DOLLAR GENERAL CORP
Form 10-Q
December 04, 2018

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 November 2, 2018

Commission File Number: 001-11421

DOLLAR GENERAL CORPORATION

(Exact name of Registrant as specified in its charter)

TENNESSEE	61-0502302
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

100 MISSION RIDGE

GOODLETTSVILLE, TN 37072

(Address of principal executive offices, zip code)

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

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

Indicate by check mark whether the Registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes No

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

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
	Emerging growth company

If an emerging growth company, indicate by check mark if the Registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 262,884,331 shares of common stock outstanding on November 30, 2018.

PART I—FINANCIAL INFORMATION

ITEM 1.FINANCIAL STATEMENTS.

DOLLAR GENERAL CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

	November 2, 2018 (Unaudited)	February 2, 2018 (See Note 1)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 260,688	$ 267,441
Merchandise inventories	3,979,105	3,609,025
Income taxes receivable	114,647	108,265
Prepaid expenses and other current assets	275,904	263,121
Total current assets	4,630,344	4,247,852
Net property and equipment	2,921,943	2,701,282
Goodwill	4,338,589	4,338,589
Other intangible assets, net	1,200,270	1,200,428
Other assets, net	29,875	28,760
Total assets	$ 13,121,021	$ 12,516,911
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term obligations	$ 1,929	$ 401,345
Accounts payable	2,336,772	2,009,771
Accrued expenses and other	638,644	549,658
Income taxes payable	4,837	4,104
Total current liabilities	2,982,182	2,964,878
Long-term obligations	2,902,439	2,604,613
Deferred income taxes	583,066	515,702
Other liabilities	297,446	305,944
Commitments and contingencies		
Shareholders' equity:		
Preferred stock	—	—
Common stock	230,022	235,141
Additional paid-in capital	3,239,170	3,196,462
Retained earnings	2,890,147	2,698,352
Accumulated other comprehensive loss	(3,451)	(4,181)

Total shareholders’ equity	6,355,888	6,125,774
Total liabilities and shareholders' equity	$ 13,121,021	$ 12,516,911

See notes to condensed consolidated financial statements.

1

DOLLAR GENERAL CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(In thousands, except per share amounts)

	For the 13 weeks ended		For the 39 weeks ended	
	November 2, 2018	November 3, 2017	November 2, 2018	November 3, 2017
Net sales	$ 6,417,462	$ 5,903,606	$ 18,975,234	$ 17,341,536
Cost of goods sold	4,522,403	4,137,150	13,243,053	12,085,575
Gross profit	1,895,059	1,766,456	5,732,181	5,255,961
Selling, general and administrative expenses	1,452,916	1,349,025	4,254,378	3,871,589
Operating profit	442,143	417,431	1,477,803	1,384,372
Interest expense	24,586	23,995	74,810	72,747
Other (income) expense	—	—	1,019	3,502
Income before income taxes	417,557	393,436	1,401,974	1,308,123
Income tax expense	83,415	140,903	295,743	481,318
Net income	$ 334,142	$ 252,533	$ 1,106,231	$ 826,805
Earnings per share:				
Basic	$ 1.26	$ 0.93	$ 4.15	$ 3.02
Diluted	$ 1.26	$ 0.93	$ 4.14	$ 3.02
Weighted average shares outstanding:				
Basic	264,490	272,319	266,404	273,567
Diluted	265,522	272,881	267,294	274,076
Dividends per share	$ 0.29	$ 0.26	$ 0.87	$ 0.78

See notes to condensed consolidated financial statements.

DOLLAR GENERAL CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(In thousands)

	For the 13 weeks ended		For the 39 weeks ended	
	November 2, 2018	November 3, 2017	November 2, 2018	November 3, 2017
Net income	$ 334,142	$ 252,533	$ 1,106,231	$ 826,805
Unrealized net gain (loss) on hedged transactions, net of related income tax expense (benefit) of $86, $128, $258 and $381, respectively	243	201	730	607
Comprehensive income	$ 334,385	$ 252,734	$ 1,106,961	$ 827,412

See notes to condensed consolidated financial statements.

