

LOWES COMPANIES INC  
Form 10-Q  
December 01, 2009

---

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 October 30, 2009

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

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

Yes    No

Edgar Filing: LOWES COMPANIES INC - Form 10-Q

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 NOVEMBER 27, 2009 |
| Common Stock, \$.50 par value | 1,472,032,172        |

---

## LOWE'S COMPANIES, INC.

## - INDEX -

| PART I - Financial Information |   | Page No. |
|--------------------------------|---|----------|
| Item 1.                        | Financial Statements  |          |
|                                | <u>Consolidated Balance Sheets -<br/>October 30, 2009<br/>(Unaudited), October 31, 2008<br/>(Unaudited) and January 30, 2009</u>                            | 4        |
|                                | <u>Consolidated Statements of Current<br/>and Retained Earnings (Unaudited) -<br/>Three and nine months ended October<br/>30, 2009 and October 31, 2008</u> | 5        |
|                                | <u>Consolidated Statements of Cash<br/>Flows (Unaudited) - Nine months<br/>ended October 30, 2009 and October<br/>31, 2008</u>                              | 6        |
|                                | <u>Notes to Consolidated Financial<br/>Statements (Unaudited)</u>   | 7 - 13   |
|                                | <u>Report of Independent Registered<br/>Public Accounting Firm</u>  | 14       |
| Item 2.                        | <u>Management's Discussion and<br/>Analysis of Financial Condition and<br/>Results of Operations</u>  | 15 - 22  |
| Item 3.                        | <u>Quantitative and Qualitative<br/>Disclosures about Market Risk</u>   | 22       |
| Item 4.                        | <u>Controls and Procedures</u>  | 22       |
| PART II - Other Information    |   |          |
| Item 1A.                       | <u>Risk Factors</u>   | 23       |
| Item 6.                        | <u>Exhibits</u>   | 24       |
|                                | <u>Signature</u>  | 25       |
|                                | <u>Exhibit Index</u>  | 26       |



## Part I - FINANCIAL INFORMATION

## Item 1. Financial Statements

Lowe's Companies, Inc.  
 Consolidated Balance Sheets  
 In Millions, Except Par Value Data

|  | (Unaudited)<br>October 30,<br>2009 | (Unaudited)<br>October 31,<br>2008 | January<br>30,<br>2009 |
|--|------------------------------------|------------------------------------|------------------------|
| <b>Assets</b>                                |                                    |                                    |                        |
| <b>Current assets:</b>                       |                                    |                                    |                        |
| Cash and cash equivalents                    | \$ 1,141                           | \$ 322                             | \$245                  |
| Short-term investments                       | 509                                | 445                                | 416                    |
| Merchandise inventory - net                  | 8,424                              | 8,327                              | 8,209                  |
| Deferred income taxes - net                  | 205                                | 230                                | 166                    |
| Other current assets                         | 213                                | 197                                | 215                    |
| <b>Total current assets</b>                  | <b>10,492</b>                      | <b>9,521</b>                       | <b>9,251</b>           |
| Property, less accumulated depreciation      | 22,557                             | 22,602                             | 22,722                 |
| Long-term investments                        | 864                                | 466                                | 253                    |
| Other assets                                 | 496                                | 440                                | 460                    |
| <b>Total assets</b>                          | <b>\$ 34,409</b>                   | <b>\$ 33,028</b>                   | <b>\$23,686</b>        |
| <b>Liabilities and Shareholders' Equity</b>  |                                    |                                    |                        |
| <b>Current liabilities:</b>                  |                                    |                                    |                        |
| Short-term borrowings                        | \$ -                               | \$ 249                             | \$987                  |
| Current maturities of long-term debt         | 553                                | 34                                 | 34                     |
| Accounts payable                             | 5,046                              | 4,831                              | 4,109                  |
| Accrued compensation and employee benefits   | 558                                | 516                                | 434                    |
| Self-insurance liabilities                   | 780                                | 723                                | 751                    |
| Deferred revenue                             | 719                                | 748                                | 674                    |
| Other current liabilities                    | 1,321                              | 1,330                              | 1,033                  |
| <b>Total current liabilities</b>             | <b>8,977</b>                       | <b>8,431</b>                       | <b>8,022</b>           |
| Long-term debt, excluding current maturities | 4,524                              | 5,044                              | 5,039                  |
| Deferred income taxes - net                  | 556                                | 751                                | 660                    |
| Other liabilities                            | 933                                | 846                                | 910                    |
| <b>Total liabilities</b>                     | <b>14,990</b>                      | <b>15,072</b>                      | <b>14,631</b>          |
| <b>Shareholders' equity:</b>                 |                                    |                                    |                        |

