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December 15, 2010

Technical Director
File Reference No. 1850-100
Financial Accounting Standards Board
401 Merritt 7, PO Box 5116
Norwalk, CT 06856-5116
Via email: director@fasb.org

Re: Proposed Changes to Accounting for Leases

Dear Board Members,

We are pleased to have this opportunity to comment on the August 17, 2010 Exposure Draft (ED) *Leases*. Our company has operated in the retail sector for over 70 years. Our business strategy is to offer products that are frequently used and replenished at low everyday prices in convenient neighborhood locations. With 9,273 stores in 35 states as of October 29, 2010, we believe we have more retail locations than any retailer in America. Approximately 8,800 of our stores are subject to operating leases. Currently, over 3,000 of our existing leases are subject to contingent rental provisions, and we generally renew approximately 1,200 to 2,000 leases on an annual basis.

We agree with the Boards' conclusions that current lease accounting standards do not provide a faithful representation of leasing transactions. We agree that relevant information about the rights and obligations associated with leasing transactions should be included in an entity's statement of financial position. We agree in principle with the ED's right of use model.

We agree that leasing is an important source of finance and that lease accounting should provide users of financial statements with a complete and understandable picture of an entity's leasing activities. However, we do not believe that the ED, as drafted, will accomplish these objectives. We do not agree with many of the specifics of the measurement guidance included in the ED, including the measurement of the lease term, the expected outcome techniques proposed, and the frequency of remeasurement proposed in the ED, as described in more detail below. Current accounting for leases is often criticized for its lack of comparability and undue complexity. We believe that these problems will continue under the proposed ED due to the extensive amount of judgment and estimates inherent in the proposed guidance.

Our specific responses to selected questions most relevant to our company as outlined in the ED are reflected below.

Question 1: Lessees

(a) Do you agree that a lessee should recognize a right-of-use asset and a liability to make lease payments? Why or why not? If not, what alternative model would you propose and why?

(b) Do you agree that a lessee should recognize amortization of the right-of-use asset and interest on the liability to make lease payments? Why or why not? If not, what alternative model would you propose and why?

We agree that a lessee should recognize a right of use asset and a liability to make lease payments. We believe that contractual future obligations meet the definition of a liability and that the right to use the property in question meets the definition of an asset. However, we do not agree with the proposed calculation methodology for these assets and liabilities, as discussed further in the response to Question 8.

We agree that the lessee should recognize amortization of the right-of-use asset. We understand, from a conceptual standpoint, the use of the interest method to recognize interest expense. However, we believe that this method results in a front loading of expense that does not properly reflect the underlying economics of the transaction. This effect will be exacerbated upon transition as discuss further in the response to Question 16. As a retail business, many of our new stores record increasing revenues over time, moving in the opposite direction from expense recognition under the exposure draft. Application of the interest method will often not result in the proper matching of revenues and expenses for our business.

Question 3: Short-term leases

This exposure draft proposes that a lessee or a lessor may apply the following simplified requirements to short-term leases, defined in Appendix A as leases for which the maximum possible lease term, including options to renew or extend, is 12 months or less:

(a) At the date of inception of a lease, a lessee that has a short-term lease may elect on a lease-by-lease basis to measure, both at initial measurement and subsequently, (i) the liability to make lease payments at the undiscounted amount of the lease payments and (ii) the right-of-use asset at the undiscounted amount of lease payments plus initial direct costs. Such lessees would recognize lease payments in the income statement over the lease term.

(b) At the date of inception of a lease, a lessor that has a short-term lease may elect on a lease-by-lease basis not to recognize assets and liabilities arising from a short-term lease in the statement of financial position, nor derecognize any portion of the underlying asset. Such lessors would continue to recognize the underlying asset in accordance with other Topics and would recognize lease payments in the income statement over the lease term.

Do you agree that a lessee or a lessor should account for short-term leases in this way? Why or why not? If not, what alternative approach would you propose and why?

