

# INTERNATIONAL BROTHERHOOD OF TEAMSTERS

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September 16, 2009

Mr. Henry Kravis  
Co-Chairman & Co-CEO  
Kohlberg Kravis Roberts & Co., L.P.  
9 West 57th Street, Suite #4200  
New York, NY 10019

Mr. George Roberts  
Co-Chairman & Co-CEO  
Kohlberg Kravis Roberts & Co., L.P.  
2800 Sand Hill Road, Suite #200  
Menlo Park, CA 94025

Dear Messrs. Kravis and Roberts:

As General Secretary-Treasurer of the International Brotherhood of Teamsters and its 1.4 million members in North America, I am concerned about the proposed initial public offering (IPO) of Dollar General. The Teamsters' more than 200 affiliated benefit funds have approximately \$70 billion of assets invested throughout the capital markets including investments in companies owned, managed or restructured by KKR. Based on the initial SEC filings, we believe critical structural changes must be made to ensure that Dollar General will be a viable long-term investment that can enhance our members' retirement security.

The Teamsters Union believes KKR and its private equity investors, as the majority shareholder in Dollar General and the lead underwriter of the IPO, face serious conflicts of interest issues with potential new investors that require further consideration prior to completion of the stock offering. While we believe Dollar General could be an attractive investment, we think there are issues that must be resolved before the IPO takes place.

We call on KKR to address key aspects of the deal structure, the corporate governance of the company, and regulatory concerns that severely restrict Dollar

General's ability to generate sufficient operating cash in a less-than-ideal operating environment and create greater risk to potential investors.

Below is a summary of our concerns with the Dollar General IPO as it is currently structured, as well as our recommendations for improvement:

#### **KKR Fees Drain Liquidity –**

As per the Dollar General prospectus filed on August 20, KKR and the underwriting group intend to sell approximately \$750 million in shares to the public, representing close to 20% of Dollar General's proposed total shareholder equity. This amount would raise Dollar General's cash markedly compared to the estimated \$434.6 million held in the company as of May 1, 2009; however, the offering as currently constructed will yield far less cash to Dollar General's coffers. Per the prospectus, KKR plans to pay a special, one-time dividend of \$239.4 million to itself and other private equity investors upon closure of the transaction. Additionally, as lead underwriter of the offering, KKR stands to reap a sizeable portion of the \$64 million in proposed transaction fees. Combined with the \$75 million paid to KKR and investors upon the initial Dollar General buy-out in 2007 and an additional 1% termination fee upon closing of the IPO, KKR and its partners will withdraw \$385.9 million in cash from the Company's coffers over two-plus years of stewardship – approximately 51.5% of the total IPO value. We fail to see how such a significant drain on the Company's limited liquidity provides for the long-term success of the firm; therefore, we request a significant curtailment of these payouts to KKR and private equity investors.

**Recommendation:** *Reduce fee structure for KKR and its partners in order for Dollar General to focus on growth strategies and debt reduction.*

#### **Buried Under Mountain of Debt –**

The reduced cash yields from the Dollar General IPO to the company are even more troubling in light of the tremendous debt burden and material capital expenditures required for future growth. Largely a function of the leveraged buyout by KKR, Dollar General's long-term obligations totaled nearly \$9 billion as of January 30, 2009. Included in this total are approximately \$4.1 billion in principle on high-interest term loan and corporate-issue debt, an estimated \$2.2 billion in expected interest payments, and almost \$1.7 billion in long-term lease obligations. Dollar General also has over \$1 billion in asset-based revolving credit available under certain circumstances which if fully realized would push company indebtedness into the \$10 billion range.

According to the Dollar General 10-Q filing on September 10, 2009, the company spent \$105 million on 225 store openings and 213 store remodels and/or relocations during the first six months of fiscal 2009. We understand that the company plans to open up to 500 new locations and remodel 450 stores prior to fiscal year-end, which by Dollar General management's own estimate could elevate total capital spending to \$300-325 million for the full fiscal year, with funding sourced from "cash flows from operations and, if necessary, borrowings under our ABL facility." Any additions to Dollar General's long-term debt and obligations over the existing debt burden could easily complicate expansion efforts, or worse, lead the company to refinance yet again at premium interest rates.

