

LOWES COMPANIES INC  
Form 10-Q  
September 03, 2013

---

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended August 2, 2013

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 1-7898

LOWE'S COMPANIES, INC.  
(Exact name of registrant as specified in its charter)

NORTH CAROLINA (State or other jurisdiction of incorporation or organization) 56-0578072 (I.R.S. Employer Identification No.)

1000 Lowe's Blvd., Mooresville, NC (Address of principal executive offices) 28117 (Zip Code)

Registrant's telephone number, including area code (704) 758-1000

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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Edgar Filing: LOWES COMPANIES INC - Form 10-Q

Yes  No

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

CLASS	OUTSTANDING AT AUGUST 30, 2013
Common Stock, \$.50 par value	1,051,788,452

LOWE'S COMPANIES, INC.

- TABLE OF CONTENTS -

PART I - Financial Information		Page No.
Item 1.	Financial Statements	
	<u>Consolidated Balance Sheets – August 2, 2013 (Unaudited), August 3, 2012 (Unaudited) and February 1, 2013</u>	3
	<u>Consolidated Statements of Current and Retained Earnings (Unaudited) – Three and six months ended August 2, 2013 and August 3, 2012</u>	4
	<u>Consolidated Statements of Comprehensive Income (Unaudited) – Three and six months ended August 2, 2013 and August 3, 2012</u>	4
	<u>Consolidated Statements of Cash Flows (Unaudited) – Six months ended August 2, 2013 and August 3, 2012</u>	5
	<u>Notes to Consolidated Financial Statements (Unaudited)</u>	6-13
	<u>Report of Independent Registered Public Accounting Firm</u>	14
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	15-22
Item 3.	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	22
Item 4.	<u>Controls and Procedures</u>	22
PART II - Other Information		
Item 1.	<u>Legal Proceedings</u>	23
Item 1A.	<u>Risk Factors</u>	23
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	23-24
Item 6.	<u>Exhibits</u>	25
	<u>Signature</u>	26



Table of Contents

## Part I - FINANCIAL INFORMATION

## Item 1. Financial Statements

Lowe's Companies, Inc.

Consolidated Balance Sheets

In Millions, Except Par Value Data

	(Unaudited) (Unaudited)		
	August 2, 2013	August 3, 2012	February 1, 2013
<b>Assets</b>			
<b>Current assets:</b>			
Cash and cash equivalents	\$ 1,085	\$ 1,710	\$ 541
Short-term investments	189	586	125
Merchandise inventory - net	9,106	8,699	8,600
Deferred income taxes - net	224	279	217
Other current assets	309	325	301
<b>Total current assets</b>	<b>10,913</b>	<b>11,599</b>	<b>9,784</b>
Property, less accumulated depreciation	20,969	21,734	21,477
Long-term investments	306	485	271
Other assets	1,220	1,214	1,134
<b>Total assets</b>	<b>\$ 33,408</b>	<b>\$ 35,032</b>	<b>\$ 32,666</b>
<b>Liabilities and shareholders' equity</b>			
<b>Current liabilities:</b>			
Current maturities of long-term debt	\$ 47	\$ 594	\$ 47
Accounts payable	5,664	5,084	4,657
Accrued compensation and employee benefits	651	561	670
Deferred revenue	985	847	824
Other current liabilities	1,993	1,936	1,510
<b>Total current liabilities</b>	<b>9,340</b>	<b>9,022</b>	<b>7,708</b>
Long-term debt, excluding current maturities	9,015	9,008	9,030
Deferred income taxes - net	390	580	455
Deferred revenue - extended protection plans	733	726	715
Other liabilities	868	872	901
<b>Total liabilities</b>	<b>20,346</b>	<b>20,208</b>	<b>18,809</b>
<b>Shareholders' equity:</b>			
Preferred stock - \$5 par value, none issued	-	-	-

Edgar Filing: LOWES COMPANIES INC - Form 10-Q

Common stock - \$.50 par value;

Shares issued and outstanding

August 2, 2013	1,063			
August 3, 2012	1,152			
February 1, 2013	1,110	532	576	555
Capital in excess of par value		-	2	26
Retained earnings		12,504	14,199	13,224
Accumulated other comprehensive income		26	47	52
<b>Total shareholders' equity</b>		<b>13,062</b>	<b>14,824</b>	<b>13,857</b>
<b>Total liabilities and shareholders' equity</b>		<b>\$ 33,408</b>	<b>\$ 35,032</b>	<b>\$ 32,666</b>

See accompanying notes to the consolidated financial statements (unaudited).

Table of Contents

Lowe's  
Companies, Inc.  
Consolidated Statements of Current and Retained Earnings  
(Unaudited)  
In Millions, Except Per Share and  
Percentage Data

	Three Months Ended				Six Months Ended			
	August 2, 2013		August 3, 2012		August 2, 2013		August 3, 2012	
Current Earnings	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Net sales	\$ 15,711	100.00	\$ 14,249	100.00	\$ 28,800	100.00	\$ 27,402	100.00
Cost of sales	10,314	65.65	9,415	66.07	18,848	65.44	18,003	65.70
Gross margin	5,397	34.35	4,834	33.93	9,952	34.56	9,399	34.30
Expenses:								
Selling, general and administrative	3,414	21.73	3,172	22.26	6,635	23.04	6,414	23.40
Depreciation	367	2.33	369	2.59	719	2.50	739	2.70
Interest - net	110	0.70	96	0.68	223	0.77	199	0.73
Total expenses	3,891	24.76	3,637	25.53	7,577	26.31	7,352	26.83
Pre-tax earnings	1,506	9.59	1,197	8.40	2,375	8.25	2,047	7.47
Income tax provision	565	3.60	450	3.15	893	3.11	772	2.82
Net earnings	\$ 941	5.99	\$ 747	5.25	\$ 1,482	5.14	\$ 1,275	4.65
Weighted average common shares outstanding -								
basic	1,067		1,157		1,077		1,182	
Basic earnings per common share								
	\$ 0.88		\$ 0.64		\$ 1.37		\$ 1.07	
Weighted average common shares outstanding -								
	1,068		1,159		1,079		1,183	

Edgar Filing: LOWES COMPANIES INC - Form 10-Q

diluted

Diluted earnings  
per common  
share

\$ 0.88	\$ 0.64	\$ 1.36	\$ 1.07
---------	---------	---------	---------

Cash dividends  
per share

\$ 0.18	\$ 0.16	\$ 0.34	\$ 0.30
---------	---------	---------	---------

Retained  
Earnings

Balance at  
beginning of  
period

\$ 12,618	\$ 14,557	\$ 13,224	\$ 15,852
-----------	-----------	-----------	-----------

Net earnings

941	747	1,482	1,275
-----	-----	-------	-------

Cash dividends

(192 )	(184 )	(366 )	(350 )
--------	--------	--------	--------

Share repurchases

(863 )	(921 )	(1,836 )	(2,578 )
--------	--------	----------	----------

Balance at end of  
period

\$ 12,504	\$ 14,199	\$ 12,504	\$ 14,199
-----------	-----------	-----------	-----------

Lowe's  
Companies, Inc.  
Consolidated Statements of  
Comprehensive Income (Unaudited)  
In Millions,  
Except  
Percentage Data

	Three Months Ended				Six Months Ended			
	August 2, 2013		August 3, 2012		August 2, 2013		August 3, 2012	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Net earnings	\$ 941	5.99	\$ 747	5.25	\$ 1,482	5.14	\$ 1,275	4.65

Foreign currency  
translation  
adjustments - net  
of tax

(26 )	(0.17 )	(8 )	(0.05 )	(26 )	(0.09 )	(1 )	-
-------	---------	------	---------	-------	---------	------	---

Net unrealized  
investment gains -  
net of tax

-	-	3	0.01	-	-	2	0.01
---	---	---	------	---	---	---	------

Other  
comprehensive  
(loss)/income

(26 )	(0.17 )	(5 )	(0.04 )	(26 )	(0.09 )	1	0.01
-------	---------	------	---------	-------	---------	---	------

Comprehensive  
income

\$ 915	5.82	\$ 742	5.21	\$ 1,456	5.05	\$ 1,276	4.66
--------	------	--------	------	----------	------	----------	------



See accompanying notes to the consolidated financial statements  
(unaudited).