We are not opposed to an option to account for short term leases on an undiscounted basis. This ED will be very burdensome and difficult to apply for many entities, especially those such as ours with a large number of leases. We are in favor of provisions such as these that allow for the simplified accounting for short term leases.

Question 4

(a) Do you agree that a lease is defined appropriately? Why or why not? If not, what alternative definition would you propose and why?

(b) Do you agree with the criteria in paragraphs B9 and B10 for distinguishing a lease from a contract that represents a purchase or sale? Why or why not? If not, what alternative criteria would you propose and why?

(c) Do you think that the guidance in paragraphs B1–B4 for distinguishing leases from service contracts is sufficient? Why or why not? If not, what additional guidance do you think is necessary and why?

We agree with the basic definition of a lease as described in the ED. However, we believe that additional application guidance is required. Because of the significantly different accounting treatment for lease and non-lease contracts under the ED, we believe that it is very important that the guidance explicitly define what does and does not constitute a lease.

We believe that the definition of a lease should be limited to land and depreciable assets (i.e. property, plant and equipment). We believe that the definition of a lease included in the ED is overly broad as it could be read to include other types of property, and therefore could result in confusion and inconsistent application among filers, which will lead to a lack of comparability among companies' financial statements.

In addition, in companies such as ours, the overwhelming majority of lease obligation liabilities and related assets will be associated with our voluminous store leases. The process of scouring every other miscellaneous executory or service contract to determine whether it might contain a lease will be very arduous, time consuming and expensive. We, and other similar companies, may have thousands of contracts that might potentially contain a lease and we enter into in excess of three hundred of these types of contracts each year. We believe that this process will be unduly burdensome and will not ultimately provide useful information to users of our financial statements.

Question 5: Scope exclusions

The exposure draft proposes that a lessee or a lessor should apply the proposed guidance to all leases, including leases of right-of-use assets in a sublease, except leases of intangible assets, leases of biological assets and leases to explore for or use minerals, oil, natural gas and similar non-regenerative resources.

Do you agree with the proposed scope of the proposed guidance? Why or why not? If not, what alternative scope would you propose and why?

As noted previously, we do not agree with the scope of the ED, as it appears to expand the scope of lease accounting beyond current guidance. We do not believe that is the Boards' intention or an appropriate outcome. Because the accounting for lease contracts is so significantly different under the ED, we believe that it is very important that preparers, users and auditors of financial statements are clear on the types of assets and obligations that will be subject to lease accounting.

We do agree with the scope exclusions in the exposure draft but believe that the scope exclusions should be expanded. As discussed above, we do not believe that exhaustive research on existing contracts such as cell phones, copiers, and miscellaneous information technology contracts that may include a "specified asset" such as a server, as examples, will provide information useful to users of financial statements, and such efforts will require an inordinate amount of time and effort to research and account for as proposed under the exposure draft.

Question 6: Contracts that contain service components and lease components

The exposure draft proposes that lessees and lessors should apply the guidance in proposed Accounting Standards Update, Revenue Recognition (Topic 605): Revenue from Contracts with Customers, to a distinct service component of a contract that contains service components and lease components (paragraphs 6, B5–B8 and BC47–BC54). If the service component in a contract that contains service components and lease components is not distinct:

(a) The FASB proposes the lessee and lessor should apply the lease accounting requirements to the combined contract.

(b) The IASB proposes that:

(i) A lessee should apply the lease accounting requirements to the combined contract.

(ii) a lessor that applies the performance obligation approach should apply the lease accounting requirements to the combined contract.

(iii) a lessor that applies the derecognition approach should account for the lease component in accordance with the lease requirements, and the service component in accordance with the guidance in the exposure draft on revenue from contracts with customers.

Do you agree with either approach to accounting for leases that contain service and lease components? Why or why not? If not, how would you account for contracts that contain both service and lease components and why?

