DOLLAR GENERAL CORP
Form 10-K
March 24, 2017
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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 February 3, 2017

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of the exchange on which registered
Common Stock, par value $0.875 per share	New York Stock Exchange

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

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

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 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.

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 July 29, 2016 was $26.7 billion calculated using the closing market price of our common stock as reported on the NYSE on such date ($94.74). For this purpose, directors, executive officers and greater than 10% record shareholders are considered the affiliates of the registrant.

The registrant had 275,095,294 shares of common stock outstanding as of March 17, 2017.

DOCUMENTS INCORPORATED BY REFERENCE

Certain of the information required in Part III of this Form 10 K is incorporated by reference to the Registrant's definitive proxy statement to be filed for the Annual Meeting of Shareholders to be held on May 31, 2017.

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INTRODUCTION

General

This report contains references to years 2017, 2016, 2015, 2014, 2013, and 2012, which represent fiscal years ending or ended February 2, 2018, February 3, 2017, January 29, 2016, January 30, 2015, January 31, 2014, and February 1, 2013, respectively. Our fiscal year ends on the Friday closest to January 31. Our 2016 fiscal year consisted of 53 weeks, while each of the remaining years listed are or were 52-week years. 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.

Solely for convenience, our trademarks and tradenames may appear in this report without the ® or TM symbol which is not intended to indicate that we will not assert, to the fullest extent under applicable law, our rights or the right to these trademarks and tradenames.

Cautionary Disclosure Regarding Forward Looking Statements

We include “forward-looking statements” within the meaning of the federal securities laws throughout this report, particularly under the headings “Business,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and “Note 7 – Commitments and Contingencies,” among others. You can identify these statements because they are not limited to historical fact or they use words such as “may,” “will,” “should,” “could,” “can,” “would,” “believe,” “anticipate,” “project,” “plan,” “expect,” “estimate,” “forecast,” “goal,” “seek,” “ensure,” “potential,” “opportunity,” “objective “committed,” “likely to,” “continue,” “scheduled to,” “focused on,” or “subject to” and similar expressions that concern our strategy, plans, initiatives, intentions or beliefs about future occurrences or results. For example, all statements relating to, among others, our estimated and projected expenditures, cash flows, results of operations, financial condition and liquidity; our plans and objectives for, and expectations regarding future operations, economic and competitive market conditions, growth or initiatives including but not limited to the number of planned store openings, remodels and relocations, progress of merchandising initiatives, trends in sales of consumable and non-consumable products, investment in our personnel and the level of future costs and expenses; potential future stock repurchases and cash dividends; anticipated borrowing under our credit facilities and commercial paper program; or the expected outcome or effect of legislative or regulatory changes or initiatives, and our responses thereto, or of pending or threatened litigation or audits 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 effect 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 or implied 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 forward-looking statements are qualified in their entirety by these and other cautionary statements that we make from time to time in our other SEC filings and public communications. You should evaluate forward-looking statements in the context of these risks and uncertainties and are cautioned not to place undue reliance on such statements. These factors may not contain all of the factors that are important to you. We cannot assure you that we will realize the results or developments we expect or anticipate or, even if substantially realized, that they will result in the consequences or affect us or our operations in the way we expect. Forward-looking statements in this report are made only as of the date hereof. We undertake no obligation to update or revise any forward-looking statement as a result of new information, future events or otherwise, except as otherwise required by law.

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PART I

ITEM 1. BUSINESS

General

We are among the largest discount retailers in the United States by number of stores, with 13,429 stores located in 44 states as of March 3, 2017, with the greatest concentration of stores in the southern, southwestern, midwestern and eastern United States. We offer a broad selection of merchandise, including consumables, seasonal items, home products and apparel. Our merchandise includes high quality national brands from leading manufacturers, as well as our own value and comparable quality private brand selections with prices at substantial discounts to national brands. We offer our merchandise at everyday low prices through our convenient small-box locations.

Our History

J.L. Turner founded our Company in 1939 as J.L. Turner and Son, Wholesale. We were incorporated as a Kentucky corporation under the name J.L. Turner & Son, Inc. in 1955, when we opened our first Dollar General store. We changed our name to Dollar General Corporation in 1968 and reincorporated in 1998 as a Tennessee corporation. Our common stock was publicly traded from 1968 until July 2007, when we merged with an entity controlled by investment funds affiliated with Kohlberg Kravis Roberts & Co. L.P., or KKR. In November 2009 our common stock again became publicly traded, and in December 2013 the entity controlled by investment funds affiliated with KKR sold its remaining shares of our common stock.

Our Business Model

Our long history of profitable growth is founded on a commitment to a relatively simple business model: providing a broad base of customers with their basic everyday and household needs, supplemented with a variety of general merchandise items, at everyday low prices in conveniently located, small-box stores. We continually evaluate the needs and demands of our customers and modify our merchandise selections and pricing accordingly, while remaining focused on increasing profitability, cash generation and returns for our shareholders.

Our operating priorities are summarized as follows: 1) driving profitable sales growth, 2) capturing growth opportunities, 3) enhancing our position as a low-cost operator, and 4) investing in our people as a competitive advantage. For more information on these operating priorities, see the “Executive Overview” section of Management’s Discussion and Analysis of Financial Condition and Results of Operations, included in Part II, Item 7 of this report.

In fiscal year 2016, we achieved our 27th consecutive year of positive same-store sales growth. This growth has taken place in a variety of economic conditions, which we believe is a result of our compelling value and convenience proposition, although no assurances can be given that we will achieve positive same-store sales growth in any given year.

Compelling Value and Convenience Proposition. Our ability to deliver highly competitive prices in convenient locations and our easy “in and out” shopping format create a compelling shopping experience that we believe distinguishes us from other discount retailers as well as convenience, drug, grocery, online and mass merchant retailers. Our slogan “Save time. Save money. Every day!” summarizes our appeal to customers. We believe our ability to effectively deliver both value and convenience allows us to succeed in small markets with limited shopping alternatives, as well as in larger and more competitive markets. Our value and convenience proposition is evidenced by the following attributes of our business model:

· Convenient Locations. Our stores are conveniently located in a variety of rural, suburban and urban communities. We seek to locate our stores in close proximity to our customers, which

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helps drive customer loyalty and trip frequency and makes us an attractive alternative to large discount and other large box retail and grocery stores.

- Time Saving Shopping Experience. We also provide customers with a highly convenient, easy to navigate shopping experience. Our small-box stores are easy to get in and out of quickly. Our product offering includes most necessities, such as basic packaged and refrigerated food and dairy products, cleaning supplies, paper products, health and beauty care items, greeting cards, basic apparel, housewares, hardware and automotive supplies, among others. Our convenient hours and broad merchandise offering allow our customers to fulfill their routine shopping requirements and minimize their need to shop elsewhere.

- Everyday Low Prices on Quality Merchandise. Our research indicates that we offer a price advantage over most food and drug retailers and that our prices are competitive with even the largest discount retailers. Our ability to offer everyday low prices on quality merchandise is supported by our low cost operating structure and our strategy to maintain a limited number of items per merchandise category, which we believe helps us maintain strong purchasing power. We offer quality nationally advertised brands at these everyday low prices in addition to offering our own value and comparable quality private brands at substantially lower prices.

Substantial Growth Opportunities. We believe we have substantial long term growth potential in the U.S. We have identified significant opportunities to add new stores in both existing and new markets. In addition, we have opportunities to relocate or remodel locations within our existing store base to better serve our customers. Our attractive store economics, including a relatively low initial investment and simple, low cost operating model have allowed us to grow our store base to current levels and provide us significant opportunities to continue our profitable store growth strategy.

Our Merchandise

We offer a focused assortment of everyday necessities, which help to drive frequent customer visits, and key items in a broad range of general merchandise categories. Our product assortment provides the opportunity for our customers to address most of their basic shopping needs with one trip. We sell high quality nationally advertised brands from leading manufacturers. Additionally, our private brand consumables offer even greater value with options to purchase national brand equivalent products as well as value items at substantial discounts to the national brand.

Consumables is our largest merchandise category and has become a larger percentage of our total sales in recent years as indicated in the table below. Consumables include paper and cleaning products (such as paper towels, bath tissue, paper dinnerware, trash and storage bags, laundry and other home cleaning supplies); packaged food (such as cereals, canned soups and vegetables, condiments, spices, sugar and flour); perishables (such as milk, eggs, bread, refrigerated and frozen food, beer and wine); snacks (such as candy, cookies, crackers, salty snacks and carbonated beverages); health and beauty (such as over the counter medicines and personal care products including soap, body wash, shampoo, dental hygiene and foot care products); pet (such as pet supplies and pet food); and tobacco products.

Seasonal products include decorations, toys, batteries, small electronics, greeting cards, stationery, prepaid phones and accessories, gardening supplies, hardware, automotive and home office supplies.

Home products include kitchen supplies, cookware, small appliances, light bulbs, storage containers, frames, candles, craft supplies and kitchen, bed and bath soft goods.

Apparel includes casual everyday apparel for infants, toddlers, girls, boys, women and men, as well as socks, underwear, disposable diapers, shoes and accessories.

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

	2016	2015	2014
Consumables	76.4 %	75.9 %	75.7 %
Seasonal	12.2 %	12.4 %	12.4 %
Home products	6.2 %	6.3 %	6.4 %
Apparel	5.2 %	5.4 %	5.5 %

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

The Dollar General Store

The typical Dollar General store is operated by a store manager, one or more assistant store managers, and three or more sales associates. Our stores generally feature a low cost, no frills building with limited maintenance capital, low operating costs, and a focused merchandise offering within a broad range of categories, allowing us to deliver low retail prices while generating strong cash flows and capital investment returns. Our stores average approximately 7,400 square feet of selling space and approximately 70% of our stores are located in towns of 20,000 or fewer people. We generally have had good success in locating suitable store sites in the past, and we believe that there is ample opportunity for new store growth in existing and new markets. In addition, we believe we have significant opportunities available for our relocation and remodel programs.

Our store growth over the past three years is summarized in the following table:

Year	Stores at Beginning of Year	Stores Opened	Stores Closed	Net Store Increase	Stores at End of Year
2014	11,132	700	43	657	11,789
2015	11,789	730	36	694	12,483
2016	12,483	900	63	837	13,320

Our Customers

Our customers seek value and convenience. Depending on their financial situation and geographic proximity, customers' reliance on Dollar General varies from fill in shopping, to making periodic trips to stock up on household items, to making weekly or more frequent trips to meet most essential needs. We generally locate our stores and plan our merchandise selections to best serve the needs of our core customers, the low and fixed income households often underserved by other retailers, and we are focused on helping them make the most of their spending dollars. At the same time, however, loyal Dollar General shoppers from a wide range of income brackets and life stages appreciate our quality merchandise as well as our attractive value and convenience proposition.