4

---

Table of Contents

Lowe's Companies, Inc.  
Consolidated Statements of Cash Flows (Unaudited)  
In Millions

	Six Months Ended	
	August 2, 2013	August 3, 2012
<b>Cash flows from operating activities:</b>		
Net earnings	\$ 1,482	\$ 1,275
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	767	789
Deferred income taxes	(56 )	(59 )
Loss on property and other assets - net	12	36
Loss on equity method investments	27	29
Share-based payment expense	44	54
Changes in operating assets and liabilities:		
Merchandise inventory - net	(517 )	(345 )
Other operating assets	4	(159 )
Accounts payable	1,009	731
Other operating liabilities	584	445
Net cash provided by operating activities	3,356	2,796
<b>Cash flows from investing activities:</b>		
Purchases of investments	(303 )	(1,176 )
Proceeds from sale/maturity of investments	224	897
Capital expenditures	(376 )	(622 )
Contributions to equity method investments - net	(113 )	(159 )
Proceeds from sale of property and other long-term assets	47	49
Other - net	3	(21 )
Net cash used in investing activities	(518 )	(1,032 )
<b>Cash flows from financing activities:</b>		
Net proceeds from issuance of long-term debt	-	1,984
Repayment of long-term debt	(22 )	(20 )
Proceeds from issuance of common stock under share-based payment plans	100	90
Cash dividend payments	(352 )	(340 )
Repurchase of common stock	(2,027 )	(2,793 )
Other - net	8	13
Net cash used in financing activities	(2,293 )	(1,066 )
Effect of exchange rate changes on cash	(1 )	(2 )
Net increase in cash and cash equivalents	544	696
Cash and cash equivalents, beginning of period	541	1,014
Cash and cash equivalents, end of period	\$ 1,085	\$ 1,710

See accompanying notes to the consolidated financial statements (unaudited).

Table of Contents

Lowe's Companies, Inc.  
Notes to Consolidated Financial Statements (Unaudited)

Note 1: Basis of Presentation - The accompanying consolidated financial statements (unaudited) and notes to the consolidated financial statements (unaudited) are presented in accordance with the rules and regulations of the Securities and Exchange Commission and do not include all the disclosures normally required in annual consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America. The consolidated financial statements (unaudited), in the opinion of management, contain all adjustments necessary to present fairly the financial position as of August 2, 2013, and August 3, 2012, and the results of operations and comprehensive income for the three and six months ended August 2, 2013, and August 3, 2012 and cash flows for the six months ended August 2, 2013, and August 3, 2012.

These interim consolidated financial statements (unaudited) should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Lowe's Companies, Inc. (the Company) Annual Report on Form 10-K for the fiscal year ended February 1, 2013 (the Annual Report). The financial results for the interim periods may not be indicative of the financial results for the entire fiscal year.

Note 2: Fair Value Measurements - Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The authoritative guidance for fair value measurements establishes a three-level hierarchy, which encourages an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels of the hierarchy are defined as follows:

- Level 1 - inputs to the valuation techniques that are quoted prices in active markets for identical assets or liabilities
- Level 2 - inputs to the valuation techniques that are other than quoted prices but are observable for the assets or liabilities, either directly or indirectly
  - Level 3 - inputs to the valuation techniques that are unobservable for the assets or liabilities

Assets and Liabilities that are Measured at Fair Value on a Recurring Basis

The following tables present the Company's financial assets measured at fair value on a recurring basis as of August 2, 2013, August 3, 2012, and February 1, 2013, classified by fair value hierarchy:

Edgar Filing: LOWES COMPANIES INC - Form 10-Q

(In millions)	Fair Value Measurements at Reporting Date Using			
	August 2, 2013	Level 1	Level 2	Level 3
Available-for-sale securities:				
Money market funds	\$ 105	\$ 105	\$ -	\$ -
Municipal obligations	46	-	46	-
Municipal floating rate obligations	17	-	17	-
Certificates of deposit	21	21	-	-
Total short-term investments	\$ 189	\$ 126	\$ 63	\$ -
Available-for-sale securities:				
Municipal floating rate obligations	\$ 288	\$ -	\$ 288	\$ -
Municipal obligations	18	-	18	-
Total long-term investments	\$ 306	\$ -	\$ 306	\$ -

(In millions)	Fair Value Measurements at Reporting Date Using			
	August 3, 2012	Level 1	Level 2	Level 3
Available-for-sale securities:				
Money market funds	\$ 61	\$ 61	\$ -	\$ -
Municipal obligations	56	-	56	-
Municipal floating rate obligations	433	-	433	-
Certificates of deposit	2	2	-	-
Other	6	6	-	-
Trading securities:				
Mutual funds	28	28	-	-
Total short-term investments	\$ 586	\$ 97	\$ 489	\$ -
Available-for-sale securities:				
Municipal floating rate obligations	\$ 394	\$ -	\$ 394	\$ -
Municipal obligations	80	-	80	-
Equity securities	11	11	-	-
Total long-term investments	\$ 485	\$ 11	\$ 474	\$ -

(In millions)	Fair Value Measurements at Reporting Date Using			
	February 1, 2013	Level 1	Level 2	Level 3
Available-for-sale securities:				
Money market funds	\$ 49	\$ 49	\$ -	\$ -
Municipal obligations	56	-	56	-
Municipal floating rate obligations	14	-	14	-
Other	6	-	6	-
Total short-term investments	\$ 125	\$ 49	\$ 76	\$ -
Available-for-sale securities:				
Municipal floating rate obligations	\$ 230	\$ -	\$ 230	\$ -
Municipal obligations	41	-	41	-
Total long-term investments	\$ 271	\$ -	\$ 271	\$ -

There were no transfers between Levels 1, 2 or 3 during any of the periods presented.

When available, quoted prices were used to determine fair value. When quoted prices in active markets were available, investments were classified within Level 1 of the fair value hierarchy. When quoted prices in active markets were not available, fair values were determined using pricing models, and the inputs to those pricing models were based on

7

---

observable market inputs. The inputs to the pricing models were typically benchmark yields, reported trades, broker-dealer quotes, issuer spreads and benchmark securities, among others.

#### Assets and Liabilities that are Measured at Fair Value on a Nonrecurring Basis

During the six months ended August 2, 2013 and August 3, 2012, the Company's only significant assets or liabilities measured at fair value on a nonrecurring basis subsequent to their initial recognition were certain assets subject to long-lived asset impairment.

The Company reviews the carrying amounts of long-lived assets whenever certain events or changes in circumstances indicate that the carrying amounts may not be recoverable. With input from retail store operations, the Company's accounting and finance personnel that organizationally report to the chief financial officer, assess the performance of retail stores quarterly against historical patterns and projections of future profitability for evidence of possible impairment. An impairment loss is recognized when the carrying amount of the asset (disposal) group is not recoverable and exceeds its fair value. The Company estimated the fair values of assets subject to long-lived asset impairment based on the Company's own judgments about the assumptions that market participants would use in pricing the assets and on observable market data, when available. The Company classified these fair value measurements as Level 3.