We believe that accounting for service components should be required rather than elective, and should be accounted for separately from lease components in accordance with existing accounting guidance. We believe that this approach will most effectively reflect the underlying economics of the transaction. We also point out that the ED specifying the allocation of service and lease components and the related accounting is based upon the proposed revenue recognition ED which is not finalized, subject to

redeliberation, and on which approximately one thousand comment letters were received. We question whether it is prudent to base these provisions of the ED on standards that are not finalized.

This question is most relevant to our company as it relates to executory costs in store lease contracts such as common area maintenance, insurance and real estate taxes, which under current guidance are accounted for as period costs. We are concerned about whether and how we will be able to determine whether such costs would be considered services and whether or not they are distinct when they are not sold separately. We believe that current accounting treatment for executory costs should be carried forward and these costs should be expensed as incurred. We believe that the guidance should explicitly state that all executory costs are excluded from lease accounting, and further, the guidance should ensure that gross and net leases are accounted for in a similar fashion. To illustrate this point, for buildings that we own, we do not estimate what these costs will be over an estimated period that we expect to own the building and capitalize these costs; rather they are expensed as incurred. We do not believe that such costs for leased property should be accounted for in a different manner.

Question 8: Lease term

Do you agree that a lessee or a lessor should determine the lease term as the longest possible term that is more likely than not to occur taking into account the effect of any options to extend or terminate the lease? Why or why not? If not, how do you propose that a lessee or a lessor should determine the lease term and why?

We strongly disagree that a lessee should determine the lease term based upon the subjective proposals in the ED. Conceptually, we believe that the lease term should only include the term for which a company is contractually obligated. We believe that the proposal to include option periods in the analysis of the lease term is fundamentally flawed. Future option periods are just that, in that they can only be exercised if the company so chooses. We do not believe that future option periods meet the definition of a liability and therefore should not be considered. As a business practice, we carefully consider whether to exercise an option period as a current lease term or option period is nearing its end. It is impractical to think that any company can reliably determine whether or not it will exercise option periods that may be as many as 25 or more years into the future.

There are a significant number of variables that would be involved in attempting to reliably estimate the lease term taking possible future option periods into account. For our company, such an assessment would take into account competitive positioning, the nature of the property, accessibility of the site, parking, signage, visibility, crime rates and the surrounding area just to name a few. These factors can change significantly over even a relatively short period of time. We believe the proposals in the ED would result in unreliable conclusions and ongoing significant adjustments to financial statement balances and such volatility would be to the detriment of financial statement users.

The Boards have expressed concern that excluding future option periods from the calculation of the lease term will lead to structuring opportunities. We believe that lease contracts are generally structured as they are for economic and not accounting reasons. Any attempt on our part to structure a lease to contain a significant number of short term option periods in an effort to reduce the lease-

related asset and liability would make the economic cost of such an arrangement impractical. These so called structuring opportunities also assume that lessors would be willing participants in such a transaction. However, in virtually all cases it would not be to the lessor's economic benefit to allow, in effect, short term walk away rights that could be exercised on an ongoing basis. Furthermore, the majority of real estate properties are subject to underlying financing and it would not be to the economic benefit of the lessor's financial institution to allow structuring such as this purely for accounting reasons.

Question 9: Lease payments

Do you agree that contingent rentals and expected payments under term option penalties and residual value guarantees that are specified in the lease should be included in the measurement of assets and liabilities arising from a lease using an expected outcome technique? Why or why not? If not, how do you propose that a lessee or a lessor should account for contingent rentals and expected payments under term option penalties and residual value guarantees and why?

Do you agree that lessors should only include contingent rentals and expected payments under term option penalties and residual value guarantees in the measurement of the right to receive lease payments if they can be reliably measured? Why or why not?

We do not agree that contingent rentals that are specified in the lease contract should be included in the measurement of assets and liabilities through the use of an expected outcome technique. In our particular case, we do not believe that these amounts can be reliably estimated, and further, we do not believe that the computations as proposed will provide meaningful information to users of the financial statements. Under our current planning process we do not attempt to forecast revenues more than a few years into the future, we do not plan for multiple probability weighted scenarios, and we typically do not plan or estimate revenues at an individual store level. Under current guidance contingent rentals represent only about 5% of our minimum rental expense.