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While we are encouraged that some of the IPO proceeds will be used to pay down portions of the corporate debt outstanding, it is increasingly likely that Dollar General will continue to experience annual interest payments approaching the approximate \$360 million run rate observed for the 13 week period ending July 31, 2009. Considering the thin margins in the retail industry, this level of debt service could cripple any retail chain, even one with Dollar General's competitive advantages. We harbor concerns that any slowdown in sales growth relating to a rebound from recession troughs, increased competition from existing discount chains, or strategic efforts by big-box retailers could rapidly decrease the Company's earnings, cash flow and net liquidity.

**Recommendation:** *Dedicate proceeds from IPO to growth strategies as well as debt reduction.*

### **Corporate Governance Disclosure Creates Concerns –**

The August 20, 2009, S-1 filing refers to Dollar General as a "controlled company" post IPO. The "controlled" status provides the company with exemptions from the Board of Directors independence rules of the listing requirements for the major stock exchanges. The filing only reveals insider directors – the Chairman/CEO hired in 2008 by the controlling investors, two directors from KKR and one from Goldman Sachs. Given the numerous challenges facing Dollar General and the growing demand from investors for greater independence and accountability to shareholders on corporate Boards of Directors we believe KKR and the other controlling investors

should focus on recruitment of directors and seek input from investors on nominees. It is imperative that Dollar General start off on the right foot and strive for the best practices in corporate governance by having entirely independent audit, compensation and nominating committees.

**Recommendation:** *Enact best corporate governance practices to protect the interests of minority shareholders. Such policies should include:*

- *Independent chair of the Board of Directors;*
- *Disclosure of names and biographies of the independent directors that will make up a majority of the Board of Directors;*
- *A majority voting standard for Board of Director elections; and,*
- *Annual elections for all members of the Board of Directors.*

#### **Executive Compensation Needs Reform.**

##### **Extravagant Perks –**

There are certain aspects of the executive compensation plan that we believe are not in the best interest of future shareholders of Dollar General. These deficiencies represent a step backward from the best compensation practices that reflect shareholders interest to have the strongest possible links of “pay for performance.”

One such deficiency is in the area of “other compensation,” concerning perquisites. Dollar General’s CEO will receive the benefit of nine plane trips on the Company’s aircraft with his spouse to their second home in California. This is extraordinary. We believe his compensation affords him the ability to pay for these non-work related trips, but we find even more galling the fact that his relocation compensation included reimbursement and gross-up for taxes of all closing costs and expenses, including broker's fees, loan origination and/or loan discount fees (not to exceed two points in total), and attorney fees incurred to purchase a residence in the Nashville, Tennessee area, as well as up to two months' lease cancellation on his apartment in the New York metropolitan area. Additionally, he was provided reimbursement and/or payment of and gross-up for taxes of temporary living expenses for 120 days.

Another highly questionable perquisite is company paid membership dues and related fees to professional clubs. On top of these fees, the CEO also receives a tax gross-up of benefits received at these clubs.

***Recommendation: Shareholders will have an annual advisory vote on senior executive compensation plans.***

**Inviting Conflicts of Interest –**

Hewitt Associates is the Board of Directors compensation consultant and is allowed to contract for other work with the company. The leading edge of current corporate governance holds the position that compensation consultants should not perform other work for the company because they are otherwise conflicted in delivering recommendations on compensation that protects shareholder interests. Further complicating matters, the company will pay for both sets of lawyers negotiating the CEO's pay and benefits. The CEO will be reimbursed and receive tax gross-ups for the legal fees associated with negotiating his employment agreement.

***Recommendation: Preclude executive compensation consultants.***

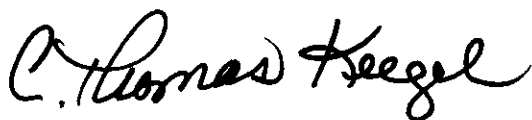
**Inadequate Disclosure of Regulatory Risk –**

Since 1999, Dollar General has been cited *210 times* by the Occupational Safety and Health Administration (OSHA) for health and safety violations, including *91 serious violations*. OSHA defines a serious violation as "one in which there is substantial probability that death or serious physical harm could result, and the employer knew or should have known of the hazard." Employees of Dollar General have been hospitalized and even killed due to unsafe working conditions in the Company's stores and distribution centers. This irresponsible behavior on the part of Dollar General may lead to ongoing investigations and fines by the Federal Government and litigation initiated by former employees.

***Recommendation: Enhance disclosure of the above and any similar risks that may be material to potential investors.***

We strongly urge you to consider and adopt the recommendations put forth in this letter. We are looking forward to hearing from you on these issues.

Sincerely,



C. Thomas Keegel  
General Secretary-Treasurer

CTK/am