

**U.S. Securities and Exchange Commission****U.S. SECURITIES AND EXCHANGE COMMISSION****Litigation Release No. 19174 \ April 7, 2005****Accounting and Auditing Enforcement  
Release No. 2226 \ April 7, 2005*****SECURITIES AND EXCHANGE COMMISSION v. DOLLAR GENERAL CORPORATION, HURLEY CALISTER TURNER, JR., BRIAN M. BURR, RANDY C. SANDERSON, AND BOBBY R. CARPENTER, Civil Action No. 3:05-0283 (M.D. Tenn.) (WJH) (filed April 7, 2005)*****SEC SUES DOLLAR GENERAL CORPORATION AND FIVE INDIVIDUALS FOR ACCOUNTING FRAUD****DOLLAR GENERAL AND FOUR INDIVIDUALS SETTLE AND AGREE TO PAY OVER \$11.1 MILLION IN PENALTIES AND OVER \$400,000 IN DISGORGEMENT AND PREJUDGMENT INTEREST**

The Securities and Exchange Commission today announced the filing of a settled enforcement action charging Dollar General Corporation ("Dollar General"), a Tennessee-based discount retailer, the company's former Chief Executive Officer, Cal Turner ("Turner"); its former Chief Financial Officer, Brian Burr ("Burr"); its former Controller, Randy Sanderson ("Sanderson"); and its former President, Bobby Carpenter ("Carpenter") with accounting fraud. The Commission also today issued a settled administrative order against former Accounting Manager Stephen C. Jones ("Jones"). As alleged in the Commission's complaint, during its fiscal years 1998 through 2001, Dollar General engaged in fraudulent or improper accounting practices in violation of Generally Accepted Accounting Principles ("GAAP") which ultimately resulted in a restatement of Dollar General's financial statements in January 2002. The restatement reduced the Company's pre-tax income by approximately \$143 million, or about 30 cents per share, over the restated period.

The Commission's complaint alleges that Dollar General's misconduct included: (1) intentionally underreporting at least \$10 million in import freight expenses for the Company's fiscal year 1999; (2) engaging in an \$11 million sham sale of outdated, essentially worthless, Omron cash registers in the Company's fiscal year 2000 fourth quarter; (3) overstating cash accounts; (4) manipulating the Company's reported earnings through the use of a general reserve or "rainy day" account; (5) failing to maintain accurate books and records and filing inaccurate financial reports with the Commission; and (6) failing to maintain adequate internal accounting controls. The complaint further alleges that some of the fraudulent or improper accounting practices were effected by, or known to, former senior executives and accounting personnel, including Turner, Burr Sanderson and Carpenter and were motivated in part by a desire to report earnings that met or exceeded analysts' expectations and to maintain employee bonuses.

The complaint alleges that, with regard to import freight expenses in 1999 and 2000, Dollar General's accounting staff determined that the Company should have recognized \$13.4 million in freight expenses in fiscal 1999. Rather than recognizing all the expense in fiscal year 1999, Sanderson, Burr, and Carpenter discussed possible ways to account for the \$13.4

million in freight expenses that did not entail recognizing all such expenses in fiscal year 1999. On February 5, 2000, Sanderson sent a memorandum to Carpenter, Burr and others describing a \$10 million "variance" in relation to freight expenses, and Dollar General's intention to charge the "\$10 million 1999 shortfall" at a rate of \$833,000 per month during Dollar General's fiscal year 2000. At a meeting in March 2000, attended by Carpenter and Turner among others, Sanderson explained that the freight expenses would be gradually expensed in fiscal year 2000. All three individuals knew that deferring the bulk of the expenses to fiscal year 2000 avoided the negative impact on already announced fiscal year 1999 earnings as well as year-end bonus payments to Dollar General employees, including Sanderson, Burr, and Carpenter. Turner was informed that the freight expenses relating to activity in Dollar General's fiscal year 1999 were being recorded in 2000, but Turner did not override the decision. The Commission's complaint alleges that, by deferring the freight expenses, Dollar General met certain targets, including an internal target for employee bonuses and analysts' expectations for the Company's earnings per share for fiscal year 1999. If Dollar General had recognized the freight expenses in 1999, it would have fallen short of the bonus target and analysts' expectations.

The Commission's Order finds that Sanderson directed Jones to record the freight expenses in the following manner: (1) write off \$4 million of the freight expenses in fiscal year 1999; and (2) recognize the remaining \$9.4 million over the course of fiscal year 2000 on a monthly basis. In an attempt to hide part of the improper deferral from the Company's auditors, Sanderson directed Jones to move \$1.3 million of the \$9.4 million to the miscellaneous accrued liabilities account, widely known at Dollar General as the "Rainy Day Fund," and \$2.7 million of the \$9.4 million to corporate bank clearing accounts. Neither of these accounts had any connection to freight expenses. Jones knew that this accounting treatment was improper, but he nevertheless followed Sanderson's instructions.