We believe that factors that would need to be considered in determining such estimates would include historical sales performance, the store's maturation, demographics and the economic climate in the surrounding area, our own merchandising initiatives, and competition, just to name a few. These variables are subject to significant change over even relatively short periods of time. Due to the complexities involved, we do not believe that reliable and accurate methods to estimate revenues as many as 25 to 30 years into the future can be developed. Even if such a process could be developed, we do not believe that the extremely significant costs and time required would justify any possible benefits

The requirement to reassess these estimates when facts or circumstances change will add yet another layer of complexity and uncertainty. Even if this entire process were feasible and done properly, it would ultimately result in the recording of an amount that we do not believe meets the definition of a liability, as the future payments may never occur. We believe that the definition of a liability under the conceptual framework would include only those amounts that an entity has a contractual and present obligation to pay in the future. These amounts, which in our case are typically based on sales at an individual store, are not obligations until the sales threshold is met. Sales may vary considerably from

year to year and from store to store based on many macroeconomic and other factors over which we have no control. We believe that the contingent rentals should continue to be accounted for using current guidance.

Question 10: Reassessment

Do you agree that lessees and lessors should remeasure assets and liabilities arising under a lease when changes in facts or circumstances indicate that there is a significant change in the liability to make lease payments or in the right to receive lease payments arising from changes in the lease term or contingent payments (including expected payments under term option penalties and residual value guarantees) since the previous reporting period? Why or why not? If not, what other basis would you propose for reassessment and why?

While, conceptually, we agree that lessees should remeasure assets and liabilities arising under a lease contract when changes in facts and circumstances indicate that there is a significant change in the liability, we believe that unless further guidance is given with regard to what is considered to be a "significant" change, considerable diversity in practice will occur. In addition, we believe that tracking such changes on a lease by lease and quarter by quarter basis is completely impractical for retailers such as Dollar General, given our large lease portfolio. We believe that the cost of a quarterly reassessment of such amounts will significantly outweigh the benefits.

A more reasonable approach to reassessment must begin with a more feasible approach to determining lease term and lease obligations as we have outlined above. In addition, the creation of processes to monitor on a real-time basis any event that might require reassessment would be very costly and time consuming. We believe that a possible solution would involve provisions to aggregate leases based on common facts and circumstances, perhaps to determine if there has been a significant change at a higher level than an individual lease. Further, we believe that such remeasurement should be required on an annual rather than a quarterly basis, similar to current normal accounting treatment for goodwill and other intangible assets.

Question 12: Statement of financial position

(a) Do you agree that a lessee should present liabilities to make lease payments separately from other financial liabilities and should present right-of-use assets as if they were tangible assets within property, plant and equipment, but separately from assets that the lessee does not lease (paragraphs 25 and BC143–BC145)? Why or why not? If not, do you think that a lessee should disclose this information in the notes instead? What alternative presentation do you propose and why?

(b) Do you agree that a lessor applying the performance obligation approach should present underlying assets, rights to receive lease payments and lease liabilities gross in the statement of financial position, totaling to a net lease asset or lease liability (paragraphs 42, BC148 and BC149)? Why or why not? If not, do you think that a lessor should disclose this information in the notes instead? What alternative presentation do you propose and why?

(c) Do you agree that a lessor applying the derecognition approach should present rights to receive lease payments separately from other financial assets and should present residual assets separately within property, plant and equipment (paragraphs 60, BC154 and BC155)? Why or why not? Do you think that a lessor should disclose this information in the notes instead? What alternative presentation do you propose and why?

(d) Do you agree that lessors should distinguish assets and liabilities that arise under a sublease in the statement of financial position (paragraphs 43, 60, BC150 and BC156)? Why or why not? If not, do you think that an intermediate lessor should disclose this information in the notes instead?

We agree in concept that right of use assets and lease obligation liabilities should be presented separately from other assets and liabilities; however, we believe that preparers of financial statements should have the option of displaying these assets and liabilities on the face of the statement of financial position or in the footnotes.