Our Suppliers

We purchase merchandise from a wide variety of suppliers and maintain direct buying relationships with many producers of national brand merchandise. Despite our broad offering, we maintain only a limited number of items per category, giving us a negotiating advantage in dealing with our suppliers. Our largest and second largest suppliers each accounted for approximately 8% of our purchases in 2016. Our private brands come from a diversified supplier base. We directly imported approximately 6% of our purchases at cost in 2016.

We have consistently managed to obtain sufficient quantities of core merchandise and believe that, if one or more of our current sources of supply became unavailable, we generally would be able to obtain alternative

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sources without experiencing a substantial disruption of our business. However, such alternative sources could increase our merchandise costs or reduce the quality of our merchandise, and an inability to obtain alternative sources could adversely affect our sales.

Distribution and Transportation

Our stores are currently supported by fourteen distribution centers located strategically throughout our geographic footprint. Our fifteenth distribution center in Jackson, Georgia is under construction with a goal to begin shipping from this facility in late 2017. We have announced plans to build our sixteenth distribution center in Amsterdam, New York with a planned completion date in fall 2018. We lease additional temporary warehouse space as necessary to support our distribution needs. We continually analyze and rebalance the network to ensure that it remains efficient and provides the service our stores require. See "—Properties" below for additional information pertaining to our distribution centers.

Most of our merchandise flows through our distribution centers and is delivered to our stores by third party trucking firms, utilizing our trailers. We also own 39 trucks with which we transport our merchandise. In addition, vendors or third party distributors ship certain food items and other merchandise directly to our stores.

Seasonality

Our business is somewhat seasonal. Generally, our highest sales volume occurs in the fourth quarter, which includes the Christmas selling season. In addition, our quarterly results can be affected by the timing of certain holidays, the timing of new store openings and store closings, and the amount of sales contributed by new and existing stores. We typically purchase substantial amounts of inventory in the third quarter and incur higher shipping and payroll costs in the third quarter in anticipation of increased sales activity during the fourth quarter. See Note 12 to the consolidated financial statements for additional information.

Our Competition

We operate in the basic discount consumer goods market, which is highly competitive with respect to price, store location, merchandise quality, assortment and presentation, in stock consistency, and customer service. We compete with discount stores and with many other retailers, including mass merchandise, warehouse club, grocery, drug, convenience, variety, online, omnichannel, and specialty stores. These other retail companies operate stores in many of the areas where we operate, and many of them engage in extensive advertising and marketing efforts. Our direct competitors include Family Dollar, Dollar Tree, Big Lots, Fred's, 99 Cents Only and various local, independent operators, as well as Walmart, Target, Kroger, Aldi, Walgreens, CVS, and RiteAid, among others. Certain of our competitors have greater financial, distribution, marketing and other resources than we do. Competition has intensified and will continue to do so as competitors move into or increase their presence in our geographic markets and increase the availability of mobile and web-based technology to facilitate online shopping and real time product and price comparisons and to create an omnichannel shopping experience.

We believe that we differentiate ourselves from other forms of retailing by offering consistently low prices in a convenient, small store format. We believe that our prices are competitive due in part to our low cost operating structure and the relatively limited assortment of products offered. Purchasing large volumes of merchandise within our focused assortment in each merchandise category allows us to keep our average costs low, contributing to our ability to offer competitive everyday low prices to our customers. See "—Our Business Model" above for further discussion of our competitive situation.

Our Employees

As of March 3, 2017, we employed approximately 121,000 full time and part time employees, including divisional and regional managers, district managers, store managers, other store personnel and distribution center and administrative personnel. We have increasingly focused on recruiting, training, motivating and retaining

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employees, and we believe that the quality, performance and morale of our employees continue to be an important part of our success in recent years. We currently are not a party to any collective bargaining agreements.

Our Trademarks

We own marks that are registered with the United States Patent and Trademark Office and are protected under applicable intellectual property laws, including, without limitation, the trademarks Dollar General®, Dollar General Market®, Clover Valley®, DG®, DG Deals®, Forever Pals®, I*Magine®, OT Sport®, OT Revolution®, Smart & Simple®, trueliving®, Sweet Smiles®, Open Trails®, Beauty Cents®, Bobbie Brooks®, Comfort Bay®, Holiday Style®, Swiggles®, More Deals For Your Dollar. Every Day!®, The Fast Way To Save®, and Save Time. Save Money. Every Day!®, along with variations and formatives of these trademarks as well as certain other trademarks including Ever PetTM and DGXTM. 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.

We also hold an exclusive license to the Rexall brand through March 5, 2020.

Available Information

Our Internet website address is www.dollargeneral.com. The information on our website is not incorporated by reference into, and is not a part of, this Form 10-K. We file with or furnish to the Securities and Exchange Commission (the “SEC”) annual reports on Form 10 K, quarterly reports on Form 10 Q, current reports on Form 8 K, and amendments to those reports, proxy statements and annual reports to shareholders, and, from time to time, registration statements and other documents. These documents are available free of charge to investors on or through the Investor Information section of our website as soon as reasonably practicable after we electronically file them with or furnish them to the SEC. In addition, the public may read and copy any of the materials we file with the SEC at the SEC’s Public Reference Room at 100 F Street, NE, Washington DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1 800 SEC 0330. The SEC maintains an internet site that contains reports, proxy and information statements and other information regarding issuers, such as Dollar General, that file electronically with the SEC. The address of that website is http://www.sec.gov.

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ITEM 1A. RISK FACTORS

You 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, results of operations or liquidity. These risks are not the only risks we face. Our business, financial condition, results of operations or liquidity could also be adversely affected by additional factors that apply to all companies generally or by risks not currently known to us or that we currently view to be immaterial. We can provide no assurance and make no representation that our risk mitigation efforts, although we believe they are reasonable, will be successful.

Economic conditions and other economic factors may adversely affect our financial performance and other aspects of our business by negatively impacting our customers' disposable income or discretionary spending, affecting our ability to plan and execute our strategic initiatives, increasing our costs of goods sold and selling, general and administrative expenses, and adversely affecting our sales or profitability.

We believe many of our customers have fixed or low incomes and generally have limited discretionary spending dollars. Any factor that could adversely affect that disposable income would decrease our customers' confidence, spending, and number of trips to our stores, and could cause our customers to shift their spending to products other than those sold by us or to our less profitable product choices, all of which could result in lower net sales, decreases in inventory turnover, greater markdowns on inventory, a change in the mix of products we sell, and a reduction in profitability due to lower margins. Factors that could reduce our customers' disposable income and over which we exercise no influence include but are not limited to adverse economic conditions such as increased or sustained high unemployment or underemployment levels, inflation, increases in fuel or other energy costs and interest rates, lack of available credit, consumer debt levels, higher tax rates and other changes in tax laws, concerns over government mandated participation in health insurance programs, increasing healthcare costs, and decreases in, or elimination of, government subsidies such as unemployment and food assistance programs.

Many of the factors identified above that affect disposable income, as well as commodity rates, transportation costs (including the costs of diesel fuel), costs of labor, insurance and healthcare, foreign exchange rate fluctuations, lease costs, measures that create barriers to or increase the costs associated with international trade, changes in other laws and regulations and other economic factors, also affect our ability to plan and execute our strategic initiatives, our cost of goods sold and our selling, general and administrative expenses, and may have other adverse consequences which we are unable to fully anticipate or control, all of which may adversely affect our sales or profitability. We have limited or no ability to control many of these factors.

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

We have short-term and long-term strategies and initiatives (such as those relating to merchandising, marketing, real estate, sourcing, shrink, private brand, distribution and transportation, store operations, store formats, budgeting and expense reduction, and technology) in various stages of testing, evaluation, and implementation, upon which we expect to rely to continue to improve our results of operations and financial condition and to achieve our financial plans. These initiatives are inherently risky and uncertain, even when tested successfully, in their application to our business in general. It is possible that successful testing can result partially from resources and attention that cannot be duplicated in broader implementation, particularly in light of the diverse geographic locations of our stores and the decentralized nature of our field management. General implementation also may be negatively affected by other risk factors described herein. 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 business, results of operations and financial condition.

The success of our merchandising initiatives, particularly those with respect to non consumable merchandise and store specific products and allocations, depends in part upon our ability to predict consistently and successfully the products that our customers will demand and to identify and timely respond to evolving trends in demographic mixes in our markets and consumer preferences, expectations and needs. If we are unable to select products that are attractive to customers, to timely obtain such products at costs that allow us to sell them at an acceptable profit, or to effectively market such products, our sales, market share and profitability could be adversely affected. If our merchandising efforts in the non consumables area or the higher margin areas within consumables are unsuccessful, we could be further adversely affected by our inability to offset the lower margins associated with our consumables business. Further, our merchandising efforts in the consumables area may not generate the net sales growth and increase customer traffic to the levels needed to offset the lower margins generated by sales of consumables and maintain our targeted gross profit margins.

If we cannot open, relocate or remodel stores profitably and on schedule, our planned future growth will be impeded, which would adversely affect sales.

Our ability to open, relocate and remodel profitable stores is a key component of our planned future growth. Our ability to timely open stores and to expand into additional market areas depends in part on the following factors: the availability of attractive store locations; the absence of entitlement process or occupancy delays; the ability to negotiate acceptable lease and development terms; the ability to hire and train new personnel, especially store managers, in a cost effective manner; the ability to identify customer demand in different geographic areas; general economic conditions; and the availability of capital funding for expansion. Many of these factors also affect our ability to successfully relocate stores, and many of them are beyond our control.

Delays or failures in opening new stores or completing relocations or remodels, or achieving lower than expected sales in these projects, could materially adversely affect our growth and/or profitability. We also 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 new stores and future new store opportunities may be located in areas, including but not limited to new states or metro urban areas, where we have limited or no meaningful experience or brand recognition. Those areas may have different competitive and market conditions, consumer tastes and discretionary spending patterns than our existing markets, as well as higher cost of entry. These factors may cause our new stores to be initially less successful than stores in our existing markets, which could slow future growth in these areas.

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

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

The retail business is highly competitive with respect to price, store location, merchandise quality, product assortment and presentation, in stock consistency, customer service, promotional activity, customers, market share, and employees. We compete with discount stores and with many other retailers, including mass merchandise, warehouse club, grocery, drug, convenience, variety, online retailers, and other specialty stores. 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, that may be required to maintain our competitive position. Also, companies like ours, due to customer demographics and other factors, may have limited ability to increase prices in response to increased costs without losing competitive position. This limitation may adversely affect our margins and financial performance. Certain of our competitors have greater financial, distribution, marketing and other resources than we do and may be able to secure better arrangements with suppliers than we can. If we fail to respond effectively to competitive pressures and changes in the retail markets, it could adversely affect our financial performance.