DOLLAR GENERAL CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

	For the 39 weeks ended	
	November 2, 2018	November 3, 2017
Cash flows from operating activities:		
Net income	$ 1,106,231	$ 826,805
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	336,363	298,571
Deferred income taxes	25,790	37,573
Loss on debt retirement	1,019	3,502
Noncash share-based compensation	31,191	24,948
Other noncash (gains) and losses	26,623	12,787
Change in operating assets and liabilities:		
Merchandise inventories	(388,113)	(340,090)
Prepaid expenses and other current assets	(13,559)	(15,198)
Accounts payable	310,552	384,101
Accrued expenses and other liabilities	84,008	58,901
Income taxes	(5,649)	(147,375)
Other	(339)	(1,645)
Net cash provided by (used in) operating activities	1,514,117	1,142,880
Cash flows from investing activities:		
Purchases of property and equipment	(550,916)	(488,616)
Proceeds from sales of property and equipment	1,835	1,005
Net cash provided by (used in) investing activities	(549,081)	(487,611)
Cash flows from financing activities:		
Issuance of long-term obligations	499,495	599,556
Repayments of long-term obligations	(576,977)	(751,927)
Net increase (decrease) in commercial paper outstanding	(23,200)	59,400
Costs associated with issuance and retirement of debt	(4,384)	(9,524)
Repurchases of common stock	(647,502)	(298,735)
Payments of cash dividends	(231,228)	(212,934)
Other equity and related transactions	12,007	(2,828)
Net cash provided by (used in) financing activities	(971,789)	(616,992)
Net increase (decrease) in cash and cash equivalents	(6,753)	38,277
Cash and cash equivalents, beginning of period	267,441	187,915
Cash and cash equivalents, end of period	$ 260,688	$ 226,192
Supplemental schedule of noncash investing and financing activities:		
Purchases of property and equipment awaiting processing for payment, included in Accounts payable	$ 79,627	$ 75,249

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 for annual financial statements or those normally made in the Company's Annual Report on Form 10-K, including the condensed consolidated balance sheet as of February 2, 2018 which was derived from the audited consolidated financial statements at that date. Accordingly, readers 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 February 2, 2018 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 2018 fiscal year is scheduled to be a 52-week accounting period ending on February 1, 2019, and the 2017 fiscal year was a 52-week accounting period that ended on February 2, 2018.

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 November 2, 2018 and results of operations for the 13-week and 39-week accounting periods ended November 2, 2018 and November 3, 2017 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. 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.

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 or 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 $12.5 million and $0.5 million in the respective 13-week periods, and $18.0 million and $0.8 million in the respective 39-week periods, ended November 2, 2018 and November 3, 2017. In addition, ongoing estimates of inventory shrinkage and initial markups and markdowns are included in the interim cost of goods sold calculation.

In May 2014, the Financial Accounting Standards Board ("FASB") issued comprehensive new accounting standards related to the recognition of revenue and in August 2015, the FASB deferred the effective date to annual reporting periods beginning after December 15, 2017. The Company adopted this guidance using the modified retrospective approach effective February 3, 2018, and such adoption had no effect on the Company's consolidated results of operations, financial position or cash flows.

In February 2016, the FASB issued new guidance related to lease accounting, which when effective will require a dual approach for lessee accounting under which a lessee will account for leases as finance leases or operating leases. Both finance leases and operating leases will result in the lessee recognizing a right-of-use asset and a corresponding lease liability on its balance sheet, with differing methodology for income statement recognition. This guidance is effective for public business entities for fiscal years, and interim periods within those years, beginning after December 15, 2018, and early adoption is permitted. As originally issued, this guidance required a modified retrospective approach for all leases existing or entered into after the beginning of the earliest comparative period in the consolidated financial statements. In July 2018, the FASB issued additional guidance which allows companies to record the cumulative effect