Edgar Filing: LOWES COMPANIES INC - Form 10-Q

|   |       |           |                  |
|---|-------|-----------|------------------|
| Preferred stock - \$5 par value, none issued  | -     | -         | -                |
| Common stock - \$.50 par value;               |       |           |                  |
| Shares issued and outstanding                 |       |           |                  |
| October 30, 2009                              | 1,477 |           |                  |
| October 31, 2008                              | 1,467 |           |                  |
| January 30, 2009                              | 1,470 | 739       | 734 735          |
| Capital in excess of par value                |       | 398       | 215 277          |
| Retained earnings                             |       | 18,236    | 17,012 17,049    |
| Accumulated other comprehensive income (loss) |       | 46        | (4) (6)          |
| Total shareholders' equity                    |       | 19,419    | 17,957 18,055    |
| Total liabilities and shareholders' equity    |       | \$ 34,409 | \$ 33,029 33,686 |

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

Edgar Filing: LOWES COMPANIES INC - Form 10-Q

Lowe's Companies,  
Inc.

Consolidated Statements of Current and Retained Earnings (Unaudited)

In Millions, Except  
Per Share Data

|  | Three Months Ended  |         |                     |         | Nine Months Ended   |         |                     |         |
|--|---------------------|---------|---------------------|---------|---------------------|---------|---------------------|---------|
|  | October 30,<br>2009 |         | October 31,<br>2008 |         | October 30,<br>2009 |         | October 31,<br>2008 |         |
| Current Earnings                                     | Amount              | Percent | Amount              | Percent | Amount              | Percent | Amount              | Percent |
| Net sales  | \$ 11,375           | 100.00  | \$ 11,728           | 100.00  | \$ 37,052           | 100.00  | \$ 38,246           | 100.00  |
| Cost of sales  | 7,485               | 65.80   | 7,743               | 66.02   | 24,143              | 65.16   | 25,113              | 65.66   |
| Gross margin   | 3,890               | 34.20   | 3,985               | 33.98   | 12,909              | 34.84   | 13,133              | 34.34   |
| Expenses:  |                     |         |                     |         |                     |         |                     |         |
| Selling, general and administrative                  | 2,872               | 25.25   | 2,726               | 23.23   | 8,924               | 24.09   | 8,464               | 22.13   |
| Store opening costs                                  | 10                  | 0.09    | 31                  | 0.27    | 38                  | 0.10    | 70                  | 0.18    |
| Depreciation   | 403                 | 3.54    | 385                 | 3.29    | 1,212               | 3.27    | 1,142               | 2.99    |
| Interest - net                                       | 77                  | 0.68    | 65                  | 0.56    | 231                 | 0.62    | 210                 | 0.55    |
| Total expenses                                       | 3,362               | 29.56   | 3,207               | 27.35   | 10,405              | 28.08   | 9,886               | 25.85   |
| Pre-tax earnings                                     | 528                 | 4.64    | 778                 | 6.63    | 2,504               | 6.76    | 3,247               | 8.49    |
| Income tax provision                                 | 184                 | 1.62    | 290                 | 2.47    | 926                 | 2.50    | 1,214               | 3.17    |
| Net earnings   | \$ 344              | 3.02    | \$ 488              | 4.16    | \$ 1,578            | 4.26    | \$ 2,033            | 5.32    |
| Weighted average common shares outstanding - basic   |                     |         |                     |         |                     |         |                     |         |
|  | 1,466               |         | 1,459               |         | 1,464               |         | 1,456               |         |
| Basic earnings per common share                      |                     |         |                     |         |                     |         |                     |         |
|  | \$ 0.23             |         | \$ 0.33             |         | \$ 1.07             |         | \$ 1.39             |         |
| Weighted average common shares outstanding - diluted |                     |         |                     |         |                     |         |                     |         |
|  | 1,469               |         | 1,461               |         | 1,466               |         | 1,469               |         |