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Competition for customers has intensified as competitors have moved into, or increased their presence in, our geographic markets and increased the availability of mobile and web based technology to facilitate online shopping and real time product and price comparisons and to create an omnichannel shopping experience. We expect this competition to continue to increase. We remain vulnerable to the marketing power and high level of consumer recognition of larger competitors and to the risk that these competitors or others could venture into our industry in a significant way, including through the introduction of new store formats. Further, consolidation within the discount retail industry could significantly alter the competitive dynamics of the retail marketplace. This consolidation may result in competitors with greatly improved financial resources, improved access to merchandise, greater market penetration and other improvements in their competitive positions, as well as result in the provision of a wider variety of products and services at competitive prices by these consolidated companies, which could adversely affect our financial performance.

Our profitability may be negatively affected by inventory shrinkage.

We are subject to the risk of inventory loss and theft. We experience significant inventory shrinkage and cannot be sure that incidences of inventory loss and theft will decrease in the future or that the measures we are taking will effectively reduce the problem of inventory shrinkage. Although some level of inventory shrinkage is an unavoidable cost of doing business, if we were to experience higher rates of inventory shrinkage or incur increased security or other costs to combat inventory theft, our results of operations and financial condition could be affected adversely.

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

Our inventory balance represented approximately 53% of our total assets exclusive of goodwill and other intangible assets as of February 3, 2017. Efficient inventory management is a key component of our business success and profitability. To be successful, we must maintain sufficient inventory levels and an appropriate product mix to meet our customers' demands without allowing those levels to increase to such an extent that the costs to store and hold the goods unduly impacts our financial results or that subjects us to the risk of increased inventory shrinkage. If our buying decisions do not accurately predict customer trends, we inappropriately price products or our expectations about customer spending levels are inaccurate, we may have to take unanticipated markdowns to dispose of the excess inventory, which also can adversely impact our financial results. We continue to focus on ways to reduce these risks, but we cannot make assurances that we will be successful in our inventory management. If we are not successful in managing our inventory balances, our cash flows from operations may be negatively affected.

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

We rely on our distribution and transportation network to provide goods to our stores in a timely and cost effective manner. Using various modes of transportation, including ocean, rail, and truck, we and our vendors move goods from vendor locations to our distribution centers. Deliveries to our stores occur from our distribution centers or directly from our vendors. Any disruption, unanticipated or unusual expense or operational failure related to this process could affect store operations negatively. For example, delivery delays or increases in transportation costs (including through increased fuel costs, increased carrier rates or driver wages as a result of driver shortages, a decrease in transportation capacity for overseas shipments, or work stoppages or slowdowns) could significantly decrease our ability to make sales and earn profits. Labor shortages or work stoppages in the transportation industry or long term disruptions to the national and international transportation infrastructure that lead to delays or interruptions of deliveries or which would necessitate our securing alternative labor or shipping suppliers could also increase our costs or otherwise negatively affect our business.

We maintain a network of distribution facilities and are moving forward with plans to build new facilities to support our growth objectives. Delays in opening distribution centers could adversely affect our future financial performance by slowing store growth, which may in turn reduce revenue growth, or by increasing transportation

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costs. In addition, distribution related construction or expansion projects entail risks that could cause delays and cost overruns, such as: shortages of materials or skilled labor; work stoppages; unforeseen construction, scheduling, engineering, environmental or geological problems; weather interference; fires or other casualty losses; and unanticipated cost increases. The completion date and ultimate cost of these projects could differ significantly from initial expectations due to construction related or other reasons. We cannot guarantee that any project will be completed on time or within established budgets.

Risks associated with or faced by our suppliers could adversely affect our financial performance.

The products we sell are sourced from a wide variety of domestic and international suppliers, and we are dependent on our vendors to supply merchandise in a timely and efficient manner. In 2016, our largest and second largest suppliers each accounted for approximately 8% of our purchases. We have not experienced any difficulty in obtaining sufficient quantities of core merchandise and believe that, if one or more of our current sources of supply became unavailable, we would generally be able to obtain alternative sources without experiencing a substantial disruption of our business. However, such alternative sources could increase our merchandise costs, result in a temporary reduction in store inventory levels, and reduce the quality of our merchandise, and an inability to obtain alternative sources could adversely affect our sales. Additionally, if a supplier fails to deliver on its commitments, whether due to financial difficulties or other reasons, we could experience merchandise out of stocks that could lead to lost sales and damage to our reputation.

We directly imported approximately 6% of our purchases (measured at cost) in 2016, but many of our domestic vendors directly import their products or components of their products. Changes to the prices and flow of these goods for any reason, such as political unrest or acts of war, currency fluctuations, disruptions in maritime lanes, port labor disputes, and economic conditions and instability in the countries in which foreign suppliers are located, the financial instability of suppliers, suppliers' failure to meet our standards, issues with labor practices of our suppliers or labor problems they may experience (such as strikes, stoppages or slowdowns, which could also increase labor costs during and following the disruption), the availability and cost of raw materials to suppliers, increased import duties, merchandise quality or safety issues, transport availability and cost, increases in wage rates and taxes, transport security, inflation, and other factors relating to the suppliers and the countries in which they are located or from which they import, are beyond our control and could adversely affect our operations and profitability. While we are working to reduce our dependency on goods produced in China, a substantial amount of our imported merchandise still comes from China, and thus, a change in the Chinese leadership, economic and market conditions, internal economic stimulus actions, or currency or other policies, as well as increases in costs of labor and wage taxes, could negatively impact our merchandise costs. In addition, the United States' foreign trade policies, duties, 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 and port labor agreements are beyond our control. These and other factors affecting our suppliers and our access to products could adversely affect our business and financial performance. As we increase our imports of merchandise from foreign vendors, the risks associated with these imports also will increase, and we may be exposed to additional or different risks as we increase imports of goods produced in countries other than China.

Our private brands may not maintain broad market acceptance and may increase the risks we face.

The sale of private brand items is an important component of our sales growth and gross profit rate enhancement plans. We have invested in our development and procurement resources and marketing efforts relating to these private brand offerings. We believe that our success in maintaining broad market acceptance of our private brands depends on many factors, including pricing, our costs, quality, customer perception and the timely development and introduction of new products. We may not achieve or maintain our expected sales for our private brands. The sale and expansion of our private brand offerings also subjects us to certain risks, such as: potential product liability risks and mandatory or voluntary product recalls; potential supply chain and distribution chain disruptions for raw materials and finished products; our ability to successfully protect our proprietary rights and successfully navigate and avoid claims related to the proprietary rights of third parties; our ability to successfully administer and comply with applicable contractual obligations and legal and regulatory requirements; and other risks generally encountered by entities that source, sell and market exclusive branded offerings for retail.

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An increase in sales of our private brands may also adversely affect sales of our vendors' products, which, in turn, could adversely affect our relationship with certain of our vendors. Any failure to appropriately address some or all of these risks could have a significant adverse effect on our private brand initiatives and on our reputation, business, results of operations and financial condition.

Product liability, product recall or other product safety claims could adversely affect our business, reputation and financial performance.

All of our vendors and their products must comply with applicable product safety laws, and we are dependent on them to ensure that the products we buy comply with all applicable safety standards. However, product liability, personal injury or other claims may be asserted against us relating to product contamination, product tampering, mislabeling, recall and other safety issues with respect to the products that we sell.

We seek but may not be successful in obtaining contractual indemnification and insurance coverage from our vendors. If we do not have adequate contractual indemnification or insurance available, such claims could have a material adverse effect on our business, financial condition and results of operations. Our ability to obtain indemnification from foreign vendors may be hindered by our ability to obtain jurisdiction over such vendors to enforce contractual indemnification obligations. Even with adequate insurance and indemnification, such claims could significantly damage our reputation and consumer confidence in our products. Our litigation expenses could increase as well, which also could have a materially negative impact on our results of operations even if a product liability claim is unsuccessful or is not fully pursued.

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 and frequently changing federal, state and local laws and regulations. We routinely incur significant costs in complying with these regulations. The complexity of the regulatory environment in which we operate and the related cost of compliance are increasing due to additional legal and regulatory requirements, our expanding operations, and increased enforcement efforts. Further, uncertainties exist regarding the future application of certain of these legal requirements to our business. New laws, regulations, policies and the related interpretations and enforcement practices, particularly those dealing with environmental compliance, product safety, food safety, information security and privacy, and labor and employment, among others, or changes in existing laws, regulations, policies and the related interpretations and enforcement practices, particularly those governing the sale of products or employee wages, may result in significant added expenses or may require extensive system and operating changes that may be difficult to implement and/or could materially increase our cost of doing business. 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, class action litigation or other litigation, in addition to reputational damage. Additionally, changes in tax laws, the interpretation of existing laws, or our failure to sustain our reporting positions on examination could adversely affect our effective tax rate.

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

Our business is subject to the risk of litigation by employees, consumers, suppliers, competitors, shareholders, government agencies and others through private actions, class actions, administrative proceedings, regulatory actions or other litigation. The outcome of litigation, particularly class action lawsuits and regulatory actions, 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 operations 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,

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litigation may adversely affect our business, results of operations and financial condition. See Note 7 to the consolidated financial statements for further details regarding certain of these pending matters.

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, certain wage and hour and other employment related claims, including class actions, actions based on certain consumer protection laws, and some natural and other disasters or similar events. 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 expenses than expected under these programs, which could have a material adverse effect on our results of operations and financial condition. Although we continue to maintain property insurance for catastrophic events at our store support center and distribution centers, we are effectively self insured for other property losses. If we experience a greater number of these losses than we anticipate, our financial performance could be adversely affected.

Natural disasters and unusual weather conditions (whether or not caused by climate change), pandemic outbreaks, terrorist acts, and global political events could disrupt business and result in lower sales and otherwise adversely affect our financial performance.

The occurrence of one or more natural disasters, such as hurricanes, fires, floods, tornadoes and earthquakes, unusual weather conditions, pandemic outbreaks, terrorist acts or disruptive global political events, such as civil unrest in countries in which our suppliers are located, or similar disruptions could adversely affect our business and financial performance. Uncharacteristic or significant weather conditions can affect consumer shopping patterns, which could lead to lost sales or greater than expected markdowns and adversely affect our short term results of operations. To the extent these events result in the closure of one or more of our distribution centers, a significant number of stores, or our corporate headquarters or impact one or more of our key suppliers, our operations and financial performance could be materially adversely affected through an inability to make deliveries or provide other support functions to our stores and through lost sales. In addition, these events could result in increases in fuel (or other energy) prices or a fuel shortage, delays in opening new stores, the temporary lack of an adequate work force in a market, the temporary or long term disruption in the supply of products from some domestic 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 inability of customers to reach or have transportation to our stores directly affected by such events, the temporary reduction in the availability of products in our stores and disruption of our utility services or to our information systems. These events also can have indirect consequences such as increases in the costs of insurance if they result in significant loss of property or other insurable damage.