of applying the new standard as an adjustment to the opening balance of retained earnings in the year of adoption, which the Company intends to apply, as an alternative to the modified retrospective approach. The Company formed a project team to assess and implement the standard and an executive steering committee to provide oversight. The project team has completed its internal evaluation of existing contractual arrangements for embedded leases, has successfully tested computations in the Company's lease administration system, and has developed a process to compute the rates to discount the lease liabilities as required by the standard. In addition, the project team has identified and is implementing new processes and controls to ensure compliance with the new standard, and is progressing in the evaluation and documentation of the Company's accounting conclusions related to the new standard. The Company intends to elect transition practical expedients under which the Company will not be required to reassess (i) whether expired or existing contracts are or contain leases as defined by the new standard, (ii) the classification of such leases, and (iii) whether previously capitalized initial direct costs would qualify for capitalization under the new standard. As a result of the efforts of this project team, the Company has identified its store leases as the area in which it would most likely be affected by the new guidance. The Company's assessment of the impact that adoption of this guidance will have on its consolidated financial statements is ongoing, and the Company anticipates a material impact to its consolidated balance sheet because it is party to a significant number of lease contracts for its stores.

In October 2016, the FASB issued amendments to existing guidance related to accounting for intra-entity transfers of assets other than inventory, which affects the Company's historical accounting for intra-entity transfers of certain intangible assets. This guidance is effective for public business entities for fiscal years, and interim periods within those years, beginning after December 15, 2017. The amendments are applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. The Company adopted this guidance effective February 3, 2018 which resulted in an increase in deferred income tax liabilities and a decrease in retained earnings of $41.3 million.

In January 2017, the FASB issued amendments to existing guidance related to the subsequent measurement of goodwill. These amendments modify the concept of impairment from the condition that exists when the carrying amount of goodwill exceeds its implied fair value to the condition that exists when the carrying amount of a reporting unit exceeds its fair value. Subsequent to adoption, an entity will perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value. This guidance is effective for public business entities for fiscal years, and interim periods within those years, beginning after December 15, 2019, and early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The amendments should be applied on a prospective basis. An entity is required to disclose the nature of and reason for the change in accounting principle upon transition. The Company currently does not anticipate a material effect on its consolidated results of operations, financial position or cash flows to result from the adoption of this guidance.

2. Earnings per share

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

	13 Weeks Ended November 2, 2018			13 Weeks Ended November 3, 2017		
	Net Income	Weighted Average Shares	Per Share Amount	Net Income	Weighted Average Shares	Per Share Amount
Basic earnings per share	$ 334,142	264,490	$ 1.26	$ 252,533	272,319	$ 0.93
Effect of dilutive share-based awards		1,032			562	
Diluted earnings per share	$ 334,142	265,522	$ 1.26	$ 252,533	272,881	$ 0.93

	39 Weeks Ended November 2, 2018			39 Weeks Ended November 3, 2017		
	Net Income	Weighted Average Shares	Per Share Amount	Net Income	Weighted Average Shares	Per Share Amount
Basic earnings per share	$ 1,106,231	266,404	$ 4.15	$ 826,805	273,567	$ 3.02
Effect of dilutive share-based awards		890			509	
Diluted earnings per share	$ 1,106,231	267,294	$ 4.14	$ 826,805	274,076	$ 3.02

Basic earnings per share is computed by dividing net income by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share is determined based on the dilutive effect of share-based awards using the treasury stock method.

Share-based awards that were outstanding at the end of the respective periods, but were not included in the computation of diluted earnings per share because the effect of exercising such awards would be antidilutive, were 0.7 million and 2.5 million in the 2018 and 2017 13-week periods, and 0.8 million and 2.6 million in the 2018 and 2017 39-week periods, respectively.

3.Income taxes

Under the accounting standards for income taxes, the asset and liability method is used for computing the future income tax consequences of events that have been recognized in the Company's consolidated financial statements or income tax returns.

Income tax reserves are determined using the methodology established by accounting standards for income taxes which require companies to assess each income tax position taken using the following two-step approach. A determination is first made as to whether it is more likely than not that the position will be sustained, based upon the technical merits, upon examination by the taxing authorities. If the tax position is expected to meet the more likely than not criteria, the benefit recorded for the tax position equals the largest amount that is greater than 50% likely to be realized upon ultimate settlement of the respective tax position.