Edgar Filing: LOWES COMPANIES INC - Form 10-Q

|                                   |         |         |         |         |
|-----------------------------------|---------|---------|---------|---------|
| Diluted earnings per common share | \$ 0.23 | \$ 0.33 | \$ 1.07 | \$ 1.38 |
|-----------------------------------|---------|---------|---------|---------|

|                          |          |          |          |          |
|--------------------------|----------|----------|----------|----------|
| Cash dividends per share | \$ 0.090 | \$ 0.085 | \$ 0.265 | \$ 0.250 |
|--------------------------|----------|----------|----------|----------|

Retained Earnings

|                                |           |           |           |           |
|--------------------------------|-----------|-----------|-----------|-----------|
| Balance at beginning of period | \$ 18,025 | \$ 16,648 | \$ 17,049 | \$ 15,345 |
| Net earnings                   | 344       | 488       | 1,578     | 2,033     |
| Cash dividends                 | (133 )    | (124 )    | (391 )    | (366 )    |
| Balance at end of period       | \$ 18,236 | \$ 17,012 | \$ 18,236 | \$ 17,012 |

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

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

|   | Nine Months Ended |                  |
|---|-------------------|------------------|
|   | October 30, 2009  | October 31, 2008 |
| <b>Cash flows from operating activities:</b>  |                   |                  |
| Net earnings  | \$ 1,578          | \$ 2,033         |
| Adjustments to reconcile net earnings to net cash provided by operating activities: |                   |                  |
| Depreciation and amortization   | 1,303             | 1,232            |
| Deferred income taxes   | (142 )            | 99               |
| Loss on property and other assets - net   | 140               | 48               |
| Loss on redemption of long-term debt  | -                 | 8                |
| Share-based payment expense   | 78                | 79               |
| Net changes in operating assets and liabilities:                                    |                   |                  |
| Merchandise inventory - net   | (203 )            | (725 )           |
| Other operating assets  | (4 )              | 77               |
| Accounts payable  | 933               | 1,124            |
| Other operating liabilities   | 684               | 383              |
| Net cash provided by operating activities   | 4,367             | 4,358            |
| <b>Cash flows from investing activities:</b>  |                   |                  |
| Purchases of short-term investments   | (283 )            | (179 )           |
| Proceeds from sale/maturity of short-term investments                               | 397               | 265              |
| Purchases of long-term investments  | (1,204 )          | (1,097 )         |
| Proceeds from sale/maturity of long-term investments                                | 380               | 837              |
| Increase in other long-term assets  | (19 )             | (53 )            |
| Property acquired   | (1,414 )          | (2,539 )         |
| Proceeds from sale of property and other long-term assets                           | 17                | 26               |
| Net cash used in investing activities   | (2,126 )          | (2,740 )         |
| <b>Cash flows from financing activities:</b>  |                   |                  |
| Net decrease in short-term borrowings   | (1,002 )          | (786 )           |
| Proceeds from issuance of long-term debt  | 3                 | 13               |
| Repayment of long-term debt   | (27 )             | (564 )           |
| Proceeds from issuance of common stock under employee stock purchase plan           | 37                | 39               |
| Proceeds from issuance of common stock from stock options exercised                 | 22                | 94               |
| Cash dividend payments  | (391 )            | (366 )           |
| Repurchase of common stock  | (4 )              | (8 )             |
| Excess tax benefits of share-based payments   | -                 | 1                |
| Net cash used in financing activities   | (1,362 )          | (1,577 )         |

|  |          |        |
|--|----------|--------|
| Effect of exchange rate changes on cash        | 17       | -      |
| Net increase in cash and cash equivalents      | 896      | 41     |
| Cash and cash equivalents, beginning of period | 245      | 281    |
| Cash and cash equivalents, end of period       | \$ 1,141 | \$ 322 |

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

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

Note 1: Basis of Presentation - The accompanying consolidated financial statements (unaudited) and notes to 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 October 30, 2009, and October 31, 2008, and the results of operations for the three and nine months ended October 30, 2009, and October 31, 2008, and cash flows for the nine months ended October 30, 2009 and October 31, 2008. The Company has evaluated subsequent events through December 1, 2009, the date the consolidated financial statements were issued.