Any failure to maintain the security of information we hold relating to our customers, employees and vendors, whether as a result of cybersecurity attacks or otherwise, could expose us to litigation, government enforcement actions and costly response measures, and could materially disrupt our operations and harm our reputation and sales.

In connection with sales, we transmit confidential credit and debit card information. We also have access to, collect or maintain certain private or confidential information regarding our customers, employees and vendors, as well as our business. Additionally, under certain circumstances, we may share information with vendors that assist us in conducting our business (for example, third party vendors assist us in the transmittal of

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credit and debit card information in connection with sales), as required by law, or otherwise in accordance with our privacy policy. While we have implemented procedures and technology intended to protect and safeguard our information and require appropriate controls of our vendors, it is possible that cyber-attackers might compromise our security measures or those of our technology and other vendors in the future and obtain the personal information of our customers, employees and vendors that we hold or our business information, as cyberattacks are rapidly evolving and becoming increasingly sophisticated and may not immediately produce signs of intrusion. Moreover, employee error or malfeasance or other irregularities may result in a defeat of our or our third party vendors' security measures and breach our or our third party vendors' information systems.

Because we accept debit and credit cards for payment, we are subject to the Payment Card Industry Data Security Standards ("PCI DSS"), issued by the Payment Card Industry Security Standards Council. PCI DSS contains compliance guidelines and standards with regard to our security surrounding the physical and electronic storage, processing, and transmission of cardholder data. Additionally, we have implemented technology in all of our stores to allow for the acceptance of Europay, Mastercard and Visa (EMV) credit transactions. Complying with PCI DSS standards and implementing related procedures, technology and information security measures require significant resources and ongoing attention. However, even as we comply with PCI DSS standards and offer EMV technology in our stores, we may be vulnerable to, and unable to detect and appropriately respond to, data security breaches and data loss, including cybersecurity attacks or other breach of cardholder data.

A security breach of any kind (whether experienced by us or one of our vendors), which could be undetected for a period of time, or any failure by us to comply with the applicable privacy and information security laws, regulations and standards could expose us to risks of data loss, litigation, government enforcement actions, fines or penalties, credit card brand assessments, and costly response measures (including, for example, providing notification to, and credit monitoring services for, affected customers, as well as further upgrades to our security measures) which may not be covered by or may exceed the coverage limits of our insurance policies, and could materially disrupt our operations. Any resulting negative media attention and publicity could significantly harm our reputation which could cause us to lose market share as a result of customers discontinuing the use of debit or credit cards in our stores or not shopping in our stores altogether and could have a material adverse effect on our business and financial performance.

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

We depend on a variety of information technology systems for the efficient functioning of our business and are continually improving our information processes and computer systems to better run our business. These technology initiatives may not deliver desired results or may do so on a delayed schedule. Additionally, such systems are subject to damage or interruption from power outages, facility damage, computer and telecommunications failures, computer viruses, cybersecurity breaches, cyber attacks, natural disasters and human error. Damage or interruption to these systems may require a significant investment to fix or replace them, and we may suffer interruptions or disruptions in our operations in the interim, may experience loss or corruption of critical data and may receive negative publicity, all of which could have a material adverse effect on our business or results of operations.

We also rely heavily on our information technology staff. Failure to meet these staffing needs may negatively affect our ability to fulfill our technology initiatives while continuing to provide maintenance on existing systems. We rely on certain 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 vendors, 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 and could expose us to greater risk of a cybersecurity breach or other cyber attack. 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.

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Failure to attract, train 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, positive customer experience and regulatory compliance depends on our ability to attract, train, 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 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, changes in employment and labor laws (including changes in the process for our employees to join a union) or other workplace regulations (including changes in “entitlement” programs such as health insurance and paid leave programs), and our reputation and relevance within the labor market. If we are unable to attract and retain adequate numbers of qualified employees, our operations, customer service levels and support functions could suffer. To the extent a significant portion of our employee base unionizes, or attempts to unionize, our labor costs could increase. In addition, potential regulatory changes relating to overtime exemptions for certain employees under federal and state laws could result in increased labor costs to our business and negatively affect our operating results if the regulatory changes are implemented. Our ability to pass along labor costs to our customers is constrained by our everyday low price model, and we may not be able to offset such increased costs elsewhere in our business.

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

Our future success depends to a significant degree on the skills, experience and efforts of our executive officers and other key personnel. The unexpected loss of the services of any of our executive officers could have an adverse effect on our operations. There can be no assurance that our executive succession planning, retention or hiring efforts will be successful. Competition for skilled and experienced management personnel is intense, and our future success will also depend on our ability to attract and retain qualified personnel, and a failure to attract and retain new qualified personnel could have an adverse effect on our operations. We do not currently maintain key person life insurance policies with respect to our executive officers or key personnel.

Because our business is somewhat seasonal, 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. Adverse events, such as deteriorating economic conditions, high unemployment rates, high gas prices, public transportation disruptions, or unusual or unanticipated adverse weather could result in lower than planned sales during the Christmas selling season. An excess of seasonal merchandise inventory could result if our net sales during the Christmas selling season fall below seasonal norms or expectations. If our fourth quarter sales results were substantially below expectations, our financial performance and operating results could be adversely affected by unanticipated markdowns, especially in seasonal merchandise.

Deterioration in market conditions or changes in our credit profile could adversely affect our business operations and financial condition.

We rely on the positive cash flow we generate from our operating activities and our access to the credit and capital markets to fund our operations, growth strategy, and return of cash to our shareholders through share repurchases and dividends. Changes in the credit and capital markets, including market disruptions, limited liquidity and interest rate fluctuations, may increase the cost of financing or restrict our access to these potential sources of future liquidity. Our continued access to these liquidity sources on favorable terms depends on multiple factors, including our operating performance and our credit ratings. Our debt securities currently have an investment grade rating, and a downgrade of this rating likely would negatively impact our access to the debt capital markets and increase our cost of borrowing. As a result, any disruptions or turmoil in the debt markets or any downgrade of our credit ratings could adversely affect our business operations and financial condition and our ability to return cash to our shareholders. There can be no assurances that our ability to obtain additional financing

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through the debt markets will not be adversely impacted by economic conditions or that we will be able to maintain or improve our current credit ratings.

New accounting guidance or changes in the interpretation or application of existing accounting guidance could adversely affect our financial performance.

The implementation of new accounting standards will require extensive systems, internal process and other changes that could increase our operating costs, and also will result in changes to our financial statements. In particular, the implementation of accounting standards related to leases, as issued by the Financial Accounting Standards Board ("FASB") are requiring us to make significant changes to our lease management and other accounting systems, and will result in significant changes to our financial statements. Additionally, the FASB has issued accounting standards related to revenue recognition and intra-entity transfers that could result in changes to our financial statements.

U.S. generally accepted accounting principles and related accounting pronouncements, implementation guidelines and interpretations with regard to a wide range of matters that are relevant to our business involve many subjective assumptions, estimates and judgments by our management. Changes in these rules or their interpretation or changes in underlying assumptions, estimates or judgments by our management could significantly change our reported or expected financial performance. The outcome of such changes could include litigation or regulatory actions which could have an adverse effect on our financial condition and results of operations.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

As of March 3, 2017, we operated 13,429 retail stores located in 44 states as follows:

State	Number of Stores	State	Number of Stores
Alabama	688	Nebraska	111
Arizona	99	Nevada	24
Arkansas	392	New Hampshire	23

California	185	New Jersey	94
Colorado	30	New Mexico	87
Connecticut	33	New York	358
Delaware	43	North Carolina	730
Florida	781	North Dakota	5
Georgia	758	Ohio	705
Illinois	481	Oklahoma	408
Indiana	459	Oregon	19
Iowa	205	Pennsylvania	604
Kansas	220	Rhode Island	6
Kentucky	474	South Carolina	484
Louisiana	511	South Dakota	32
Maine	29	Tennessee	700
Maryland	118	Texas	1,353
Massachusetts	22	Utah	6
Michigan	401	Vermont	32
Minnesota	97	Virginia	362
Mississippi	447	West Virginia	216
Missouri	464	Wisconsin	133

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Most of our stores are located in leased premises. Individual store leases vary as to their terms, rental provisions and expiration dates. Many stores are subject to build to suit arrangements with landlords, which typically carry a primary lease term of up to 15 years with multiple renewal options. We also have stores subject to shorter term leases and many of these leases have renewal options. A significant portion of our new stores are subject to build to suit arrangements.

As of March 3, 2017, we operated fourteen distribution centers, as described in the following table:

Location	Year Opened	Approximate Square Footage	Number of Stores Served
Scottsville, KY	1959	720,000	746
Ardmore, OK	1994	1,310,000	1,342
South Boston, VA	1997	1,250,000	996
Indianola, MS	1998	820,000	788
Fulton, MO	1999	1,150,000	1,290
Alachua, FL	2000	980,000	960
Zanesville, OH	2001	1,170,000	1,159
Jonesville, SC	2005	1,120,000	1,185
Marion, IN	2006	1,110,000	1,270
Bessemer, AL	2012	940,000	1,148
Lebec, CA	2012	600,000	352
Bethel, PA	2014	1,000,000	939
San Antonio, TX	2016	920,000	852
Janesville, WI	2016	1,000,000	402

We lease the distribution centers located in California, Oklahoma, Mississippi and Missouri and own the remaining distribution centers in the table above. Approximately 7.25 acres of the land on which our Kentucky distribution center is located is subject to a ground lease. As of February 3, 2017, we leased approximately 871,000 square feet of additional temporary warehouse space to support our distribution needs.

Our executive offices are located in approximately 302,000 square feet of owned buildings and approximately 56,000 square feet of leased office space in Goodlettsville, Tennessee.

ITEM 3. LEGAL PROCEEDINGS

The information contained in Note 7 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. MINE SAFETY DISCLOSURES

None.

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EXECUTIVE OFFICERS OF THE REGISTRANT

Information regarding our current executive officers as of March 24, 2017 is set forth below. Each of our executive officers serves at the discretion of our Board of Directors and is elected annually by the Board to serve until a successor is duly elected. There are no familial relationships between any of our directors or executive officers.

Name	Age	Position
Todd J. Vasos	55	Chief Executive Officer and Director
John W. Garratt	48	Executive Vice President and Chief Financial Officer
Jeffery C. Owen	47	Executive Vice President, Store Operations
Robert D. Ravener	58	Executive Vice President and Chief People Officer
Rhonda M. Taylor	49	Executive Vice President and General Counsel
James W. Thorpe	58	Executive Vice President and Chief Merchandising Officer
Anita C. Elliott	52	Senior Vice President and Chief Accounting Officer
Michael J. Kindy	51	Senior Vice President, Global Supply Chain

Mr. Vasos has served as Chief Executive Officer and a member of our Board since June 2015. He joined Dollar General in December 2008 as Executive Vice President, Division President and Chief Merchandising Officer. He was promoted to Chief Operating Officer in November 2013. Prior to joining Dollar General, Mr. Vasos served in executive positions with Longs Drug Stores Corporation for 7 years, including Executive Vice President and Chief Operating Officer (February 2008 through November 2008) and Senior Vice President and Chief Merchandising Officer (2001 - 2008), where he was responsible for all pharmacy and front end marketing, merchandising, procurement, supply chain, advertising, store development, store layout and space allocation, and the operation of three distribution centers. He also previously served in leadership positions at Phar Mor Food and Drug Inc. and Eckerd Corporation.