The Company's 2014 and earlier tax years are not open for further examination by the Internal Revenue Service ("IRS"). The IRS, at its discretion, may choose to examine the Company's 2015 through 2017 fiscal year income tax filings. The Company has various state income tax examinations that are currently in progress. Generally, with few exceptions, the Company's 2015 and later tax years remain open for examination by the various state taxing authorities.

As of November 2, 2018, the total reserves for uncertain tax benefits, interest expense related to income taxes and potential income tax penalties were $1.1 million, $0.8 million and $0.9 million, respectively, for a total of $2.8 million. This total amount is reflected in noncurrent Other liabilities in the condensed consolidated balance sheet.

The Company's reserve for uncertain tax positions will not be reduced in the coming twelve months as a result of expiring statutes of limitations. As of November 2, 2018, approximately $1.1 million of the reserve for uncertain tax positions would impact the Company's effective income tax rate if the Company were to recognize the tax benefit for these positions.

On December 22, 2017, the Tax Cuts and Jobs Act ("TCJA") was enacted. The Company has not fully completed its accounting for the income tax effects of the TCJA. As discussed in SEC Staff Accounting Bulletin No. 118, the accounting for the TCJA should be completed within one year from enactment. During the 39-week period ended November 2, 2018, the Company made no material adjustments to the provisional amounts recorded at February 2, 2018. Any additional adjustments to the provisional amounts recorded at February 2, 2018 will be reflected upon the completion of the Company's accounting for the TCJA.

The effective income tax rates for the 13-week and 39-week periods ended November 2, 2018 were 20.0% and 21.1%, respectively, compared to rates of 35.8% and 36.8%, respectively, for the 13-week and 39-week periods ended November 3, 2017. The tax rates for the 2018 13-week and 39-week periods were lower than the comparable 2017 13-week and 39-week periods primarily due to the federal tax law changes contained in the TCJA, including the change in the federal income tax rate to 21% in the 2018 periods compared to 35% in the 2017 periods.

4.Current and long-term obligations

Current and long-term obligations consist of the following:

(In thousands)	November 2, 2018	February 2, 2018
Senior unsecured credit facilities		
Term Facility	$ —	$ 175,000
Revolving Facility	—	—
1.875% Senior Notes due April 15, 2018 (net of discount of $16)	—	399,984
3.250% Senior Notes due April 15, 2023 (net of discount of $1,144 and $1,322)	898,856	898,678
4.150% Senior Notes due November 1, 2025 (net of discount of $580 and $632)	499,420	499,368
3.875% Senior Notes due April 15, 2027 (net of discount of $385 and $413)	599,615	599,587
4.125% Senior Notes due May 1, 2028 (net of discount of $481)	499,519	—
Unsecured commercial paper notes	407,000	430,200
Capital lease obligations	11,321	12,321
Tax increment financing due February 1, 2035	6,360	7,335
Debt issuance costs, net	(17,723)	(16,515)
	2,904,368	3,005,958
Less: current portion	(1,929)	(401,345)
Long-term portion	$ 2,902,439	$ 2,604,613

At November 2, 2018, the Company maintained a $1.25 billion senior unsecured revolving credit facility (the "Revolving Facility") that provides for the issuance of letters of credit up to $175.0 million and is scheduled to mature on February 22, 2022.

Borrowings under the Revolving Facility bear interest at a rate equal to an applicable interest rate margin plus, at the Company's option, either (a) LIBOR or (b) a base rate (which is usually equal to the prime rate). The applicable interest rate margin for borrowings as of November 2, 2018 was 1.10% for LIBOR borrowings and 0.10% for base-rate borrowings. The Company is also required to pay a facility fee, payable on any used and unused commitment amounts of the Revolving Facility, and customary fees on letters of credit issued under the Revolving Facility. As of November 2, 2018, the commitment fee rate was 0.15%. The applicable interest rate margins for borrowings, the facility fees and the letter of credit fees under the Revolving Facility are subject to adjustment from time to time based on the Company's long-term senior unsecured debt ratings.