In the determination of impairment for operating locations, the Company determined the fair values of individual operating locations using an income approach, which required discounting projected future cash flows. When determining the stream of projected future cash flows associated with an individual operating location, management made assumptions, incorporating local market conditions and inputs from retail store operations, about key variables including the following unobservable inputs: sales growth rates, gross margin, controllable expenses, such as payroll and occupancy expense, and asset residual values. In order to calculate the present value of those future cash flows, the Company discounted cash flow estimates at a rate commensurate with the risk that selected market participants would assign to the cash flows. In general, the selected market participants represented a group of other retailers with a location footprint similar in size to the Company's.

During the six months ended August 2, 2013, nine operating locations experienced a triggering event and were evaluated for recoverability. These nine operating locations were determined to be recoverable and therefore were not impaired. For seven of these nine locations, the expected undiscounted cash flows substantially exceeded the net book value of the location's assets. A 10% reduction in projected sales used to estimate future cash flows at the latest date these nine operating locations were evaluated for impairment would have resulted in the impairment of four of these locations and increased recognized impairment losses by \$37 million. We analyzed other assumptions made in estimating the future cash flows of the operating locations evaluated for impairment, but the sensitivity of those assumptions was not significant to the estimates.

In the determination of impairment for excess properties held-for-use and held-for-sale, which consisted of retail outparcels and property associated with relocated or closed locations, the fair values were determined using a market approach based on estimated selling prices. The Company determined the estimated selling prices by obtaining information from property brokers or appraisers in the specific markets being evaluated or negotiated non-binding offers to purchase. The information obtained from property brokers or appraisers included comparable sales of similar assets and assumptions about demand in the market for these assets.

During the six months ended August 2, 2013, the Company incurred total impairment charges of \$5 million, excluding costs to sell, for eight excess property locations. A 10% reduction in the estimated selling prices for these excess properties at the dates the locations were evaluated for impairment would have increased impairment losses by approximately \$2 million.

The following tables present the Company's non-financial assets measured at estimated fair value on a nonrecurring basis and the resulting long-lived asset impairment losses included in earnings, excluding costs to sell for excess properties held-for-sale. Because assets subject to long-lived asset impairment were not measured at fair value on a recurring basis, certain fair value measurements presented in the table may reflect values at earlier measurement dates and may no longer represent the fair values at August 2, 2013, and August 3, 2012.



## Fair Value Measurements - Nonrecurring Basis

(In millions)	Three Months Ended			
	August 2, 2013		August 3, 2012	
	Fair Value Measurements	Impairment Losses	Fair Value Measurements	Impairment Losses
<b>Assets-held-for-use:</b>				
Operating locations	\$ -	\$ -	\$ 1	\$ (6 )
Excess properties	10	(3 )	14	(10 )
<b>Assets-held-for-sale:</b>				
Excess properties	5	-	3	(1 )
<b>Total</b>	<b>\$ 15</b>	<b>\$ (3 )</b>	<b>\$ 18</b>	<b>\$ (17 )</b>

(In millions)	Six Months Ended			
	August 2, 2013		August 3, 2012	
	Fair Value Measurements	Impairment Losses	Fair Value Measurements	Impairment Losses
<b>Assets-held-for-use:</b>				
Operating locations	\$ -	\$ -	\$ 1	\$ (6 )
Excess properties	11	(3 )	31	(15 )
<b>Assets-held-for-sale:</b>				
Excess properties	6	(2 )	3	(1 )
<b>Total</b>	<b>\$ 17</b>	<b>\$ (5 )</b>	<b>\$ 35</b>	<b>\$ (22 )</b>

## Fair Value of Financial Instruments

The Company's financial instruments not measured at fair value on a recurring basis include cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities and long-term debt and are reflected in the financial statements at cost. With the exception of long-term debt, cost approximates fair value for these items due to their short-term nature. The fair values of the Company's unsecured notes classified as Level 1 were estimated using quoted market prices. The fair values of the Company's mortgage notes classified as Level 2 were estimated using discounted cash flow analyses, based on the future cash outflows associated with these arrangements and discounted using the applicable risk-free borrowing rate.

Carrying amounts and the related estimated fair value of the Company's long-term debt, excluding capitalized lease obligations, are as follows:

(In millions)	August 2, 2013		August 3, 2012	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Unsecured notes (Level 1)	\$ 8,629	\$ 9,459	\$ 9,175	\$ 10,751
Mortgage notes (Level 2)	18	20	19	23
Long-term debt (excluding capitalized lease obligations)	\$ 8,647	\$ 9,479	\$ 9,194	\$ 10,774

Note 3: Restricted Investment Balances - Short-term and long-term investments include restricted balances pledged as collateral primarily for the Company's extended protection plan program. Restricted balances included in short-term investments were \$163 million at August 2, 2013, \$136 million at August 3, 2012, and \$123 million at February 1, 2013.



Restricted balances included in long-term investments were \$230 million at August 2, 2013, \$313 million at August 3, 2012, and \$263 million at February 1, 2013.

Note 4: Property - Property is shown net of accumulated depreciation of \$13.8 billion at August 2, 2013, \$13.0 billion at August 3, 2012, and \$13.2 billion at February 1, 2013.

Note 5: Extended Protection Plans - The Company sells separately-priced extended protection plan contracts under a Lowe's-branded program for which the Company is ultimately self-insured. The Company recognizes revenue from extended protection plan sales on a straight-line basis over the respective contract term. Extended protection plan contract terms primarily range from one to four years from the date of purchase or the end of the manufacturer's warranty, as applicable. Changes in deferred revenue for extended protection plan contracts are summarized as follows:

(In millions)	Three Months Ended		Six Months Ended	
	August 2, 2013	August 3, 2012	August 2, 2013	August 3, 2012
Deferred revenue - extended protection plans, beginning of period	\$ 717	\$ 716	\$ 715	\$ 704
Additions to deferred revenue	85	68	155	134
Deferred revenue recognized	(69 )	(58 )	(137 )	(112 )
Deferred revenue - extended protection plans, end of period	\$ 733	\$ 726	\$ 733	\$ 726

Incremental direct acquisition costs associated with the sale of extended protection plans are also deferred and recognized as expense on a straight-line basis over the respective contract term. Deferred costs associated with extended protection plan contracts were \$72 million at August 2, 2013, \$119 million at August 3, 2012, and \$95 million at February 1, 2013. The Company's extended protection plan deferred costs are included in other assets (noncurrent) on the consolidated balance sheets. All other costs, such as costs of services performed under the contract, general and administrative expenses and advertising expenses are expensed as incurred.

The liability for extended protection plan claims incurred is included in other current liabilities on the consolidated balance sheets. Changes in the liability for extended protection plan claims are summarized as follows:

(In millions)	Three Months Ended		Six Months Ended	
	August 2, 2013	August 3, 2012	August 2, 2013	August 3, 2012
Liability for extended protection plan claims, beginning of period	\$ 20	\$ 22	\$ 20	\$ 21
Accrual for claims incurred	29	25	56	42
Claim payments	(22 )	(24 )	(49 )	(40 )
Liability for extended protection plan claims, end of period	\$ 27	\$ 23	\$ 27	\$ 23

Note 6: Shareholders' Equity - The Company has a share repurchase program that is executed through purchases made from time to time either in the open market or through private off-market transactions. Shares purchased under the repurchase program are retired and returned to authorized and unissued status. The current \$5.0 billion share repurchase program, authorized by the Company's Board of Directors on February 1, 2013, has no expiration and at August 2, 2013, the Company had remaining authorization under the share repurchase program of \$3.0 billion.