Question 13: Income statement

Do you think that lessees and lessors should present lease income and lease expense separately from other income and expense in the income statement (paragraphs 26, 44, 61, 62, BC146, BC151, BC152, BC157 and BC158)? Why or why not? If not, do you think that a lessee should disclose that information in the notes instead? Why or why not?

We agree, conceptually, that lease income and lease expense should be presented separately from other income and expense in the income statement, however, we believe that preparers of financial statements should have the option of displaying these assets and liabilities on the face of the statement of financial position or in the footnotes.

Question 14: Statement of cash flows

Do you think that cash flows arising from leases should be presented in the statement of cash flows separately from other cash flows (paragraphs 27, 45, 63, BC147, BC153 and BC159)? Why or why not? If not, do you think that a lessee or a lessor should disclose this information in the notes instead? Why or why not?

We do not disagree with the presentation of cash flows arising from leases separately from the other cash flows. As a retail company, occupancy costs are a key component of our operations and as a result, we believe that these cash flows should continue to be classified as operating. Furthermore, we note and question the inconsistency of presenting interest payments from "lease financing activities" as financing cash flows while interest payments from other types of financing activities such as those related to outstanding long-term indebtedness are presented as operating cash flows under current accounting guidance.

Question 15

Do you agree that lessees and lessors should disclose quantitative and qualitative information that:

(a) identifies and explains the amounts recognized in the financial statements arising from leases; and

(b) describes how leases may affect the amount, timing and uncertainty of the entity's future cash flows? (paragraphs 70–86 and BC168–BC183)? Why or why not? If not, how would you amend the objectives and why?

We agree that lessees should disclose quantitative information that indentifies and explains the amounts recognized in the financial statements arising from leases. We do not agree that the financial statements should describe how leases may affect the amount, timing and uncertainty of the entity's future cash flows, as we believe that such disclosure for registrants with the U.S. Securities and Exchange Commission such as our company is better suited to MD&A disclosure under liquidity and capital resources.

The ED seems to require an increased quantity of disclosures related to leases, and we question whether all such disclosures are useful or necessary. The disclosures, as proposed, will require the tracking of significant additional information which will be very costly and time consuming, and we do not believe that the majority of these disclosures will be useful to financial statement users. Further, if our suggestions above to simplify and make this guidance more operational are followed, it should greatly reduce the amount of judgments and estimates inherent in the reported amounts, and would have the ancillary benefit of reducing the volume of disclosures.

Question 16

(a) This exposure draft proposes that lessees and lessors should recognize and measure all outstanding leases as of the date of initial application using a simplified retrospective approach (paragraphs 88–96 and BC186–BC199). Are these proposals appropriate? Why or why not? If not, what transitional requirements do you propose and why?

(b) Do you think full retrospective application of lease accounting requirements should be permitted? Why or why not?

(c) Are there any additional transitional issues the boards need to consider? If yes, which ones and why?

We are willing to accept the notion of the simplified retrospective approach based on the reduced effort and cost as compared with a full retrospective approach. We respectfully point out that the simplified retrospective approach will result in the overstatement of assets and liabilities and the front-loading of expense amounts on virtually all leases due to the effect of accounting for all outstanding leases as if they commenced on the date of initial application, which we believe will provide confusing and potentially misleading information to users of financial statements. Net income will be reduced, in most cases significantly, even though the underlying economics of a company's business will not have changed.

We believe that full retrospective application of the proposed lease accounting requirements is the theoretical best answer, and should not be disallowed. However, we believe that the time and effort to perform a full retrospective application will be time and cost prohibitive for most companies, including ours, and in many cases will not be possible due to missing or incomplete records and/or available information. Because of these factors we propose that the Boards also consider an additional alternative which would allow companies to apply the full retrospective approach for all lease contracts where it is feasible to do so, and use the simplified retrospective approach on lease contracts where it is not feasible. Such an approach could be associated with a time horizon, such as all leases entered into within the previous ten years. This approach would allow for the best theoretical answer where possible, and provide for an alternative for those leases where the full retrospective approach is impractical or impossible.