The Revolving Facility contains a number of customary affirmative and negative covenants that, among other things, restrict, subject to certain exceptions, the Company's ability to: incur additional liens; sell all or substantially all of the Company's assets; consummate certain fundamental changes or change in the Company's lines of business; and incur additional subsidiary indebtedness. The Revolving Facility also contains financial covenants which require the maintenance of a minimum fixed charge coverage ratio and a maximum leverage ratio. As of November 2, 2018, the Company was in compliance with all such covenants. The Revolving Facility also contains customary events of

default.

On June 11, 2018, the Company voluntarily prepaid the entire $175.0 million outstanding balance of its senior unsecured term loan facility and recognized an associated loss of $1.0 million which is reflected in Other (gains) losses in the condensed consolidated statement of income for the 39-week period ended November 2, 2018. As of November 2, 2018, the Company had no outstanding borrowings, outstanding letters of credit of $8.1 million, and borrowing availability of $1.24 billion under the Revolving Facility that, due to its intention to maintain borrowing availability related to the commercial paper program described below, could contribute incremental liquidity of $648.9 million. In addition, as of November 2, 2018, the Company had outstanding letters of credit of $37.8 million which were issued pursuant to separate agreements.

As of November 2, 2018, the Company had a commercial paper program under which the Company may issue unsecured commercial paper notes (the "CP Notes") from time to time in an aggregate amount not to exceed $1.0 billion outstanding at any time. The CP Notes may have maturities of up to 364 days from the date of issue and rank equal in right of payment with all of the Company's other unsecured and unsubordinated indebtedness. The Company intends to maintain available commitments under the Revolving Facility in an amount at least equal to the amount of CP Notes outstanding at any time. As of November 2, 2018, the Company's condensed consolidated balance sheet reflected

outstanding unsecured CP Notes of $407.0 million classified as long-term obligations due to its intent and ability to refinance these obligations as long-term debt. An additional $186.0 million of outstanding CP Notes were held by a wholly-owned subsidiary of the Company and are therefore not reflected on the condensed consolidated balance sheet. As of November 2, 2018, the outstanding CP Notes had a weighted average borrowing rate of 2.5%.

On April 10, 2018, the Company issued $500.0 million aggregate principal amount of 4.125% senior notes due 2028 (the "2028 Senior Notes"), net of discount of $0.5 million, which are scheduled to mature on May 1, 2028. Interest on the 2028 Senior Notes is payable in cash on May 1 and November 1 of each year, and the first interest payment commenced on November 1, 2018. The Company incurred $4.4 million of debt issuance costs associated with the issuance of the 2028 Senior Notes.

Effective April 15, 2018, the Company redeemed $400.0 million aggregate principal amount of outstanding 1.875% senior notes due 2018 (the "2018 Senior Notes"). There was no gain or loss associated with the redemption. The Company funded the redemption price for the 2018 Senior Notes with proceeds from the issuance of the 2028 Senior Notes.

On April 11, 2017, the Company issued $600.0 million aggregate principal amount of 3.875% senior notes due 2027 (the "2027 Senior Notes"), net of discount of $0.4 million, which are scheduled to mature on April 15, 2027. Interest on the 2027 Senior Notes is payable in cash on April 15 and October 15 of each year. The Company incurred $5.2 million of debt issuance costs associated with the issuance of the 2027 Senior Notes.

On April 27, 2017, the Company redeemed $500.0 million aggregate principal amount of outstanding 4.125% senior notes due 2017 (the "2017 Senior Notes"), resulting in a pretax loss of $3.4 million which is reflected in Other (income) expense in the condensed consolidated statement of income for the 39-week period ended November 3, 2017. The Company funded the redemption price for the 2017 Senior Notes with proceeds from the issuance of the 2027 Senior Notes.

5.Assets and liabilities measured at fair value

Fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, fair value accounting standards establish a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy). The Company does not have any fair value measurements categorized within Level 3 as of November 2, 2018.

The following table presents the Company's assets and liabilities disclosed at fair value as of November 2, 2018, aggregated by the level in the fair value hierarchy within which those measurements are classified.