In February 2013, the Company entered into an Accelerated Share Repurchase (ASR) agreement with a third-party financial institution to repurchase \$1.0 billion of the Company's common stock. At inception, pursuant to the agreement, the Company paid \$1.0 billion to the financial institution using cash on hand, and took delivery of 23.2 million shares. During the second quarter of fiscal 2013, the Company finalized the transaction and received an additional 2.8 million shares.

In May 2013, the Company entered into an ASR agreement with a third-party financial institution to repurchase \$750 million of the Company's common stock. At inception, pursuant to the agreement, the Company paid \$750 million to the financial institution using cash on hand, and took delivery of 14.9 million shares. Prior to the end of the second quarter of fiscal 2013, the Company finalized the transaction and received an additional 3.6 million shares.

Under the terms of the ASR agreements, upon settlement, the Company would either receive additional shares from the financial institution or be required to deliver additional shares or cash to the financial institution. The Company controlled its election to either deliver additional shares or cash to the financial institution and was subject to provisions which limited the number of shares the Company would be required to deliver.

The final number of shares delivered upon settlement of each ASR agreement was determined with reference to the volume-weighted average price of the Company's common stock over the term of the ASR agreement. The initial repurchase of shares under these agreements resulted in an immediate reduction of the outstanding shares used to calculate the weighted-average common shares outstanding for basic and diluted earnings per share.

These ASR agreements were accounted for as treasury stock transactions and forward stock purchase contracts. The par value of the shares received was recorded as a reduction to common stock with the remainder recorded as a reduction to capital in excess of par value and retained earnings. The forward stock purchase contract was considered indexed to the Company's own stock and was classified as an equity instrument. As of the end of the second quarter, there were no ASR agreements outstanding.

During the three and six months ended August 2, 2013, the Company also repurchased shares of its common stock through the open market totaling 5.9 million and 6.2 million shares, respectively, for a cost of \$253 million and \$263 million, respectively.

The Company also withholds shares from employees to satisfy either the exercise price of stock options exercised or the statutory withholding tax liability resulting from the vesting of restricted stock awards.

Shares repurchased for the three and six months ended August 2, 2013, and August 3, 2012 were as follows:

(In millions)	Three Months Ended			
	August 2, 2013		August 3, 2012	
	Shares	Cost 1	Shares	Cost 1
Share repurchase program	27.1	\$ 1,003	36.8	\$ 1,000
Shares withheld from employees	0.1	2	0.1	3
Total share repurchases	27.2	\$ 1,005	36.9	\$ 1,003

(In millions)	Six Months Ended			
	August 2, 2013		August 3, 2012	
	Shares	Cost 2	Shares	Cost 2
Share repurchase program	50.6	\$ 2,013	94.7	\$ 2,750
Shares withheld from employees	1.0	38	1.5	43
Total share repurchases	51.6	\$ 2,051	96.2	\$ 2,793

1 Reductions of \$863 million and \$921 million were recorded to retained earnings, after capital in excess of par value was depleted, for the three months ended August 2, 2013 and August 3, 2012, respectively.

2 Reductions of \$1.8 billion and \$2.6 billion were recorded to retained earnings, after capital in excess of par value was depleted, for the six months ended August 2, 2013 and August 3, 2012, respectively.



Note 7: Income Taxes - The Company is subject to examination by various foreign and domestic taxing authorities.

At August 2, 2013, the Company had unrecognized tax benefits of \$63 million. The Company is working to resolve federal items for fiscal years 2008 through 2011 identified under a previous audit cycle. However, the Company does not believe that these items, as well as the resultant state impact, will be determined within the next 12 months. It is reasonably possible that the Company will resolve \$5 million in state related audit items within the next 12 months. There are also ongoing U.S. state audits covering tax years 2004 through 2011. The Company's Canadian operations are currently under audit by the Canada Revenue Agency for fiscal years 2008 and 2009. The Company believes appropriate provisions for all outstanding issues have been made for all jurisdictions and all open years.

Note 8: Earnings Per Share - The Company calculates basic and diluted earnings per common share using the two-class method. Under the two-class method, net earnings are allocated to each class of common stock and participating security as if all of the net earnings for the period had been distributed. The Company's participating securities consist of share-based payment awards that contain a nonforfeitable right to receive dividends and therefore are considered to participate in undistributed earnings with common shareholders.

Basic earnings per common share excludes dilution and is calculated by dividing net earnings allocable to common shares by the weighted-average number of common shares outstanding for the period. Diluted earnings per common share is calculated by dividing net earnings allocable to common shares by the weighted-average number of common shares as of the balance sheet date, as adjusted for the potential dilutive effect of non-participating share-based awards. The following table reconciles earnings per common share for the three and six months ended August 2, 2013, and August 3, 2012.

(In millions, except per share data)	Three Months Ended		Six Months Ended	
	August 2, 2013	August 3, 2012	August 2, 2013	August 3, 2012
<b>Basic earnings per common share:</b>				
Net earnings	\$ 941	\$ 747	\$ 1,482	\$ 1,275
Less: Net earnings allocable to participating securities	(6 )	(5 )	(10 )	(9 )
Net earnings allocable to common shares	\$ 935	\$ 742	\$ 1,472	\$ 1,266
Weighted-average common shares outstanding	1,067	1,157	1,077	1,182
Basic earnings per common share	\$ 0.88	\$ 0.64	\$ 1.37	\$ 1.07
<b>Diluted earnings per common share:</b>				
Net earnings	\$ 941	\$ 747	\$ 1,482	\$ 1,275
Less: Net earnings allocable to participating securities	(6 )	(5 )	(10 )	(9 )
Net earnings allocable to common shares	\$ 935	\$ 742	\$ 1,472	\$ 1,266
Weighted-average common shares outstanding	1,067	1,157	1,077	1,182
Dilutive effect of non-participating share-based awards	1	2	2	1
Weighted-average common shares, as adjusted	1,068	1,159	1,079	1,183
Diluted earnings per common share	\$ 0.88	\$ 0.64	\$ 1.36	\$ 1.07

Stock options to purchase 2.1 million and 10.7 million shares of common stock for the three months ended August 2, 2013, and August 3, 2012, respectively, were excluded from the computation of diluted earnings per common share because their effect would have been anti-dilutive. Stock options to purchase 1.8 million and 8.6 million shares of common stock for the six months ended August 2, 2013, and August 3, 2012, respectively, were excluded from the computation of diluted earnings per common share because their effect would have been anti-dilutive.



## Note 9: Supplemental Disclosure

Net interest expense is comprised of the following:

(In millions)	Three Months Ended		Six Months Ended	
	August 2, 2013	August 3, 2012	August 2, 2013	August 3, 2012
Long-term debt	\$ 103	\$ 111	\$ 207	\$ 208
Capitalized lease obligations	9	9	19	18
Interest income	(1 )	(3 )	(2 )	(5 )
Interest capitalized	(1 )	(1 )	(2 )	(2 )
Interest on tax uncertainties	(2 )	(22 )	(2 )	(25 )
Other	2	2	3	5
Interest - net	\$ 110	\$ 96	\$ 223	\$ 199

Supplemental disclosures of cash flow information:

(In millions)	Six Months Ended	
	August 2, 2013	August 3, 2012
Cash paid for interest, net of amount capitalized	\$ 226	\$ 207
Cash paid for income taxes - net	\$ 746	\$ 736
Non-cash investing and financing activities:		
Non-cash property acquisitions, including assets acquired under capital lease	\$ 6	\$ 11
Cash dividends declared but not paid	\$ 192	\$ 184

Note 10: Recent Accounting Pronouncements - In February 2013, the Financial Accounting Standards Board (FASB) issued authoritative guidance that adds new disclosure requirements for items reclassified out of accumulated other comprehensive income (AOCI). Under the new guidance, entities are required to either: (i) present parenthetically significant reclassifications made into net income on the face of the financial statement where net income is presented or (ii) disclose in the notes to the financial statements significant amounts reclassified out of AOCI and the net income statement line item affected. In addition, entities are required to disaggregate the total change in each component of AOCI by separately disclosing reclassification adjustments and current period other comprehensive income. The guidance was effective for interim and annual periods beginning after December 15, 2012. The adoption of the guidance by the Company did not have a material impact on its consolidated financial statements.