We would like to point out that registrants of the U.S. Securities and Exchange Commission are required to present five years of historical financial results in its annual regulatory filings. This is an additional transition issue that we would request the Boards take into consideration.

Another accounting issue raised but not addressed by the ED concerns the treatment of existing liabilities related to straight line rent. We request that the Boards provide guidance as to how such liabilities should be treated upon adoption of the new standard.

We respectfully request that the Boards carefully consider the timeframes required for implementation of this standard. Due to the complexity of the standard and the volume of our lease contracts, development of information systems will be required to implement the final guidance, and such systems cannot be developed until the standard is finalized. Once the standard is finalized, significant amounts of time will be needed for systems specifications, development and implementation. Considerable time and effort will also be needed to interpret the new standard, inventory leases, determine which leases are not in existing systems, develop software interfaces, input and convert data, test new systems, design and test internal controls, re-engineer processes, run parallel systems, and determine the income tax accounting impacts. Many of these activities must occur in sequence and cannot run on parallel paths.

Question 17

Paragraphs BC200–BC205 set out the boards' assessment of the costs and benefits of the proposed requirements. Do you agree with the boards' assessment that the benefits of the proposals would outweigh the costs? Why or why not?

We understand and appreciate the limitations of current accounting guidance related to lease accounting, and believe that the recording of assets and liabilities related to lease contracts will be beneficial to users of financial statements. However, we believe that the costs of many of the aspects of the ED outweigh the benefits, as we have noted throughout this letter. These relate primarily to the methodology surrounding the determination of the lease term, accounting for contingent rentals, significantly increased disclosure requirements, and reassessment requirements. Indeed, we believe

that certain aspects will be virtually impossible to accurately apply, will be extremely expensive, and will significantly increase audit costs.

Question 18

Do you have any other comments on the proposals?

Our company modifies a significant number of our leases each year resulting in a change in the lease payment and terms. Current accounting guidance provides instruction on whether these modifications should be accounted for as part of the original lease or as a new lease. This guidance has not been carried forward into the ED. We believe that this or similar guidance should be provided to avoid diversity in practice as it relates to lease modifications.

We enter into a significant number of build-to-suit leases each year, which result in a significant time period between the inception and commencement of the lease. This scenario is not specifically addressed in the ED. We believe that additional guidance is warranted to clarify the accounting for such transactions and to ensure that no diversity in accounting practice occurs.

In some leases, we are offered incentives by the lessor to enter into a lease contract. These incentives are most often in the form of the assumption or reimbursement for leasehold improvements. Accounting for lease incentives is not addressed in the ED, and we believe that guidance is necessary to ensure proper and consistent accounting for such incentives.

Question 19

Should any of the proposed guidance be different for non-public entities (private companies and not-for-profit organizations)? If so, which requirement(s) and why?

We believe that the time, effort, and cost to implement these provisions will be very significant. We do not believe that non-public companies should receive a competitive advantage in the marketplace by virtue of being able to avoid implementing the proposed guidance. Therefore, we do not believe that the guidance should be different for private companies. We believe that not-for-profit corporations are generally a different matter, and we would not be opposed to such corporations receiving relief from the proposed guidance.

We would like to acknowledge the Board's thoughtful consideration of the matters discussed in the ED. We appreciate the opportunity to comment and hope our perspective is helpful in addressing what are admittedly complex and difficult issues.

We would be pleased to respond to any inquiries regarding this letter or our views on the ED more generally. Please contact David Tehle, Executive Vice President and Chief Financial Officer, or Anita Elliott, Senior Vice President and Controller, each of which can be reached at 615-855-5506.

Very truly yours,

DOLLAR GENERAL CORPORATION

By: /s/ David M. Tehle

Name: David M. Tehle

Title: Executive Vice President and Chief Financial Officer