Mr. Garratt has served as Executive Vice President and Chief Financial Officer since December 2, 2015. He joined Dollar General in October 2014 as Senior Vice President, Finance & Strategy and subsequently served as Interim Chief Financial Officer from July 2015 to December 2015. Prior to joining Dollar General, Mr. Garratt held various positions of increasing responsibility with Yum! Brands, Inc., one of the world’s largest restaurant companies, between May 2004 and October 2014, holding leadership positions in corporate strategy and financial planning. He served as Vice President, Finance and Division Controller for the KFC division and earlier for the Pizza Hut division and for Yum Restaurants International between October 2013 and October 2014. He also served as the Senior Director, Yum Corporate Strategy, from March 2010 to October 2013, reporting directly to the corporate Chief Financial Officer and leading corporate strategy as well as driving key cross divisional initiatives. Mr. Garratt served in various other financial positions at Yum from May 2004 to March 2010. He served as Plant Controller for Alcoa Inc. between April 2002 and May 2004, and held various financial management positions at General Electric from March 1999 to April 2002. He began his career in May 1990 at Alcoa, where he served for approximately nine years.

Mr. Owen returned to Dollar General in June 2015 as Executive Vice President of Store Operations, with over 21 years of previous employment experience with the Company. Prior to his departure from Dollar General in July 2014, he was Senior Vice President, Store Operations. Prior to August 2011, Mr. Owen served as Vice President, Division Manager. From November 2006 to March 2007, he served as Retail Division Manager. Prior to November 2006, he was Senior Director, Operations Process Improvement. Mr. Owen served the Company in various operations roles of increasing importance and responsibility from December 1992 to September 2004. Mr. Owen has served as a director of Kirkland's Inc. since March 30, 2015.

Mr. Ravener joined Dollar General as Senior Vice President and Chief People Officer in August 2008. He was promoted to Executive Vice President in March 2010. Prior to joining Dollar General, he served in human resources executive roles with Starbucks Corporation, a roaster, marketer and retailer of specialty coffee, from

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September 2005 until August 2008 as the Senior Vice President of U.S. Partner Resources and, prior to that, as the Vice President, Partner Resources—Eastern Division. As the Senior Vice President of U.S. Partner Resources at Starbucks, Mr. Ravener oversaw all aspects of human resources activity for more than 10,000 stores. Prior to serving at Starbucks, Mr. Ravener held Vice President of Human Resources roles for The Home Depot Inc., a home improvement retailer, at its Store Support Center and a domestic field division from April 2003 to September 2005. Mr. Ravener also served in executive roles in both human resources and operations at Footstar, Inc. and roles of increasing leadership at PepsiCo, Inc.

Ms. Taylor has served as Executive Vice President and General Counsel since March 17, 2015. She joined Dollar General as an Employment Attorney in March 2000 and was subsequently promoted to Senior Employment Attorney in 2001, Deputy General Counsel in 2004, Vice President and Assistant General Counsel in March 2010, and Senior Vice President and General Counsel in June 2013. Prior to joining Dollar General, she practiced law with Ogletree, Deakins, Nash, Smoak & Stewart, P.C., where she specialized in labor law and employment litigation. She has also held attorney positions with Ford & Harrison LLP and Stokes & Bartholomew.

Mr. Thorpe returned to Dollar General in August 2015 as Executive Vice President and Chief Merchandising Officer, with over six years of previous employment experience with the Company. Mr. Thorpe has advised the Company of his intention to resign, which will be effective April 15, 2017. He previously served as Senior Vice President, General Merchandise Manager, from May 2006 when he joined the Company until his departure in July 2012. Following his departure from Dollar General, Mr. Thorpe provided on a limited ad hoc basis certain retail industry consulting services as President of JW Thorpe & Associates, Inc. Prior to Dollar General, he served in various positions of increasing importance and responsibility with Sears Holdings Corporation, a leading integrated retailer, from March 1991 to May 2006 where his last position was Vice President and General Merchandise Manager—Hard Home of Sears Home Group. Prior to Sears, he worked as a Marketing Program Manager for Zenith Data Systems, a personal computer development and sales company, from July 1990 to February 1991. He began his career at The MAXIMA Corporation, an information technology services company, where he held various project administration and analyst positions.

Ms. Elliott has served as Senior Vice President and Chief Accounting Officer since December 2, 2015. She joined Dollar General as Senior Vice President and Controller in August 2005. Prior to joining Dollar General, she served as Vice President and Controller of Big Lots, Inc., a closeout retailer, from May 2001 to August 2005, where she was responsible for accounting operations, financial reporting and internal audit. Prior to serving at Big Lots, she served as Vice President and Controller for Jitney Jungle Stores of America, Inc., a grocery retailer, from April 1998 to March 2001. At Jitney Jungle, Ms. Elliott was responsible for the accounting operations and the internal and external financial reporting functions. Prior to serving at Jitney Jungle, she practiced public accounting for 12 years, 6 of which were with Ernst & Young LLP.

Mr. Kindy joined Dollar General as Vice President, Distribution Centers in December 2008. He became Vice President, Transportation in May 2013 and was promoted to Senior Vice President, Global Supply Chain in June 2015. Prior to joining Dollar General, Mr. Kindy had 14 years of grocery distribution management and 5 years of logistics and distribution consulting experience. He served as Senior Director, Warehouse Operations, for ConAgra

Foods, one of North America's largest packaged food companies, from November 2007 to December 2008. Since beginning his career in July 1989, Mr. Kindy also held various distribution and warehouse leadership positions at Safeway, Inc., Crum & Crum Logistics, and Specialized Distribution Management, Inc., and served as a principal consultant for PricewaterhouseCoopers.

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PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

Our common stock is traded on the New York Stock Exchange under the symbol "DG." The high and low sales prices during each quarter in fiscal 2016 and 2015 were as follows:

2016	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
High	$ 87.42	$ 96.88	$ 94.75	$ 80.67
Low	$ 67.90	$ 78.91	$ 66.50	$ 68.04

2015	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
High	$ 76.99	$ 81.42	$ 81.15	$ 75.14
Low	$ 65.86	$ 71.44	$ 64.66	$ 59.75

On March 17, 2017, our stock price at the close of the market was $72.33 and there were approximately 2,148 shareholders of record of our common stock.

Dividends

On March 15, 2017, our Board of Directors declared a quarterly cash dividend of $0.26 per share, which is payable on April 25, 2017 to shareholders of record of our common stock on April 11, 2017. We paid quarterly cash dividends of $0.25 in 2016 and $0.22 per share in 2015. Prior to March 2015, we had not declared or paid recurring dividends since March 2007. Although the Board intends to continue regular quarterly cash dividends, the declaration and amount of future cash dividends are subject to the Board's discretion based on an evaluation of our earnings performance, financial condition, capital needs and other relevant factors and will depend on, among other things, our results of operations, cash requirements, financial condition, contractual restrictions and other factors that the Board may deem relevant.

Issuer Purchases of Equity Securities

The following table contains information regarding purchases of our common stock made during the quarter ended February 3, 2017 by or on behalf of Dollar General or any "affiliated purchaser," as defined by Rule 10b 18(a)(3) of the Securities Exchange Act of 1934:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(a)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs(a)
10/29/16-11/30/16	3,119,816	$ 73.74	3,119,816	$ 1,014,328,000
12/01/16-12/31/16	733,148	$ 76.38	733,148	$ 958,329,000
01/01/17-02/03/17	339,323	$ 73.68	339,323	$ 933,329,000
Total	4,192,287	$ 74.20	4,192,287	$ 933,329,000

(a) A $500 million share repurchase program was publicly announced on September 5, 2012, and increases in the authorization under such program were announced on March 25, 2013 ($500 million increase), December 5, 2013 ($1.0 billion increase), March 12, 2015 ($1.0 billion increase), December 3, 2015 ($1.0 billion increase) and August 25, 2016 ($1.0 billion increase). Under the authorization, purchases may be made in the open market or in privately negotiated transactions from time to time subject to market and other conditions. This repurchase authorization has no expiration date.

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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 income data and statement of cash flows data for the fiscal years ended February 3, 2017, January 29, 2016, and January 30, 2015 and balance sheet data as of February 3, 2017 and January 29, 2016, have been derived from our historical audited consolidated financial statements included elsewhere in this report. The selected historical statement of income data and statement of cash flows data for the fiscal years ended January 31, 2014 and February 1, 2013 and balance sheet data as of January 30, 2015, January 31, 2014, and February 1, 2013 presented in this table have been derived from audited consolidated financial statements not included in this report.

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,

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Item 7 of this report. Certain financial disclosures relating to prior periods have been reclassified to conform to the current year presentation.

(Amounts in millions, excluding per share data, number of stores, selling square feet, and net sales per square foot)	Year Ended February 3, 2017(1)	January 29, 2016	January 30, 2015	January 31, 2014	February 1, 2013
Statement of Income Data:					
Net sales	$ 21,986.6	$ 20,368.6	$ 18,909.6	$ 17,504.2	$ 16,022.1
Cost of goods sold	15,204.0	14,062.5	13,107.1	12,068.4	10,936.7
Gross profit	6,782.6	6,306.1	5,802.5	5,435.7	5,085.4
Selling, general and administrative expenses	4,719.2	4,365.8	4,033.4	3,699.6	3,430.1
Operating profit	2,063.4	1,940.3	1,769.1	1,736.2	1,655.3
Interest expense	97.8	86.9	88.2	89.0	127.9
Other (income) expense	—	0.3	—	18.9	30.0
Income before income taxes	1,965.6	1,853.0	1,680.9	1,628.3	1,497.4
Income tax expense	714.5	687.9	615.5	603.2	544.7
Net income	$ 1,251.1	$ 1,165.1	$ 1,065.3	$ 1,025.1	$ 952.7
Earnings per share—basic	$ 4.45	$ 3.96	$ 3.50	$ 3.17	$ 2.87
Earnings per share—diluted	4.43	3.95	3.49	3.17	2.85
Dividends per share	1.00	0.88	—	—	—
Statement of Cash Flows Data:					
Net cash provided by (used in):					
Operating activities	$ 1,605.0	$ 1,391.7	$ 1,326.9	$ 1,244.1	$ 1,219.1
Investing activities	(550.9)	(503.4)	(371.7)	(250.0)	(569.8)
Financing activities	(1,024.1)	(1,310.2)	(880.9)	(629.3)	(634.6)
Total capital expenditures	(560.3)	(504.8)	(374.0)	(538.4)	(571.6)
Other Financial and Operating Data:					
Same store sales growth(2)	0.9 %	2.8 %	2.8 %	3.3 %	4.7 %
Same store sales(2)	$ 20,348.1	$ 19,254.3	$ 17,818.7	$ 16,365.5	$ 14,992.7
Number of stores included in same store sales calculation	12,383	11,706	11,052	10,387	9,783
Number of stores (at period end)	13,320	12,483	11,789	11,132	10,506
Selling square feet (in thousands at period end)	98,943	92,477	87,205	82,012	76,909
Net sales per square foot(3)	$ 229	$ 226	$ 223	$ 220	$ 216
Consumables sales	76.4 %	75.9 %	75.7 %	75.2 %	73.9 %
Seasonal sales	12.2 %	12.4 %	12.4 %	12.9 %	13.6 %
Home products sales	6.2 %	6.3 %	6.4 %	6.4 %	6.6 %
Apparel sales	5.2 %	5.4 %	5.5 %	5.5 %	5.9 %
Rent expense	$ 942.4	$ 856.9	$ 785.2	$ 686.9	$ 614.3
Balance Sheet Data (at period end):					
Cash and cash equivalents and short-term investments	$ 187.9	$ 157.9	$ 579.8	$ 505.6	$ 140.8
Total assets	11,672.3	11,257.9	11,208.6	10,848.2	10,340.8
Long-term debt(4)	3,211.5	2,970.6	2,725.1	2,799.5	2,745.3
Total shareholders' equity	5,406.3	5,377.9	5,710.0	5,402.2	4,985.3