Note 11: Subsequent Event - On August 30, 2013, the Company acquired the majority of the assets of Orchard Supply Hardware (Orchard), a neighborhood hardware and backyard store primarily located in densely populated markets in California, for approximately \$205 million in cash, plus the assumption of approximately \$70 million of payables owed to nearly all of Orchard's suppliers. The acquisition will enable the Company to expand through a new store format and to reach a new customer base in California with the addition of Orchard's smaller-format store locations. Due to the limited time since the acquisition date, the Company has not yet completed the initial accounting for this business combination.

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Lowe's Companies, Inc.  
 Mooresville, North Carolina

We have reviewed the accompanying consolidated balance sheets of Lowe's Companies, Inc. and subsidiaries (the "Company") as of August 2, 2013 and August 3, 2012, and the related consolidated statements of current and retained earnings and comprehensive income for the fiscal three-month and six-month periods ended August 2, 2013 and August 3, 2012, and of cash flows for the fiscal six-month periods ended August 2, 2013 and August 3, 2012. These consolidated interim financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to such consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of the Company as of February 1, 2013, and the related consolidated statements of earnings, comprehensive income, shareholders' equity, and cash flows for the fiscal year then ended (not presented herein); and in our report dated April 1, 2013, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet of the Company as of February 1, 2013 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ DELOITTE & TOUCHE LLP

Charlotte, North Carolina  
September 3, 2013

Table of Contents

Item 2.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This discussion and analysis summarizes the significant factors affecting our consolidated operating results, liquidity and capital resources during the three and six months ended August 2, 2013, and August 3, 2012. This discussion and analysis should be read in conjunction with the consolidated financial statements and notes to the consolidated financial statements that are included in our Annual Report on Form 10-K for the fiscal year ended February 1, 2013 (the Annual Report), as well as the consolidated financial statements (unaudited) and notes to the consolidated financial statements (unaudited) contained in this report. Unless otherwise specified, all comparisons made are to the corresponding period of 2012. This discussion and analysis is presented in seven sections:

- Executive Overview
  - Operations
- Lowe's Business Outlook
- Financial Condition, Liquidity and Capital Resources
  - Off-Balance Sheet Arrangements
- Contractual Obligations and Commercial Commitments
  - Critical Accounting Policies and Estimates

EXECUTIVE OVERVIEW

Net earnings for the second quarter of 2013 increased 26.0% to \$941 million with diluted earnings per share increasing 37.5% to \$0.88 per diluted share. Net sales for the second quarter of 2013 increased 10.3% to \$15.7 billion. Comparable sales increased 9.6% driven by a 5.0% increase in comparable transactions and a 4.4% increase in comparable average ticket. Comparable sales were consistent throughout the second quarter as we experienced comparable sales increases above 8% for each month of the quarter.

By capitalizing on the shift from lawn maintenance activities early in the quarter to outdoor enjoyment in the mid-to-latter part of the quarter, we were able to achieve comparable sales growth of approximately 13% in outdoor product categories compared to negative 7% in the first quarter of 2013. This was driven by strong growth in products needed to improve and maintain the yard, such as Tools & Outdoor Power Equipment and Lawn & Garden, which were among the strongest performing product categories in the second quarter. We also experienced strength in indoor product categories, such as Kitchens & Appliances, which performed above the company average in the second quarter, primarily driven by strong appliance sales as the LG line gained further traction after its first quarter roll-out. In addition, Hardware, Paint and Fashion Electrical, not only achieved mid-single-digit comparable sales increases, but also experienced solid growth in gross margin rates, primarily as a result of progress made in our Value Improvement initiative.

From a geographic perspective, all regions achieved mid-single digit or higher comparable sales increases for the second quarter. We also estimate that our stores most affected by Hurricane Sandy recovery contributed approximately 30 basis points to our total comparable sales increase. In regions that were negatively impacted by unfavorable weather in the first quarter of 2013, including most of the east coast and midwest, we were able to recapture most of those sales in the second quarter. In addition, housing recovery markets on the west coast and Florida, as well as healthy markets along the Texas Gulf Coast, continued to show comparable sales improvement. We expect to see continued strength in these markets and further improvement along the southeast coast and in the midwest where the recovery is now taking root.

We also continued to deliver on our commitment to return excess cash to shareholders, aided by strong operating cash flows of \$3.4 billion year-to-date. During the second quarter of 2013, we paid \$174 million in dividends and repurchased approximately 27.1 million shares of common stock, which includes 2.8 million shares received in settlement of the first quarter ASR, totaling \$1.0 billion through our share repurchase program.

From an economic perspective, the stronger than expected pace of home improvement industry growth during the first half of 2013 was driven by stronger gains in housing turnover and job growth than originally forecasted, further offsetting the negative effects of higher taxes. The industry performance for the second half of 2013 will be somewhat dependent on

the impact of the steep increases in mortgage rates over the last few months. As the macro economy transitions from recovery to sustainable expansion and we further realize the benefits of our initiatives and improving execution, we are confident in our Business Outlook for 2013 included herein.

## OPERATIONS

The following tables set forth the percentage relationship to net sales of each line item of the consolidated statements of earnings (unaudited), as well as the percentage change in dollar amounts from the prior period. These tables should be read in conjunction with the following discussion and analysis and the consolidated financial statements (unaudited), including the related notes to the consolidated financial statements (unaudited).

	Three Months Ended		Basis Point Increase / (Decrease) in Percentage of Net Sales from Prior Period		Percentage Increase / (Decrease) in Dollar Amounts from Prior Period	
	August 2, 2013	August 3, 2012	2013 vs. 2012	2013 vs. 2012		
Net sales	100.00 %	100.00 %	% N/A	10.3	%	
Gross margin	34.35	33.93	42	11.6		
Expenses:						
Selling, general and administrative	21.73	22.26	(53)	7.7		
Depreciation	2.33	2.59	(26)	(0.7)		
Interest - net	0.70	0.68	2	14.2		
Total expenses	24.76	25.53	(77)	7.0		
Pre-tax earnings	9.59	8.40	119	25.8		
Income tax provision	3.60	3.15	45	25.6		
Net earnings	5.99 %	5.25 %	% 74	25.9	%	
EBIT margin <sup>1</sup>	10.29 %	9.08 %	% 121	24.9	%	

	Six Months Ended		Basis Point Increase / (Decrease) in Percentage of Net Sales from Prior Period		Percentage Increase / (Decrease) in Dollar Amounts from Prior Period	
	August 2, 2013	August 3, 2012	2013 vs. 2012	2013 vs. 2012		
Net sales	100.00 %	100.00 %	% N/A	5.1	%	
Gross margin	34.56	34.30	26	5.9		
Expenses:						
Selling, general and administrative	23.04	23.40	(36)	3.5		

Edgar Filing: LOWES COMPANIES INC - Form 10-Q

Depreciation	2.50		2.70	(20	)	(2.7	)
Interest - net	0.77		0.73	4		12.0	
Total expenses	26.31		26.83	(52	)	3.1	
Pre-tax earnings	8.25		7.47	78		16.0	
Income tax provision	3.11		2.82	29		15.7	
Net earnings	5.14	%	4.65	%	49	16.2	%
EBIT margin <sup>1</sup>	9.02	%	8.20	%	82	15.6	%

16

---

Other Metrics	Three Months Ended		Six Months Ended	
	August 2, 2013	August 3, 2012	August 2, 2013	August 3, 2012
Comparable sales increase/(decrease) 2	9.6	% (0.4 ) %	4.6	% 1.0 %
Total customer transactions (in millions)	240	227	441	436
Average ticket 3	\$ 65.60	\$ 62.66	\$ 65.32	\$ 62.87
At end of period:				
Number of stores	1,758	1,748		
Sales floor square feet (in millions)	198	197		
Average store size selling square feet (in thousands) 4	112	113		
Return on invested capital 5	10.6	% 8.6 %		

1 EBIT margin, also referred to as operating margin, is defined as earnings before interest and taxes as a percentage of sales.

