

DOLLAR GENERAL CORP
Form 10-Q
August 30, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT

PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended July 29, 2011

Commission File Number: 001-11421

DOLLAR GENERAL CORPORATION

(Exact name of Registrant as specified in its charter)

TENNESSEE
(State or other jurisdiction of
incorporation or organization)

61-0502302
(I.R.S. Employer
Identification No.)

100 MISSION RIDGE
GOODLETTSVILLE, TN 37072
(Address of principal executive offices, zip code)

Edgar Filing: DOLLAR GENERAL CORP - Form 10-Q

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

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

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

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

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☐

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

The registrant had 341,532,297 shares of common stock outstanding on August 26, 2011.

PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

DOLLAR GENERAL CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

	July 29, 2011 (Unaudited)	January 28, 2011 (see Note 1)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 113,050	\$ 497,446
Merchandise inventories	1,973,863	1,765,433
Income taxes receivable	43,435	
Prepaid expenses and other current assets	142,433	104,946
Total current assets	2,272,781	2,367,825
Net property and equipment	1,622,991	1,524,575
Goodwill	4,338,589	4,338,589
Intangible assets, net	1,245,773	1,256,922
Other assets, net	48,969	58,311
Total assets	\$ 9,529,103	\$ 9,546,222
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term obligations	\$ 963	\$ 1,157
Accounts payable	1,122,949	953,641
Accrued expenses and other	366,623	347,741
Income taxes payable	810	25,980
Deferred income taxes	35,606	36,854
Total current liabilities	1,526,951	1,365,373
Long-term obligations	2,779,408	3,287,070
Deferred income taxes	624,034	598,565
Other liabilities	215,875	231,582
Commitments and contingencies		
Redeemable common stock	9,271	9,153
Shareholders' equity:		
Preferred stock		
Common stock	298,842	298,819
Additional paid-in capital	2,951,761	2,945,024
Retained earnings	1,133,943	830,932
Accumulated other comprehensive loss	(10,982)	(20,296)
Total shareholders' equity	4,373,564	4,054,479
Total liabilities and shareholders' equity	\$ 9,529,103	\$ 9,546,222

See notes to condensed consolidated financial statements.

DOLLAR GENERAL CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(In thousands, except per share amounts)

	For the 13 weeks ended		For the 26 weeks ended	
	July 29, 2011	July 30, 2010	July 29, 2011	July 30, 2010
Net sales	\$ 3,575,194	\$ 3,214,155	\$ 7,026,891	\$ 6,325,469
Cost of goods sold	2,426,852	2,178,176	4,791,152	4,289,734
Gross profit	1,148,342	1,035,979	2,235,739	2,035,735
Selling, general and administrative expenses	798,313	735,222	1,564,092	1,444,255
Operating profit	350,029	300,757	671,647	591,480
Interest income	(26)	(32)	(45)	(38)
Interest expense	60,653	69,330	126,244	141,348
Other (income) expense	58,239	6,526	60,511	6,671
Income before income taxes	231,163	224,933	484,937	443,499
Income tax expense	85,121	83,738	181,926	166,308
Net income	\$ 146,042	\$ 141,195	\$ 303,011	\$ 277,191
Earnings per share:				
Basic	\$ 0.43	\$ 0.41	\$ 0.89	\$ 0.81
Diluted	\$ 0.42	\$ 0.41	\$ 0.88	\$ 0.80
Weighted average shares outstanding:				
Basic	341,534	341,001	341,528	340,910
Diluted	345,625	344,746	345,509	344,572

See notes to condensed consolidated financial statements.