(In thousands)	Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value at November 2, 2018
Liabilities:				
Long-term obligations (a)	$ 2,418,724	$ 424,681	$ —	$ 2,843,405
Deferred compensation (b)	25,034	—	—	25,034

(a) Included in the condensed consolidated balance sheet at book value as Current portion of long-term obligations of $1,929 and Long-term obligations of $2,902,439.

(b) Reflected at fair value in the condensed consolidated balance sheet as Accrued expenses and other current liabilities of $2,639 and noncurrent Other liabilities of $22,395.

6.Commitments and contingencies

Legal proceedings

From time to time, the Company is a party to various legal matters involving claims incidental to the conduct of its business, including actions by employees, consumers, suppliers, government agencies, or others. The Company has recorded accruals with respect to these matters, where appropriate, which are reflected in the Company's consolidated financial statements. For some matters, a liability is not probable or the amount cannot be reasonably estimated and therefore an accrual has not been made.

Except as described below, the Company believes, based upon information currently available, that such matters, both individually and in the aggregate, will be resolved without a material adverse effect on the Company's consolidated financial statements as a whole. However, litigation and other legal matters involve an element of uncertainty. Future developments, including adverse decisions or settlements or resulting required changes to the Company's business operations, could result in liability or other amounts material to the Company's results of operations, cash flows, or financial position.

Wage and Hour Litigation

The Company is defending the following wage and hour matters (collectively the "Wage/Hour Litigation"):

- California Wage/Hour Litigation ("Key Carriers"): In three separate lawsuits, Plaintiffs allege, on behalf of themselves and other similarly situated current and former "key carriers," that the Company failed to comply with California law, in some or all of the following respects: failure to pay for all time worked, failure to provide meal and rest periods, failure to reimburse business-related expenses, failure to provide accurate wage statements, and failure to provide appropriate termination pay. Plaintiffs seek to recover some or all of the following: alleged unpaid wages, injunctive relief, consequential damages, pre-judgment interest, statutory penalties under the Private Attorney General Act (the "PAGA"), and attorneys' fees and costs.
- California Wage/Hour Litigation ("Non Key Carriers"): Plaintiff alleges, on behalf of herself and other current and former "hourly non-key carrier" employees, that the Company failed to comply with California law in some or all of the following respects: failure to pay for all time worked, failure to pay timely wages, failure to provide meal and rest periods, and failure to provide accurate wage statements and appropriate termination pay. Plaintiff seeks to recover penalties under the PAGA, attorneys' fees and costs, and pre-judgment and post-judgment interest.
- California Wage/Hour Litigation ("Lebec Distribution Center"): Plaintiff alleges, on behalf of himself and other current and former "non-exempt, hourly paid" employees, that the Company failed to comply with California law in some or all of the following respects: failure to provide meal and rest periods, failure to pay for all time worked, failure to reimburse business-related expenses, and failure to provide accurate wage statements and appropriate termination pay. Plaintiff seeks to recover penalties under the PAGA, attorneys' fees and costs, and pre-judgment and post-judgment interest.
- Pennsylvania Wage/Hour Litigation: Plaintiff alleges that he and other similarly situated current and former hourly distribution center employees were subjected to unlawful policies and practices and were denied regular and overtime wages in violation of federal and Pennsylvania law. Plaintiff seeks to proceed on a nationwide collective basis under federal law and a statewide class basis under Pennsylvania law and to recover alleged unpaid wages, liquidated damages, statutory damages, and attorneys' fees and costs.
- Tennessee Wage/Hour Litigation: Plaintiffs allege that they and other similarly situated current and former "key holders" were not paid for all hours worked in violation of federal, Illinois and Tennessee law. Plaintiffs seek to proceed on a nationwide collective basis under federal law and a statewide class basis under Illinois and Tennessee law and to recover alleged unpaid wages, statutory and common law damages, liquidated damages, pre-judgment and post-judgment interest and attorneys' fees and costs. The Company has reached a preliminary agreement with plaintiffs, which must be submitted to and approved by the Court, to resolve this matter for an amount not material

to the Company’s financial statements as a whole.