2 A comparable location is defined as a location that has been open longer than 13 months. A location that is identified for relocation is no longer considered comparable one month prior to its relocation. The relocated location must then remain open longer than 13 months to be considered comparable. A location we have decided to close is no longer considered comparable as of the beginning of the month in which we announce its closing.

3 Average ticket is defined as net sales divided by the total number of customer transactions.

4 Average store size selling square feet is defined as sales floor square feet divided by the number of stores open at the end of the period.

5 Return on invested capital is a non-GAAP financial measure. See below for additional information.

#### Return on Invested Capital

Return on Invested Capital (ROIC) is a non-GAAP financial measure. We believe ROIC is a meaningful metric for investors because it measures how effectively the Company uses capital to generate profits.

We define ROIC as trailing four quarters' net operating profit after tax divided by the average of ending debt and equity for the last five quarters. Although ROIC is a common financial metric, numerous methods exist for calculating ROIC. Accordingly, the method used by our management to calculate ROIC may differ from the methods other companies use to calculate their ROIC. We encourage you to understand the methods used by another company to calculate its ROIC before comparing its ROIC to ours.

We consider return on average debt and equity to be the financial measure computed in accordance with generally accepted accounting principles that is the most directly comparable GAAP financial measure to ROIC. The difference between these two measures is that ROIC adjusts net earnings to exclude tax adjusted interest expense.

The calculation of ROIC, together with a reconciliation to the calculation of return on average debt and equity, the most comparable GAAP financial measure, is as follows:

Edgar Filing: LOWES COMPANIES INC - Form 10-Q

(In millions, except percentage data) Calculation of Return on Invested Capital	For the periods ended				
		August 2, 2013		August 3, 2012	
Numerator 1					
Net earnings	\$	2,165		\$	1,822
Plus:					
Interest expense - net		447			392
Provision for income taxes		1,299			1,063
Earnings before interest and taxes		3,911			3,277
Less:					
Income tax adjustment 2		1,466			1,207
Net operating profit after tax	\$	2,445		\$	2,070
Effective tax rate		37.5	%	36.8	%
Denominator					
Average debt and equity 3	\$	23,016		\$	24,044
Return on invested capital		10.6	%	8.6	%

Calculation of Return on Average Debt and Equity

Numerator 1					
Net earnings	\$	2,165		\$	1,822
Denominator					
Average debt and equity 3	\$	23,016		\$	24,044
Return on average debt and equity		9.4	%	7.6	%

1 Amounts used in the calculation of the numerator are based on the trailing four quarters.

2 Income tax adjustment is defined as earnings before interest and taxes multiplied by the effective tax rate.

3 Average debt and equity is defined as average debt, including current maturities and short-term borrowings, plus total equity for the last five quarters.

Net Sales – Net sales increased 10.3% to \$15.7 billion in the second quarter of 2013. Comparable sales increased 9.6% over the same period, driven by a 5.0% increase in comparable customer transactions and a 4.4% increase in comparable average ticket.

Sales during the second quarter benefited from growth in the home improvement industry where gains in housing turnover and job growth created increased demand. As a result of continued improvement in our execution, we were able to capitalize on both the market growth and delayed spring, and recovered most of the sales that were missed in the first quarter due to unfavorable weather. We also continued to realize benefits from our strategic initiatives, with many of our product categories benefiting from improved line designs and deeper inventory in key items after having completed their Value Improvement resets.

Our performance during the second quarter was strong across categories as all 12 product categories experienced comparable sales increases at or above 5%. During the quarter, we experienced comparable sales increases above the company average in the following categories: Tools & Outdoor Power Equipment, Lawn & Garden, Plumbing, and Kitchens & Appliances. Our ability to capitalize on the late arrival of the spring selling season during the second quarter of 2013, along with the transition to warmer summer weather, provided for growth in Tools & Outdoor Power Equipment, Lawn & Garden, and Seasonal Living. Plumbing also benefitted from the above average rainfall in the second quarter, which drove strong sales in pumps and drainage products, dehumidifiers, and water heaters. In addition, effective promotions and improved market conditions, as well as positive customer response to the addition



of the LG product line, aided sales in Kitchens & Appliances.

18

---

Net sales increased 5.1% to \$28.8 billion for the first six months of 2013 compared to 2012. Comparable sales increased 4.6% over the same period, primarily driven by a 3.8% increase in average ticket. Comparable customer transactions increased 0.8% over the same period.

Gross Margin – For the second quarter of 2013, gross margin increased 42 basis points as a percentage of sales. Gross margin was positively impacted by 55 basis points primarily due to cost reductions associated with product line reviews resulting from our Value Improvement initiative. Additionally, gross margin increased 20 basis points as a result of more targeted and cost effective promotions this year compared to the prior year. These were slightly offset by 15 basis points related to our proprietary credit value proposition, which offers customers the choice of 5% off every day or promotional financing, due to higher sales penetration of our proprietary credit program. In addition, product mix and inflation, specifically within Lumber, negatively impacted gross margin by 14 and 10 basis points, respectively.

Gross margin as a percentage of sales increased 26 basis points for the first six months of 2013 compared to 2012 due to the same factors that impacted gross margin in the second quarter.

SG&A – For the second quarter of 2013, SG&A expense leveraged 53 basis points as a percentage of sales compared to the second quarter of 2012. This was driven primarily by leverage of 30 basis points in operating salaries as a result of sales increasing at a higher rate than labor hours. During the quarter, employee and casualty insurance experienced 23 basis points of leverage due to a reduction in claims costs and higher sales. Higher sales during the quarter also contributed to leverage in several expense lines, including advertising, utilities, and rent. These increases were offset by 31 basis points of deleverage associated with incentive compensation, due to higher attainment levels.

SG&A expense as a percentage of sales leveraged 36 basis point in the first six months of 2013 compared to 2012 due to the same factors that impacted SG&A expense in the second quarter.

Depreciation – Depreciation expense leveraged 26 basis points for the second quarter compared to the prior year due to increased sales. Property, less accumulated depreciation, decreased to \$21.0 billion at August 2, 2013 compared to \$21.7 billion at August 3, 2012. As of August 2, 2013, and August 3, 2012, we owned 89% of our stores, which included stores on leased land.

Depreciation expense leveraged 20 basis points in the first six months of 2013 compared to 2012 due to increased sales and a lower asset base.

Interest – Net – Interest expense for the second quarter and first six months of 2013 increased compared to the prior year as the result of a favorable tax settlement that resulted in a reduced interest accrual in the second quarter of 2012.