(1) The fiscal year ended February 3, 2017 was comprised of 53 weeks.

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(2) Same store sales are calculated based upon stores that were open at least 13 full fiscal months and remain open at the end of the reporting period. We include stores that have been remodeled, expanded or relocated in our same store sales calculation. Changes in same-store sales are calculated based on the comparable 52 calendar weeks in the current and prior years.

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

(4) Debt issuance costs are reflected as a deduction from the corresponding debt liability for all periods presented.

	Year Ended February 3, 2017(1)	January 29, 2016	January 30, 2015	January 31, 2014	February 1, 2013
Ratio of earnings to fixed charges(2):	4.3 x	4.5 x	4.4 x	4.7 x	4.7 x

(1) The fiscal year ended February 3, 2017 was comprised of 53 weeks.

(2) For purposes of computing the ratio of earnings to fixed charges, (a) earnings consist of income (loss) before income taxes, plus fixed charges less capitalized expenses related to indebtedness (amortization expense for capitalized interest is not significant) and (b) fixed charges consist of interest expense (whether expensed or capitalized), the amortization of debt issuance costs and discounts related to indebtedness, and the interest portion of rent expense.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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 Cautionary Disclosure Regarding Forward Looking Statements and the Risk Factors disclosures set forth in the Introduction and in Item 1A of this report, respectively.

Executive Overview

We are among the largest discount retailers in the United States by number of stores, with 13,429 stores located in 44 states as of March 3, 2017, with the greatest concentration of stores in the southern, southwestern, midwestern and eastern United States. We offer a broad selection of merchandise, including consumable products such as food, paper and cleaning products, health and beauty products and pet supplies, and non-consumable products such as seasonal merchandise, home decor and domestics, and basic apparel. Our merchandise includes high-quality national brands from leading manufacturers, as well as our own value and comparable quality private brand selections with prices at substantial discounts to national brands. We offer our customers these national brand and private brand products at everyday low prices (typically $10 or less) in our convenient small-box locations.

Because the customers we serve are value-conscious, many with low or fixed incomes, we are intensely focused on helping them make the most of their spending dollars. We believe our convenient store format and broad selection of high-quality products at compelling values have driven our substantial growth and financial success over the years. Like other retailers, we have been operating for several years in an environment with ongoing macroeconomic challenges and uncertainties. Our core customers are often among the first to be affected by negative or uncertain economic conditions, and are among the last to feel the effects of improving economic conditions particularly when, as in the recent past, trends are inconsistent and their duration unknown. The primary macroeconomic factors that affect our core customers include the unemployment rate, the underemployment rate, wage growth, fuel prices, and changes to certain government assistance programs, such as the 2016 changes to the Supplemental Nutrition Assistance Program, which had the effect of not only reducing benefit levels but also eliminating benefit eligibility for certain individuals. Additionally, our customers are impacted by increases in those expenses that generally comprise a large portion of their budget, such as rent and healthcare, and during 2016, these expenses increased at a rate that was greater than many of our core customers' growth in income. We believe the overall effect of the factors listed above have negatively affected our traffic and, along with deflationary pressures, including both lower commodity costs and pricing actions on our products, have negatively affected same-store sales.

During 2016, we undertook a strategic review of our business and the retail environment that was designed to help identify additional long-term growth opportunities. This strategic review resulted in prioritizing those growth opportunities that we believe are most important for the business, such as leveraging digital tools and technology, while ensuring that we maintain our brand heritage and build upon our organizational capabilities.

Following this strategic review, we remain committed to the following long-term operating priorities as we consistently strive to improve our performance while retaining our customer-centric focus: 1) driving profitable sales growth, 2) capturing growth opportunities, 3) enhancing our position as a low-cost operator, and 4) investing in our people as a competitive advantage.

We seek to drive profitable sales growth through initiatives aimed at increasing customer traffic and average transaction amount, as well as an ongoing focus on enhancing our margins while maintaining both everyday low price and affordability.

Historically, our sales of consumables, which tend to have lower gross margins, have been the key drivers of net sales and customer traffic, while sales of non-consumables, which tend to have higher gross margins, have contributed to profitable sales growth and an increase in average transaction amount. We expect these trends to continue in 2017. Same-store sales growth is key to achieving our objectives. As noted above, in recent periods economic and competitive deflationary pressures resulting in lower commodity costs and prices has negatively affected our net and same store sales performance, and the continuation, if any, of these deflationary pressures could negatively impact sales of certain items going forward. Additionally, we have made certain pricing adjustments and marketing investments in designated geographies with a focus on the consumables category to drive customer traffic. These pricing adjustments and marketing investments are performing well in the majority of stores that received them with improvements in transactions, units, and same-store sales. We expect to continue to evaluate and refresh these pricing adjustments across various items, categories and markets as needed.

During 2016, we made significant progress with the rollout of other initiatives designed to increase customer traffic and sales, such as the expansion of coolers in existing stores, the expansion of certain product classes including health and beauty care, party and stationery, and improvement in our in-stock position. We plan to further this progress in 2017 with the continued expansion of coolers, the rollout of additional merchandising initiatives across all merchandise categories, a continued focus on improving our in-stock position, and the addition of a queue line, similar to that in our DG16 layout stores discussed below, in a portion of our existing store base. We will continue to utilize our updated customer segmentation information, which has provided us with deeper insights into the spending habits for each of our core customer segments, to refine these initiatives and drive our category management process, as we optimize our assortment and expand into those products that are most likely to drive customer traffic to our stores. We plan to enhance our advertising effectiveness in 2017 by further integrating our traditional and digital media mix, designed to ensure that we reach our target customers where, when and how they decide to engage with us while also targeting a higher return on investment. We also plan to continue investing in our existing store base through many of these targeted merchandising initiatives, with a goal to drive increased customer traffic, average transaction amount and same-store sales.

We demonstrate our commitment to the affordability needs of our core customer by pricing more than 80% of our stock-keeping units at $5 or less at the end of 2016. However, as we work to provide everyday low prices and meet our customers' affordability needs, we also remain focused on enhancing our margins through effective category management, inventory shrink reduction initiatives, private brands penetration, efforts to improve distribution and transportation efficiencies, global sourcing, and pricing and markdown optimization. With respect to category management, we strive to maintain an appropriate mix of consumables and non-consumables sales because, as noted above, the mix of sales affects profitability due to the varying gross margins between, and even within, the consumables and non-consumables categories. To support our efforts to reduce inventory shrink, we continue to implement additional in-store defensive merchandising and technology-based tools, such as Electronic Article Surveillance and video-enabled exception-based reporting in select stores. We strive to balance these and other shrink reduction efforts with our efforts to improve our in-stock position. We seek to reduce our stem miles and optimize loads to improve distribution and transportation efficiencies.

To support our other operating priorities, we remain focused on capturing growth opportunities and innovating within our channel. In 2016, we continued to expand our store count, opening 900 stores and remodeling or relocating 906 stores. In 2017, we intend to open approximately 1,000 stores and to relocate or remodel approximately 900 stores.

We continue to innovate within our channel, and during 2016 we began implementing the DG16 store layout for all new stores, relocations and remodels. In addition, we also began testing a smaller format store (less than 6,000 square feet) which we believe could allow us to capture growth opportunities in metropolitan areas as well as rural areas with a low number of households. In 2017, we plan to incorporate into a portion of our existing store base certain lessons learned from the DG16 layout and smaller format stores, as well those learned in connection with the conversion of the larger format former Walmart Express stores we acquired during 2016. To support our new store growth and drive productivity, we continue to make investments in our distribution center network. During 2016, we opened new distribution centers in Texas and Wisconsin. Our fifteenth distribution center in Jackson, Georgia is under construction with a goal to begin shipping from this facility in late 2017. We

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expect to break ground on our sixteenth distribution center in Amsterdam, New York in mid-2017 to support our northeast growth.

We have established a position as a low-cost operator, continuously seeking ways to reduce or control costs that do not affect our customers' shopping experience. We continued to enhance this position during 2016 through our zero-based budgeting initiative, streamlining our business while also reducing certain expenses as a percentage of sales. This initiative was successful in 2016, as evidenced by reductions in administrative payroll, advertising and certain other costs, and we believe this initiative has the momentum to assist in leveraging SG&A expenses at a lower same-store sales growth percentage over the long term. In addition, we remain committed to simplifying or eliminating store-level tasks and processes so that those time savings can be reinvested by our Store Managers and their teams in important areas such as enhanced customer service, higher in-stock levels, and improved store standards.

Our employees are a competitive advantage, and we are always searching for ways to continue investing in them. We invest in our employees in an effort to create an environment that attracts and retains talented personnel, as we believe that, particularly at the store level, employees who are promoted from within generally have longer tenures and are greater contributors to improvements in our financial performance. During 2016, these efforts helped to achieve our lowest level of store manager turnover in four years. During 2017, we will build upon this foundation by investing approximately $70 million, primarily for increased compensation and training for our store managers, as well as strategic initiatives. Our store managers play a critical role in our customer experience, and we anticipate this investment in their compensation will contribute to improved customer experience scores, higher sales, lower shrink and improved turnover metrics. The proposed changes to the overtime exemption regulations under the Fair Labor Standards Act ("FLSA") are subject to an injunction by a federal court and if such regulations were to be implemented, we likely will incur incremental SG&A expenses.