The Company is vigorously defending the Wage/Hour Litigation and believes that its policies and practices comply with federal and state laws and that these actions are not appropriate for class or similar treatment. At this time, it is not possible to predict whether these matters will be permitted to proceed as a class or other similar action, or the size of any putative class or classes. Likewise, except as to the resolution of the Tennessee Wage/Hour Litigation, at this time it is not possible to estimate the value of the claims asserted, and no assurances can be given that the Company will be successful in its defense of these matters on the merits or otherwise. For these reasons, except as to the resolution of the Tennessee Wage/Hour Litigation, the Company is unable to estimate any potential loss or range of loss in these matters; however, if the Company is not successful in its defense efforts, the resolution of these actions could have a material adverse effect on the Company's consolidated financial statements as a whole.

Other Employment Litigation

The Company is defending the following employment-related matters (collectively the "Employment Litigation"):

- California Suitable Seating Litigation: Plaintiff alleges that the Company failed to provide her and other current and former California store employees with "suitable seats" in violation of California law. Plaintiff seeks to recover penalties under the PAGA, injunctive relief, and attorneys' fees and costs.
- California Credit Reporting and Wage/Hour Litigation: Plaintiff alleges that the Company failed to comply with federal and California credit reporting laws by failing to provide "current, former and prospective applicants" with adequate disclosures and summary of rights. Plaintiff also alleges on behalf of himself and other "persons employed by Defendants and/or any staffing agencies and/or any other third parties in hourly or non-exempt positions in California" that the Company failed to comply with California law by failing to provide meal and rest periods, accurate wage statements and appropriate termination pay. Plaintiff seeks to proceed on a nationwide class basis under federal law and a statewide class basis under California law and to recover alleged unpaid wages, "actual damages," liquidated damages, restitution, statutory penalties, declaratory relief, pre-judgment interest and attorneys' fees and costs.
- EEOC Litigation: The United States Equal Employment Opportunity Commission ("EEOC") alleges that the Company's use of post-offer, pre-employment physical assessments, as applied to candidates for the general warehouse position in the Bessemer, Alabama distribution center, violates the Americans with Disabilities Act ("ADA") and the Genetic Information Nondiscrimination Act ("GINA"). The EEOC seeks the following: back pay, front pay, pre-judgment interest, compensatory damages, punitive damages and injunctive relief.

The Company is vigorously defending the Employment Litigation and believes that its employment policies and practices comply with federal and state law and that these matters are not appropriate for class or similar treatment. At this time, it is not possible to predict whether these matters will be permitted to proceed as a class or in a similar fashion, or the size of any putative class or classes. Likewise, at this time, it is not possible to estimate the value of the claims asserted, and no assurances can be given that the Company will be successful in its defense of these matters on the merits or otherwise. For these reasons, the Company is unable to estimate any potential loss or range of loss in these matters; however if the Company is not successful in its defense efforts, the resolution of these matters could have a material adverse effect on the Company's consolidated financial statements as a whole.

Consumer/Product Litigation

In December 2015 the Company was first notified of several lawsuits in which plaintiffs allege violation of state law, including state consumer protection laws, relating to the labeling, marketing and sale of certain Dollar General private-label motor oil. Each of these lawsuits, as well as additional, similar lawsuits filed after December 2015, was filed in, or removed to, various federal district courts of the United States (collectively "the Motor Oil Lawsuits").

On June 2, 2016, the United States Judicial Panel on Multidistrict Litigation ("JPML") granted the Company's motion to centralize the Motor Oil Lawsuits in a matter styled In re Dollar General Corp. Motor Oil Litigation, Case MDL No. 2709, before the United States District Court for the Western District of Missouri ("Motor Oil MDL"). Subsequently, plaintiffs in the Motor Oil MDL filed a consolidated amended complaint, in which they seek to certify two nationwide

classes and multiple statewide sub-classes and for each putative class member some or all of the following relief: compensatory damages, injunctive relief, statutory damages, punitive damages and attorneys' fees. The