Separately, the complaint also alleges that, by February 26, 2001, Turner knew of serious allegations concerning Sanderson and was reckless in not knowing that these issues were likely to impact the integrity and accuracy of Dollar General's financial statements. Nevertheless, on February 26, 2001, Dollar General held a conference call announcing its unaudited financial results for fiscal 2000 that Turner knew had been prepared by, among others, Sanderson.

Simultaneously with the filing of the Commission's complaint, and without admitting or denying its allegations, Dollar General consented to the entry of a final judgment permanently enjoining it from future violations of the antifraud, books and records, internal controls, and periodic reporting provisions of the federal securities laws, specifically, Section 17(a) of the Securities Act of 1933 ("Securities Act"), Sections 10(b), 13(a), 13(b)(2)(A) and 13(b)(2)(B) of the Securities Exchange Act of 1934 ("Exchange Act") and Rules 10b-5, 12b-20, 13a-1, 13a-11 and 13a-13 thereunder. In addition, Dollar General will pay one dollar in disgorgement and a civil penalty of \$10,000,000.

Turner, Sanderson, and Carpenter also have each agreed to settle the case against them without admitting or denying the allegations in the complaint. Each has agreed to the entry of a judgment that permanently enjoins them from violating the antifraud, books and records and internal controls provisions of the federal securities laws (Sections 10(b) and 13(b)(5) of the Exchange Act and Rules 10b-5 and 13b2-1 thereunder), and from aiding and abetting violations of the periodic reporting, books and records and internal controls provisions of the securities laws (Sections 13(a), 13(b)(2)(A), 13(b)(2)(B) of the Exchange Act and Rules 12b-20 and

13a-11 thereunder). Sanderson and Carpenter also each agreed to be enjoined from violating Section 17(a) of the Securities Act and the provision prohibiting making false or misleading statements to auditors (Rule 13b2-2) and from aiding and abetting certain other reporting violations (Exchange Act Rules 13a-1 and 13a-13). In addition, Turner agreed to be enjoined from directly or indirectly controlling any person who violates the antifraud, books and records, internal control and periodic reporting provisions of the federal securities laws (Sections 10(b), 13(a), 13(b)(2)(A) and 13(b)(2)(B) of the Exchange Act and Rules 10b-5, 12b-20, 13a-1, 13a-11, 13a-13 and 13b2-1 thereunder).

In addition to the injunctive relief, Turner agreed to pay \$1 in disgorgement and a civil penalty of \$1,000,000, Carpenter agreed to pay \$143,455, comprising \$33,000 in disgorgement, \$10,455 in prejudgment interest and a civil penalty of \$100,000, and Sanderson agreed to pay \$270,595, comprising \$150,000 in disgorgement, \$45,595 in prejudgment interest and a civil penalty of \$75,000. Carpenter also agreed to be barred permanently from serving as an officer or director of a public company and Sanderson agreed to be barred for a period of five years.

The settlements are subject to court approval. The Commission expects that the penalties from the settling defendants will be distributed pursuant to the Fair Fund provisions of Section 308(a) of the Sarbanes-Oxley Act of 2002.

Separately, Jones consented, without admitting or denying the Commission's findings, to the entry of a Commission Order pursuant to which he is ordered to cease and desist from committing violations of the antifraud, books and records and internal controls provisions of the securities laws (Section 17(a) of the Securities Act, Sections 10(b) and 13(b)(5) of the Exchange Act and Rules 10b-5 and 13b2-1 thereunder), and from causing violations of the books and records, internal controls and periodic reporting provisions of the securities laws (Sections 13(a), 13(b)(2)(A), 13(b)(2)(B) of the Exchange Act and Rules 12b-20, 13a-1, and 13a-13 thereunder). The Commission's Order also finds that Jones, a certified public accountant, engaged in improper professional conduct within the meaning of Rule 102(e)(1)(ii) of the Commission's Rules of Practice and that he willfully violated and aided and abetted the violation of provisions of the federal securities laws within the meaning of Rule 102(e)(1)(iii). Accordingly, the Order denies Jones the privilege of appearing or practicing before the Commission as an accountant with a right to apply for reinstatement after three years.

Burr, Dollar General's former CFO, has not reached a settlement with the Commission. In its complaint, the Commission charges Burr with insider trading, violating the antifraud, books and records and internal controls provisions of the federal securities laws and aiding and abetting the books and records, periodic reporting and internal controls provisions of the securities laws. The Commission seeks against Burr a permanent injunction against future violations, disgorgement of ill-gotten gains, prejudgment interest thereon, and civil penalties. In addition, the Commission seeks an officer and director bar against Burr.

➤ [SEC Complaint in this matter](#)

<http://www.sec.gov/litigation/litreleases/lr19174.htm>