Income Tax Provision – Our effective income tax rates were 37.5% and 37.6% for the three and six months ended August 2, 2013, respectively, and 37.6% and 37.7% for the three and six months ended August 3, 2012, respectively. Our effective income tax rate was 37.6% for fiscal 2012.

## LOWE'S BUSINESS OUTLOOK

On August 30, 2013, the Company acquired the majority of the assets of Orchard, as described in Note 11 to the consolidated financial statements included in this report. The impact from this acquisition is not material to the Company's financial statements as a whole, and therefore, was not included in our fiscal 2013 outlook.

As of August 21, 2013, the date of our second quarter 2013 earnings release, our fiscal year 2013 guidance expected total sales to increase approximately 5% and comparable sales to increase approximately 4.5%. We expected to open

approximately 10 stores during 2013. Earnings before interest and taxes as a percentage of sales (operating margin) were expected to increase approximately 65 basis points. In addition, the effective income tax rate was expected to be approximately 37.9%. Diluted earnings per share of \$2.10 were expected for fiscal 2013.

We repurchased \$2.0 billion under our share repurchase program in the first six months of fiscal 2013. Our guidance assumed approximately \$1.6 billion in additional share repurchases for a total of \$3.6 billion for the fiscal year.

## FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

### Cash Flows

Cash flows from operating activities continued to provide the primary source of our liquidity. The increase in net cash provided by operating activities for the six months ended August 2, 2013, versus the six months ended August 3, 2012, was primarily driven by an increase in net earnings and changes in working capital. The decrease in net cash used in investing activities for the six months ended August 2, 2013, versus the six months ended August 3, 2012, was driven primarily by a decrease in capital expenditures and a decrease in net purchase activity related to investments. The increase in net cash used in financing activities for the six months ended August 2, 2013, versus the six months ended August 3, 2012, was driven primarily by a decrease in net proceeds from the issuance of long-term debt due to the issuance of \$2.0 billion of unsecured notes in April 2012. This was partially offset by a decrease in cash used for the repurchase of common stock, which included shares repurchased under our share repurchase program and shares withheld from employees to satisfy statutory tax withholding liabilities upon vesting of restricted stock awards.

### Sources of Liquidity

In addition to our cash flows from operations, liquidity is provided by our short-term borrowing facilities. We have a \$1.75 billion senior credit facility that expires in October 2016. The senior credit facility supports our commercial paper program and has a \$500 million letter of credit sublimit. Letters of credit issued pursuant to the senior credit facility reduce the amount available for borrowing under its terms. Borrowings made are unsecured and are priced at fixed rates based upon market conditions at the time of funding in accordance with the terms of the senior credit facility. The senior credit facility contains certain restrictive covenants, which include maintenance of a debt leverage ratio as defined by the senior credit facility. We were in compliance with those covenants at August 2, 2013. Thirteen banking institutions are participating in the senior credit facility. There were no outstanding borrowings or letters of credit under the senior credit facility and no outstanding borrowings under our commercial paper program at August 2, 2013.

We expect to continue to have access to the capital markets on both short- and long-term bases when needed for liquidity purposes by issuing commercial paper or new long-term debt. The availability and the borrowing costs of these funds could be adversely affected, however, by a downgrade of our debt ratings or a deterioration of certain financial ratios. The table below reflects our debt ratings by Standard & Poor's (S&P) and Moody's as of September 3, 2013, which we are disclosing to enhance understanding of our sources of liquidity and the effect of our ratings on our cost of funds. Although we currently do not expect a downgrade in our debt ratings, our commercial paper and senior debt ratings may be subject to revision or withdrawal at any time by the assigning rating organization, and each rating should be evaluated independently of any other rating.

Debt Ratings	S&P	Moody's
Commercial Paper	A-2	P-2
Senior Debt	A-	A3
Senior Debt	Stable	Stable
Outlook		

We believe that net cash provided by operating and financing activities will be adequate not only for our operating requirements, but also for investments in our existing stores, investments in information technology, expansion plans,

current and future acquisitions, if any, and to return cash to shareholders through both dividends and share repurchases over the next 12 months. There are no provisions in any agreements that would require early cash settlement of existing debt or leases as a result of a downgrade in our debt rating or a decrease in our stock price. In addition, we do not have a significant amount of cash held in foreign affiliates that would not be available to fund domestic operations.

## Cash Requirements

### Capital expenditures

Our fiscal 2013 capital forecast is approximately \$1.0 billion. Investments in our existing stores are expected to account for approximately 40% of net cash outflow including investments in store equipment, resets and remerchandising. Approximately 30% of the planned net cash outflow is for investments to enhance the customer experience, including enhancements in information technology. In addition, approximately 20% of the planned net cash outflow is for store expansion. Our expansion plans for 2013 consist of approximately 10 stores, which includes two leased stores. Three of these new stores are also expected to be on leased land. Other planned capital expenditures, accounting for 10% of planned net cash outflow, are for investments in our distribution network, including one additional regional distribution center which opened during the first quarter of 2013.

On August 30, 2013, the Company acquired the majority of the assets of Orchard, a neighborhood hardware and backyard store primarily located in densely populated markets in California for approximately \$205 million and assumed approximately \$70 million of payables owed to nearly all of Orchard's suppliers, using cash from operations.

### Debt and capital

We have an ongoing share repurchase program that is executed through purchases made from time to time either in the open market or through private off-market transactions. Shares purchased under the share repurchase program are retired and returned to authorized and unissued status. As of August 2, 2013, we had a remaining repurchase authorization of \$3.0 billion with no expiration date. Our Business Outlook included herein assumes approximately \$3.6 billion in share repurchases for 2013. See Note 6 to the consolidated financial Statements included in this report for additional information regarding share repurchases.

## OFF-BALANCE SHEET ARRANGEMENTS

Other than in connection with executing operating leases, we do not have any off-balance sheet financing that has, or is reasonably likely to have, a material, current or future effect on our financial condition, cash flows, results of operations, liquidity, capital expenditures or capital resources.

## CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

As of August 2, 2013, there were no material changes to our contractual obligations and commercial commitments outside the ordinary course of business since the end of 2012. Refer to the Annual Report on Form 10-K for additional information regarding our contractual obligations and commercial commitments.

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our significant accounting policies are described in Note 1 to the consolidated financial statements presented in our Annual Report. Our critical accounting policies and estimates are described in Management's Discussion and Analysis of Financial Condition and Results of Operations in the Annual Report. Our significant and critical accounting policies have not changed significantly since the filing of our Annual Report.

## FORWARD-LOOKING STATEMENTS

This Form 10-Q includes "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 (the "Act"). Statements of the Company's expectations for sales growth, comparable sales, earnings and performance, shareholder value, capital expenditures, cash flows, the housing market, the home improvement industry, demand for services, share repurchases, the Company's strategic initiatives and any statement of an

assumption underlying any of the foregoing, constitute "forward-looking statements" under the Act. Such forward-looking statements are found in, among other places, "Management's Discussion and Analysis of Financial Condition and Results of Operations." Statements containing words such as "expects," "plans," "strategy," "projects," "believe," "opportunity," "anticipates," "desires," "confident," and similar expressions are intended to highlight or indicate "forward-looking statements." Although we believe that the expectations, opinions, projections, and comments reflected in these forward-