To further enhance shareholder return in 2017, we plan to continue to repurchase shares of our common stock, although we expect to do so in a lower amount than in 2016, and pay quarterly cash dividends, subject to Board discretion.

A continued focus on our four operating priorities as discussed above, coupled with strong cash flow management and share repurchases resulted in solid overall operating and financial performance in 2016 as compared to 2015, as set forth below. Basis points, as referred to below, are equal to 0.01% as a percentage of net sales.

- Net sales in 2016 increased 7.9% over 2015. Sales in same-stores increased 0.9%, primarily due to an increase in average transaction amount accompanied by traffic that was essentially unchanged from the prior year. Average sales per square foot in 2016 were $229, including a $4 contribution from the 53rd week, as compared to $226 per square foot in 2015.

- Operating profit increased 6.3% to $2.06 billion, or 9.4% of sales, compared to $1.94 billion, or 9.5% of sales in 2015. The decrease in our operating profit rate reflects an 11 basis-point decrease in our gross profit rate and a 3 basis-point increase in SG&A.

- Our gross profit rate decreased by 11 basis points due primarily to higher markdowns, a greater proportion of sales of consumables, and a higher rate of inventory shrinkage.

- The increase in SG&A, as a percentage of sales, was due primarily to increases in retail labor costs. For other factors, see the detailed discussion that follows.

- Interest expense increased by $10.9 million in 2016 to $97.8 million due primarily to greater average debt outstanding and higher average interest rates.

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- The decrease in the effective income tax rate to 36.3% in 2016 from 37.1% in 2015 was due primarily to an accounting change related to share-based compensation.

- We reported net income of $1.25 billion, or $4.43 per diluted share, for 2016, compared to net income of $1.17 billion, or $3.95 per diluted share, for 2015. Stock repurchase activity during 2015 and 2016 contributed to the increase in diluted earnings per share.

- We generated approximately $1.61 billion of cash flows from operating activities in 2016, an increase of 15.3% compared to 2015. We primarily utilized our cash flows from operating activities to invest in the growth of our business, repurchase our common stock, and pay quarterly cash dividends.

- Inventory turnover was 4.7 times on a rolling four-quarter basis. Inventories decreased 0.7% on a per store basis compared to 2015.

- We opened 900 new stores, remodeled or relocated 906 stores, and closed 63 stores.

- We repurchased approximately 12.4 million shares of our outstanding common stock for $990 million.

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

Accounting Periods. The following text contains references to years 2016, 2015, and 2014, which represent fiscal years ended February 3, 2017, January 29, 2016, and January 30, 2015, respectively. Our fiscal year ends on the Friday closest to January 31. Fiscal year 2016 was a 53-week accounting period and fiscal years 2015 and 2014 were 52-week accounting periods.

Seasonality. The nature of our business is somewhat seasonal. Primarily because of sales of Christmas-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 profit, 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. For more information about the seasonality of our business, see “Seasonality” included in Part 1, Item 1 of this report.

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The following table contains results of operations data for fiscal years 2016, 2015 and 2014, and the dollar and percentage variances among those years.

(amounts in millions, except per share amounts)	2016	2015	2014	2016 vs. 2015 Amount Change	2016 vs. 2015 % Change	2015 vs. 2014 Amount Change	2015 vs. 2014 % Change
Net sales by category:							
Consumables	$ 16,798.9	$ 15,457.6	$ 14,321.1	$ 1,341.3	8.7 %	$ 1,136.5	7.9 %
% of net sales	76.41 %	75.89 %	75.73 %				
Seasonal	2,674.3	2,522.7	2,345.0	151.6	6.0	177.7	7.6
% of net sales	12.16 %	12.39 %	12.40 %				
Home products	1,373.4	1,289.4	1,205.4	84.0	6.5	84.1	7.0
% of net sales	6.25 %	6.33 %	6.37 %				
Apparel	1,140.0	1,098.8	1,038.1	41.2	3.7	60.7	5.8
% of net sales	5.18 %	5.39 %	5.49 %				
Net sales	$ 21,986.6	$ 20,368.6	$ 18,909.6	$ 1,618.0	7.9 %	$ 1,459.0	7.7 %
Cost of goods sold	15,204.0	14,062.5	13,107.1	1,141.5	8.1	955.4	7.3
% of net sales	69.15 %	69.04 %	69.31 %				
Gross profit	6,782.6	6,306.1	5,802.5	476.5	7.6	503.6	8.7
% of net sales	30.85 %	30.96 %	30.69 %				
Selling, general and administrative expenses	4,719.2	4,365.8	4,033.4	353.4	8.1	332.4	8.2
% of net sales	21.46 %	21.43 %	21.33 %				
Operating profit	2,063.4	1,940.3	1,769.1	123.2	6.3	171.2	9.7
% of net sales	9.39 %	9.53 %	9.36 %				
Interest expense	97.8	86.9	88.2	10.9	12.5	(1.3)	(1.5)
% of net sales	0.44 %	0.43 %	0.47 %				
Other (income) expense	—	0.3	—	(0.3)	(100.0)	0.3	—
% of net sales	0.00 %	0.00 %	0.00 %				
Income before income taxes	1,965.6	1,853.0	1,680.9	112.6	6.1	172.2	10.2
% of net sales	8.94 %	9.10 %	8.89 %				
Income tax expense	714.5	687.9	615.5	26.6	3.9	72.4	11.8
% of net sales	3.25 %	3.38 %	3.26 %				
Net income	$ 1,251.1	$ 1,165.1	$ 1,065.3	$ 86.1	7.4 %	$ 99.7	9.4 %
% of net sales	5.69 %	5.72 %	5.63 %				
Diluted earnings per share	$ 4.43	$ 3.95	$ 3.49	$ 0.48	12.2 %	$ 0.46	13.2 %

Net Sales. The net sales increase in 2016 reflects a same-store sales increase of 0.9% compared to 2015, primarily due to an increase in average transaction amount accompanied by traffic that was essentially unchanged as compared to the prior year. Same-store sales were affected by the factors discussed in the Executive Overview above. For 2016, there were 12,383 same-stores, which accounted for sales of $20.3 billion. Same-stores include stores that have been open for at least 13 months and remain open at the end of the reporting period. Changes in same-store sales are calculated based on the comparable calendar weeks in the prior year, and include stores that have been remodeled, expanded or relocated. Same-store sales results reflect positive results in the consumables and home products categories, partially offset by negative results in our apparel and seasonal categories. Net sales for the 53rd week of 2016 totaled $398.7 million. The remainder of the increase in sales in 2016 was attributable to new stores, partially offset by sales from closed stores.

The net sales increase in 2015 reflects a same-store sales increase of 2.8% compared to 2014. For 2015, there were 11,706 same-stores, which accounted for sales of $19.25 billion. The increase in sales reflects increases in both customer traffic and average transaction amounts. Same-store sales results reflect positive results in all four of our product categories, with the greatest increases in sales of consumables and seasonal, followed by home products and apparel. The remainder of the increase in sales in 2015 was attributable to new stores, partially offset by sales from closed stores.

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Of our four major merchandise categories, the consumables category, which generally has a lower gross profit rate than the other three categories, has grown most 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.

Gross Profit. The gross profit rate as a percentage of sales was 30.8% in 2016. Gross profit increased by 7.6% in 2016 as compared to 2015, and as a percentage of sales, declined by 11 basis points over the same period. The gross profit rate decrease in 2016 as compared to 2015 primarily reflects increased markdowns which were driven by promotional and inventory clearance activity, sales of lower-margin consumables comprising a greater proportion of net sales, and increased inventory shrink, partially offset by higher initial inventory markups and lower transportation costs. We recorded a LIFO benefit of $12.2 million in 2016 compared to a LIFO benefit of $2.3 million in 2015.

The gross profit rate as a percentage of sales was 31.0% in 2015 compared to 30.7% in 2014. Gross profit increased by 8.7% in 2015, and as a percentage of sales, increased by 27 basis points. The gross profit rate increase in 2015 as compared to 2014 primarily reflects lower transportation costs and an improved rate of inventory shrinkage, partially offset by increased markdowns. We recorded a LIFO benefit of $2.3 million in 2015 compared to a LIFO provision of $4.2 million in 2014.

SG&A. SG&A was 21.5% as a percentage of sales in 2016, increasing by 3 basis points over 2015. The 2016 results reflect increases in retail labor costs, which increased at a rate greater than the increase in net sales, partially offset by reductions in administrative payroll costs, incentive compensation expenses, and advertising costs. The 2016 results also reflect an increase in disaster-related expenses of $12.2 million over 2015, much of which was hurricane-related.

SG&A was 21.4% as a percentage of sales in 2015 compared to 21.3% in 2014, an increase of 10 basis points. The 2015 results reflect increases in incentive compensation expenses, repairs and maintenance expenses, occupancy costs, and fees associated with an increase in debit card transactions. Partially offsetting these items was a higher volume of cash back transactions resulting in increased convenience fees collected from customers. The 2014 results reflect expenses of $14.3 million, or 8 basis points as a percentage of sales, related to an acquisition that was not completed.

Interest Expense. Interest expense increased $10.9 million to $97.8 million in 2016 compared to 2015 primarily due to an increase in average debt outstanding and higher average interest rates. See the detailed discussion under “Liquidity and Capital Resources” regarding the financing of various long-term obligations. Interest expense decreased $1.3 million to $86.9 million in 2015 compared to 2014.

We had outstanding variable-rate debt of $924.3 million and $686.6 million as of February 3, 2017 and January 29, 2016, respectively. The remainder of our outstanding indebtedness at February 3, 2017 and January 29, 2016 was fixed rate debt.

Income Taxes. The effective income tax rates for 2016, 2015 and 2014 were expenses of 36.3%, 37.1% and 36.6%, respectively.

The effective income tax rate for 2016 was 36.3% compared to a rate of 37.1% for 2015 which represents a net decrease of 0.8 percentage points. The effective income tax rate was lower in 2016 due principally to the early adoption of a change in accounting guidance related to employee share-based payments requiring the recognition of excess tax benefits in the statement of income rather than in the balance sheet, as reported in prior years.

The effective income tax rate for 2015 was 37.1% compared to a rate of 36.6% for 2014 which represents a net increase of 0.5 percentage points. The effective income tax rate was lower in 2014 due principally to federal and state reserve releases in 2014 that did not reoccur, to the same extent, in 2015. As in prior years, we receive a

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significant income tax benefit related to wages paid to certain newly hired employees that qualify for federal jobs credits (principally the Work Opportunity Tax Credit or "WOTC"). In December 2015, Congress retroactively extended the federal law authorizing the WOTC for the period from January 1, 2015 through December 31, 2019.

Off Balance Sheet Arrangements

We are not party to any material off balance sheet arrangements.