DOLLAR GENERAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

	For the 26 weeks ended	
	July 29, 2011	July 30, 2010
<i>Cash flows from operating activities:</i>		
Net income	\$ 303,011	\$ 277,191
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	135,871	126,156
Deferred income taxes	18,136	(4,860)
Tax benefit of stock options	(450)	(5,387)
Loss on debt retirement, net	60,303	6,387
Non-cash share-based compensation	6,798	8,366
Other non-cash gains and losses	17,709	6,466
Change in operating assets and liabilities:		
Merchandise inventories	(222,669)	(219,589)
Prepaid expenses and other current assets	(37,136)	(15,822)
Accounts payable	166,690	113,976
Accrued expenses and other	18,399	(35,836)
Income taxes	(68,155)	23,269
Other	(68)	(1,011)
Net cash provided by operating activities	398,439	279,306
<i>Cash flows from investing activities:</i>		
Purchases of property and equipment	(218,123)	(163,058)
Proceeds from sale of property and equipment	473	544
Net cash used in investing activities	(217,650)	(162,514)
<i>Cash flows from financing activities:</i>		
Issuance of common stock	177	401
Repayments of long-term obligations	(911,361)	(58,137)
Borrowings under revolving credit agreement	371,600	
Repayments of borrowings under revolving credit agreement	(25,600)	
Repurchases of common stock and settlement of equity awards, net of employee taxes paid	(451)	(5,098)
Tax benefit of stock options	450	5,387
Net cash used in financing activities	(565,185)	(57,447)
Net increase (decrease) in cash and cash equivalents	(384,396)	59,345
Cash and cash equivalents, beginning of period	497,446	222,076
Cash and cash equivalents, end of period	\$ 113,050	\$ 281,421
<i>Supplemental schedule of non-cash investing and financing activities:</i>		
Purchases of property and equipment awaiting processing for payment, included in Accounts payable	\$ 32,276	\$ 27,206

See notes to condensed consolidated financial statements.

DOLLAR GENERAL CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

1. Basis of presentation

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

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

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the Company's customary accounting practices. In management's opinion, all adjustments (which are of a normal recurring nature) necessary for a fair presentation of the consolidated financial position as of July 29, 2011 and results of operations for the 13-week and 26-week accounting periods ended July 29, 2011 and July 30, 2010 have been made.

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

The Company uses the last-in, first-out (LIFO) method of valuing inventory. An actual valuation of inventory under the LIFO method is made at the end of each year based on the inventory levels and costs at that time. Accordingly, interim LIFO calculations are based on management's estimates of expected year-end inventory levels, sales for the year and the expected rate of inflation/deflation for the year. The interim LIFO calculations are subject to adjustment in the final year-end LIFO inventory valuation. The Company recorded a LIFO provision of \$10.7 million and \$0.7 million in the respective 13-week periods, and \$14.2 million and \$0.7 million in the respective 26-week periods, ended July 29, 2011 and July 30, 2010. In addition, ongoing estimates of inventory shrinkage and initial markups and markdowns are included in the interim cost of goods sold calculation. Because the Company's business is

moderately seasonal, the results for interim periods are not necessarily indicative of the results to be expected for the entire year.

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

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

2. Comprehensive income

Comprehensive income consists of the following:

(in thousands)	13 Weeks Ended		26 Weeks Ended	
	July 29, 2011	July 30, 2010	July 29, 2011	July 30, 2010
Net income	\$ 146,042	\$ 141,195	\$ 303,011	\$ 277,191
Unrealized net gain on hedged transactions, net of income tax expense of \$2,973, \$66, \$5,989, and \$3,467, respectively (see Note 7)	4,614	104	9,314	4,500
Comprehensive income	\$ 150,656	\$ 141,299	\$ 312,325	\$ 281,691

3. Earnings per share

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

	13 Weeks Ended July 29, 2011			13 Weeks Ended July 30, 2010		
	Net Income	Shares	Per Share Amount	Net Income	Shares	Per Share Amount
Basic earnings per share	\$ 146,042	341,534	\$ 0.43	\$ 141,195	341,001	\$ 0.41
Effect of dilutive share-based awards		4,091			3,745	
Diluted earnings per share	\$ 146,042	345,625	\$ 0.42	\$ 141,195	344,746	\$ 0.41

Edgar Filing: DOLLAR GENERAL CORP - Form 10-Q

	26 Weeks Ended July 29, 2011				26 Weeks Ended July 30, 2010		
	Net Income	Shares	Per Share Amount		Net Income	Shares	Per Share Amount
Basic earnings per share	\$ 303,011	341,528	\$ 0.89	\$	277,191	340,910	\$ 0.81
Effect of dilutive share-based awards		3,981				3,662	