Table of Contents

looking statements are reasonable, we can give no assurance that such statements will prove to be correct. A wide variety of potential risks, uncertainties, and other factors could materially affect our ability to achieve the results either expressed or implied by our forward-looking statements including, but not limited to, changes in general economic conditions, such as continued high rates of unemployment, interest rate and currency fluctuations, higher fuel and other energy costs, slower growth in personal income, changes in consumer spending, changes in the rate of housing turnover, the availability and increasing regulation of consumer credit and of mortgage financing, inflation or deflation of commodity prices, and other factors which can negatively affect our customers, as well as our ability to: (i) respond to adverse trends in the housing industry, such as the psychological effects of lower home prices, and in the level of repairs, remodeling, and additions to existing homes, as well as a general reduction in commercial building activity; (ii) secure, develop, and otherwise implement new technologies and processes designed to enhance our efficiency and competitiveness; (iii) attract, train, and retain highly-qualified associates; (iv) manage our business effectively as we adapt our traditional operating model to meet the changing expectations of our customers; (v) maintain, improve, upgrade and protect our critical information systems; (vi) respond to fluctuations in the prices and availability of services, supplies, and products; (vii) respond to the growth and impact of competition; (viii) address changes in existing or new laws or regulations that affect consumer credit, employment/labor, trade, product safety, transportation/logistics, energy costs, health care, tax or environmental issues; and (ix) respond to unanticipated weather conditions that could adversely affect sales. In addition, we could experience additional impairment losses if the actual results of our operating stores are not consistent with the assumptions and judgments we have made in estimating future cash flows and determining asset fair values. For more information about these and other risks and uncertainties that we are exposed to, you should read the "Risk Factors" and "Critical Accounting Policies and Estimates" included in our Annual Report on Form 10-K to the United States Securities and Exchange Commission (the "SEC") and the description of material changes therein or updated version thereof, if any, included in our Quarterly Reports on Form 10-Q.

The forward-looking statements contained in this Form 10-Q are based upon data available as of the date of this report or other specified date and speak only as of such date. All subsequent written and oral forward-looking statements attributable to us or any person acting on our behalf about any of the matters covered in this report are qualified by these cautionary statements and the "Risk Factors" included in our Annual Report on Form 10-K to the SEC and the description of material changes, if any, therein included in our Quarterly Reports on Form 10-Q. We expressly disclaim any obligation to update or revise any forward-looking statement, whether as a result of new information, change in circumstances, future events, or otherwise.

Item 3. - Quantitative and Qualitative Disclosures about Market Risk

The Company's market risk has not changed materially from that disclosed in our Annual Report on Form 10-K for the fiscal year ended February 1, 2013.

Item 4. - Controls and Procedures

The Company's management, with the participation of the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's "disclosure controls and procedures," (as such term is defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended, (the Exchange Act)). Based upon their evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of August 2, 2013, the Company's disclosure controls and procedures were effective for the purpose of ensuring that the information required to be disclosed in the reports that the Company files or submits under the Exchange Act with the Securities and Exchange Commission (the SEC) (1) is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (2) is accumulated and communicated to the Company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding



required disclosure.

In addition, no change in the Company's internal control over financial reporting occurred during the quarter ended August 2, 2013 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

22

---

Table of Contents

## Part II – OTHER INFORMATION

## Item 1. - Legal Proceedings

The Company is a defendant in various lawsuits, claims, disputes and investigations in the normal conduct of its operations, none of which, individually or collectively, including the matter described below, are believed to have a risk of having a material adverse effect on the Company's financial statements as a whole.

Item 103 of SEC Regulation S-K requires that we disclose legal proceedings to which the Company and a governmental authority is a party and that arise under laws dealing with the discharge of materials into the environment or the protection of the environment, if the proceeding reasonably involves potential monetary sanctions of \$100,000 or more. Disclosure also is required as to any such proceedings known by us to be contemplated by governmental authorities. In accordance with that requirement, we previously disclosed that in April 2012, one of the Company's principal operating subsidiaries, Lowe's HIW, Inc., received a subpoena from the District Attorney of the County of Alameda, along with other environmental prosecutorial offices in the state of California, seeking documents and information relating to the handling, storage and disposal of hazardous waste. In July 2013, the District Attorney and other authorities made a confidential settlement demand to resolve this matter that includes a proposed civil penalty and conceptual injunctive relief elements. Although Lowe's HIW, Inc. is continuing to cooperate fully with this investigation, the terms of any settlement, including the amount of any civil penalty and the elements of any injunctive relief, remain subject to negotiation.

## Item 1A. - Risk Factors

There have been no material changes in our risk factors from those disclosed in our Annual Report on Form 10-K for the fiscal year ended February 1, 2013.

## Item 2. - Unregistered Sales of Equity Securities and Use of Proceeds

## Issuer Purchases of Equity Securities

The following table sets forth information with respect to purchases of the Company's common stock made during the second quarter of 2013:

(In millions, except average price paid per share)	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs		Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
			1	2	
May 4, 2013 - May 31, 2013	17.7	\$ 40.32	17.7		\$ 3,240
June 1, 2013 - July 5, 2013	6.0	40.43	6.0		3,139
July 6, 2013 - August 2, 2013	3.5	44.20	3.4		2,987
As of August 2, 2013	27.2	\$ 40.84	27.1		\$ 2,987

1 During the second quarter of fiscal 2013, the Company repurchased an aggregate of 27.2 million shares of its common stock. The total number of shares purchased also includes 0.1 million shares withheld from employees to

satisfy either the exercise price of stock options or their statutory withholding tax liability upon the vesting of restricted share-based awards.

2 Authorization for up to \$5.0 billion of share repurchases with no expiration was approved on February 1, 2013. Although the repurchase authorization has no expiration, the Company expects to execute the program by the end of fiscal

2014 through purchases made from time to time either in the open market or through private off market transactions in accordance with SEC regulations.

3 In February 2013, the Company entered into an ASR agreement with a third-party financial institution to repurchase \$1.0 billion of the Company's common stock. Pursuant to the ASR agreement, the Company paid \$1.0 billion to the financial institution and received an initial delivery of 23.2 million shares in the first quarter of 2013. In May 2013, the Company finalized the transaction and received an additional 2.8 million shares. The average price paid per share in settlement of the ASR agreement included in the table above was determined with reference to the volume-weighted average price of the Company's common stock over the term of the ASR agreement. See Note 6 to the consolidated financial statements included in this report.

4 In May 2013, the Company entered into an ASR agreement with a third-party financial institution to repurchase \$750 million of the Company's common stock. Pursuant to the ASR agreement, the Company paid \$750 million to the financial institution and received an initial delivery of 14.9 million shares in the second quarter of 2013. In June 2013, the Company finalized the transaction and received an additional 3.6 million shares. The average price paid per share in settlement of the ASR agreement included in the table above was determined with reference to the volume-weighted average price of the Company's common stock over the term of the ASR agreement. See Note 6 to the consolidated financial statements included in this report.

Table of Contents

## Item 6. - Exhibits

Exhibit Number	Exhibit Description	Form	Incorporated by Reference		Filing Date
			File No.	Exhibit(s)	
3.1	Restated Charter of Lowe's Companies, Inc.	10-Q	001-07898	3.1	September 1, 2009
3.2	Bylaws of Lowe's Companies, Inc., as amended and restated.	8-K	001-07898	3.1	August 27, 2012
12.1	Statement Re Computation of Ratio of Earnings to Fixed Charges.‡				
15.1	Deloitte & Touche LLP Letter Re Unaudited Interim Financial Information.‡				
31.1	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.‡				
31.2	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.‡				
32.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.†				
32.2	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.†				

101.INS	XBRL Instance Document.‡
101.SCH	XBRL Taxonomy Extension Schema Document.‡
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.‡
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.‡
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.‡
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.‡

‡ Filed herewith.

† Furnished herewith.

Table of Contents

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

LOWE'S COMPANIES, INC.

September 3, 2013  
Date

/s/ Matthew V. Hollifield  
Matthew V. Hollifield  
Senior Vice President and Chief Accounting  
Officer