Effects of Inflation

In 2016, we experienced product cost deflation reflecting reductions in commodity costs primarily related to food products. We experienced minimal overall commodity cost inflation or deflation in 2015 and 2014.

Liquidity and Capital Resources

Current Financial Condition and Recent Developments

During the past three years, we have generated an aggregate of approximately $4.3 billion in cash flows from operating activities and incurred approximately $1.4 billion in capital expenditures. During that period, we expanded the number of stores we operate by 2,188, representing growth of approximately 20%, and we remodeled or relocated 2,702 stores, or approximately 20% of the stores we operated as of February 3, 2017. In 2017, we intend to continue our current strategy of pursuing store growth, remodels and relocations.

At February 3, 2017, we had a five-year $1.425 billion unsecured credit agreement, and we had outstanding $2.3 billion aggregate principal amount of senior notes. As further discussed below, during the third quarter of 2016, we established a commercial paper program that may provide borrowing availability of up to $1.0 billion. At February 3, 2017, we had total outstanding debt (including the current portion of long-term obligations) of $3.2 billion, which includes balances under the 2015 Term Facility and 2015 Revolving Facility (each as defined below), commercial paper, and senior notes, all of which are described in greater detail below. We had $986.2 million available for borrowing under the unsecured credit agreement that, due to our intention to maintain borrowing availability related to the commercial paper program as described below, could contribute incremental liquidity of $495.7 million at February 3, 2017. We entered into an amended and restated credit agreement on February 22, 2017 as described further below. The information contained in Note 5 to the consolidated financial statements contained in Part II, Item

8 of this report is incorporated herein by reference.

We believe our cash flow from operations and existing cash balances, combined with availability under the Facilities (as defined below), the commercial paper program and access to the debt markets will provide sufficient liquidity to fund our current obligations, projected working capital requirements, capital spending and anticipated dividend payments for a period that includes the next twelve months as well as the next several years. However, our ability to maintain sufficient liquidity may be affected by numerous factors, many of which are outside of our control. Depending on our liquidity levels, conditions in the capital markets and other factors, we may from time to time consider the issuance of debt, equity or other securities, the proceeds of which could provide additional liquidity for our operations.

For the remainder of fiscal 2017, we anticipate potential borrowings under the unsecured revolving credit facility described below and our commercial paper program to be a maximum of approximately $750 million outstanding at any one time, including any anticipated borrowings to fund repurchases of common stock.

Credit Facilities

On February 22, 2017, we entered into an unsecured amended and restated credit agreement (the “Facilities”), which consists of a $175.0 million senior unsecured term loan facility (the “Term Facility”) and a $1.25 billion senior unsecured revolving credit facility (the “Revolving Facility”) which provides for the issuance

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of letters of credit up to $175.0 million. The Term Facility is scheduled to mature on October 20, 2020 and the Revolving Facility is scheduled to mature on February 22, 2022. The Facilities replaced our previous unsecured credit agreement which consisted of a $425.0 million senior unsecured term loan facility (the “2015 Term Facility”) and a $1.0 billion senior unsecured revolving credit facility (the “2015 Revolving Facility”).

Borrowings under the Facilities bear interest at a rate equal to an applicable interest rate margin plus, at our 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 March 3, 2017 was 1.10% for LIBOR borrowings and 0.10% for base-rate borrowings and the commitment fee rate is 0.15%. We also must pay a facility fee, payable on any used and unused commitment amounts of the Facilities, and customary fees on letters of credit issued under the Revolving Facility. The applicable interest rate margins for borrowings, the facility fees and the letter of credit fees under the Facilities are subject to adjustment from time to time based on our long-term senior unsecured debt ratings. The weighted average all-in interest rate for borrowings under the Facilities was 1.88% as of March 3, 2017.

The Facilities can be voluntarily prepaid in whole or in part at any time without penalty. There is no required amortization under the Facilities. The Facilities contain a number of customary affirmative and negative covenants that, among other things, restrict, subject to certain exceptions, our (including our subsidiaries’) ability to: incur additional liens; sell all or substantially all of our assets; consummate certain fundamental changes or change in our lines of business; and incur additional subsidiary indebtedness. The Facilities also contain financial covenants that require the maintenance of a minimum fixed charge coverage ratio and a maximum leverage ratio. As of March 3, 2017, we were in compliance with all such covenants. The Facilities also contain customary events of default. The terms of the Term Facility and the Revolving Facility are substantially similar to the terms of the 2015 Term Facility and the 2015 Revolving Facility, respectively, including financial covenants and events of default.

As of February 3, 2017, under the 2015 Revolving Facility, we had no outstanding borrowings and outstanding letters of credit of $13.8 million. In addition, as of February 3, 2017 we had outstanding letters of credit of $29.4 million which were issued pursuant to separate agreements.

Commercial Paper

On August 1, 2016, we established a commercial paper program under which we may issue unsecured commercial paper notes (the “CP Notes”). Under this program, we may issue the CP Notes from time to time in an aggregate amount not to exceed $1.0 billion outstanding at any time. The CP Notes have maturities of up to 364 days from the date of issue and rank equal in right of payment with all of our other unsecured and unsubordinated indebtedness. We intend to maintain available commitments under the Revolving Facility in an amount at least equal to the amount of CP Notes outstanding at any time. We had $490.5 million of CP Notes outstanding at February 3, 2017 that were classified as long-term obligations in the consolidated balance sheet due to our intent and ability to refinance these obligations as long-term debt, at a weighted average borrowing rate of 1.0%.

Senior Notes

We have $500.0 million aggregate principal amount of 4.125% senior notes due 2017 (the “2017 Senior Notes”) which are scheduled to mature on July 15, 2017; $400.0 million aggregate principal amount of 1.875% senior notes due 2018 (the “2018 Senior Notes”), net of discount of $0.1 million, which are scheduled to mature on April 15, 2018; $900.0 million aggregate principal amount of 3.25% senior notes due 2023 (the “2023 Senior Notes”), net of discount of $1.6 million, which are scheduled to mature on April 15, 2023; and $500.0 million aggregate principal amount of 4.150% senior notes due 2025 (the “2025 Senior Notes”), net of discount of $0.7 million, which are scheduled to mature on November 1, 2025. Collectively, the 2017 Senior Notes, the 2018 Senior Notes, the 2023 Senior Notes and the 2025 Senior Notes comprise the “Senior Notes”, each of which were issued pursuant to an indenture as supplemented and amended by supplemental indentures relating to each series of Senior Notes (as so supplemented and amended, the “Senior Indenture”). Interest on the 2017 Senior Notes is

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payable in cash on January 15 and July 15 of each year. Interest on the 2018 Senior Notes and the 2023 Senior Notes is payable in cash on April 15 and October 15 of each year. Interest on the 2025 Senior Notes is payable in cash on May 1 and November 1 of each year. We expect to refinance the 2017 Senior Notes prior to their maturity utilizing proceeds from one or more of the issuance of additional senior notes, revolver borrowings or issuance of CP Notes.

We may redeem some or all of the Senior Notes at any time at redemption prices set forth in the Senior Indenture. Upon the occurrence of a change of control triggering event, which is defined in the Senior Indenture, each holder of our Senior Notes has the right to require us to repurchase some or all of such holder's Senior Notes at a purchase price in cash equal to 101% of the principal amount thereof, plus accrued and unpaid interest, if any, to, but excluding, the repurchase date.

The Senior Indenture contains covenants limiting, among other things, our ability (subject to certain exceptions) to consolidate, merge, or sell or otherwise dispose of all or substantially all of our assets; and our ability and the ability of our subsidiaries to incur or guarantee indebtedness secured by liens on any shares of voting stock of significant subsidiaries.

The Senior Indenture also provides for events of default which, if any of them occurs, would permit or require the principal of and accrued interest on our Senior Notes to become or to be declared due and payable, as applicable.

Rating Agencies

On June 1, 2016, Moody's Investors Service upgraded our senior unsecured debt rating to Baa2 from Baa3, and on August 3, 2016, assigned to us a commercial paper rating of P-2 and affirmed our existing senior unsecured debt rating of Baa2, both with a stable outlook. On August 4, 2016, Standard & Poor's assigned to us a short-term corporate credit and commercial paper rating of A-2 and affirmed our existing long-term corporate credit and senior unsecured rating of BBB, all with a stable outlook. Our current credit ratings, as well as future rating agency actions, could (i) impact our ability to finance our operations on satisfactory terms; (ii) affect our financing costs; and (iii) affect our insurance premiums and collateral requirements necessary for our self-insured programs. There can be no assurance that we will maintain or improve our current credit ratings.

Interest Rate Swaps

From time to time, we use interest rate swaps to minimize the risk of adverse changes in interest rates. These swaps are intended to reduce risk by hedging an underlying economic exposure. Because of high correlation between the derivative financial instrument and the underlying exposure being hedged, fluctuations in the value of the financial instruments are generally offset by reciprocal changes in the value of the underlying economic exposure. Our principal interest rate exposure relates to outstanding amounts under our Facilities and the CP Notes. At February 3, 2017 and January 29, 2016, we had no outstanding interest rate swaps. For more information see Item 7A, "Quantitative and Qualitative Disclosures about Market Risk" below.

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Contractual Obligations

The following table summarizes our significant contractual obligations and commercial commitments as of February 3, 2017 (in thousands):

	Payments Due by Period				
Contractual obligations	Total	< 1 year	1 - 3 years	3 - 5 years	5+ years
Long-term debt obligations	$ 3,224,340	$ 990,500	$ 400,955	$ 426,135	$ 1,406,750
Capital lease obligations	3,643	950	957	728	1,008
Interest(a)	417,750	80,120	117,991	106,093	113,546
Self-insurance liabilities(b)	224,614	86,349	93,455	30,031	14,779
Operating lease obligations(c)	8,123,628	961,786	1,794,920	1,510,735	3,856,187
Subtotal	$ 11,993,975	$ 2,119,705	$ 2,408,278	$ 2,073,722	$ 5,392,270

	Commitments Expiring by Period				
Commercial commitments(d)	Total	< 1 year	1 - 3 years	3 - 5 years	5+ years
Letters of credit	$ 11,028	$ 11,028	$ —	$ —	$ —
Purchase obligations(e)	1,303,163	1,179,122	124,041	—	—
Subtotal	$ 1,314,191	$ 1,190,150	$ 124,041	$ —	$ —
Total contractual obligations and commercial commitments(f)	$ 13,308,166	$ 3,309,855	$ 2,532,319	$ 2,073,722	$ 5,392,270

(a) Represents obligations for interest payments on long term debt and capital lease obligations, and includes projected interest on variable rate long term debt, using 2016 year end rates and balances. Variable rate long term debt includes the 2015 Revolving Facility (although such facility had a balance of zero as of February 3, 2017), the CP Notes (which had a balance of $490.5 million as of February 3, 2017), the balance of an outstanding tax increment financing of $8.8 million, and the balance of the 2015 Term Facility of $425 million.

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

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