
<i>% of net sales</i>	-	<i>0.01%</i>	-				
Operating profit	580.5	330.6	185.7	249.9	75.6	144.9	78.0
<i>% of net sales</i>	<i>5.55%</i>	<i>3.48%</i>	<i>2.03%</i>				
Interest income	(3.1)	(8.8)	(7.0)	5.8	(65.4)	(1.8)	26.3
<i>% of net sales</i>	<i>(0.03)%</i>	<i>(0.09)%</i>	<i>(0.08)%</i>				
Interest expense	391.9	436.7	436.9	(44.8)	(10.3)	(0.2)	(0.0)

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<i>% of net sales</i>	3.75%	4.60%	4.76%				
Other (income) expense	(2.8)	3.6	-	(6.4)	-	3.6	-
<i>% of net sales</i>	(0.03)%	0.04%	-				
Income (loss) before income taxes	194.4	(100.9)	(244.2)	295.3	-	143.3	(58.7)
<i>% of net sales</i>	1.86%	(1.06)%	(2.66)%				
Income taxes	86.2	(42.9)	(88.0)	129.1	-	45.1	(51.2)
<i>% of net sales</i>	0.82%	(0.45)%	(0.96)%				
Net income (loss)	\$ 108.2	\$ (57.9)	\$ (156.2)	\$ 166.1	-%	\$ 98.2	(62.9)%
<i>% of net sales</i>	1.03%	(0.61)%	(1.70)%				

*Net Sales.* The net sales increase in fiscal 2008 reflects a same-store sales increase of 9% compared to 2007. Same-stores include stores that have been open for 13 months and remain open at the end of the reporting period. 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 the 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 highly consumable 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 highly consumable 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 highly 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 impacted 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.

As discussed above, we monitor our sales internally by the following four major categories: highly consumable, seasonal, home products and basic clothing. The highly consumable category has a lower gross profit rate than the other three categories and has grown significantly over the past several years. 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