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 January 30, 2009 (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 and Financial Instruments - 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 October 30, 2009, October 31, 2008, and January 30, 2009, classified by fair value hierarchy:

|                        | October 30,<br>2009 | Fair Value Measurements at Reporting Date Using                                  |   |  |
|------------------------|---------------------|--|---|--|
|                        |                     | Quoted<br>Prices in<br>Active<br>Markets for<br>Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| (In millions)          |                     |  |   |  |
| Short-term investments | \$ 469              | \$ 98  | \$ 371  | \$ -   |

|                               |     |    |     |   |
|-------------------------------|-----|----|-----|---|
| Available-for-sale securities |     |    |     |   |
| Trading securities            | 40  | 40 | -   | - |
| Long-term investments         |     |    |     |   |
| Available-for-sale securities | 864 | -  | 864 | - |

7

---

| (In millions)                 | Fair Value Measurements at Reporting Date Using |  |   |  |
|-------------------------------|---|--|---|--|
|                               | October 31,<br>2008                             | Quoted<br>Prices in<br>Active<br>Markets for<br>Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| <b>Short-term investments</b> |   |  |   |  |
| Available-for-sale securities | \$ 412  | \$ 122   | \$ 290  | \$ -   |
| Trading securities            | 33  | 33   | -   | -  |
| <b>Long-term investments</b>  |   |  |   |  |
| Available-for-sale securities | 466   | -  | 466   | -  |

| (In millions)                 | Fair Value Measurements at Reporting Date Using |  |   |  |
|-------------------------------|---|--|---|--|
|                               | January 30,<br>2009                             | Quoted<br>Prices in<br>Active<br>Markets for<br>Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| <b>Short-term investments</b> |   |  |   |  |
| Available-for-sale securities | \$ 385  | \$ 81  | \$ 304  | \$ -   |
| Trading securities            | 31  | 31   | -   | -  |
| <b>Long-term investments</b>  |   |  |   |  |
| Available-for-sale securities | 253   | -  | 253   | -  |

When available, quoted prices are used to determine fair value. When quoted prices in active markets are available, investments are classified within Level 1 of the fair value hierarchy. The Company's Level 1 investments primarily consist of investments in money market and mutual funds. When quoted prices in active markets are not available, fair values are determined using pricing models and the inputs to those pricing models are based on observable market inputs. The inputs to the pricing models are typically benchmark yields, reported trades, broker-dealer quotes, issuer spreads and benchmark securities, among others. The Company's Level 2 investments primarily consist of investments in municipal obligations.

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

Effective January 31, 2009, the Company adopted authoritative guidance issued by the FASB for non-financial assets and liabilities measured at fair value on a non-recurring basis.

During the nine months ended October 30, 2009, the Company had no significant measurements of assets or liabilities at fair value on a nonrecurring basis subsequent to their initial recognition, except as it relates to long-lived asset impairment.

The Company reviews the carrying amounts of long-lived assets whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. If the carrying amount is not recoverable, an impairment is recorded for the amount that the carrying amount of the asset exceeds its fair value. The Company bases the fair values of long-lived assets held-for-use on the Company's own judgments about the assumptions that market participants would use in pricing the asset and on observable market data, when available. The Company classifies these measurements as Level 3.

In the determination of impairment for operating stores, the Company determines the fair values of individual operating stores using an income approach, which requires discounting projected future cash flows. When determining the stream

of projected future cash flows associated with an individual operating store, the Company makes assumptions, incorporating local market conditions, about key store variables including sales growth rates, gross margin and certain expenses such as store payroll and occupancy expense. The Company discounts cash flow estimates at a rate commensurate with the risk that selected market participants would assign to the cash flows. The selected market participants represent a group of other retailers with a store footprint similar in size to ours.

In the determination of impairment for excess properties, the fair values are the estimated selling prices. The Company generally determines the estimated selling prices by obtaining information from brokers in the specific markets being evaluated. The information includes comparable sales of similar assets and assumptions about demand in the market for these assets.

During the three months ended October 30, 2009, long-lived assets classified as held-for-use associated with three operating stores and certain excess properties were written down to their estimated fair values, resulting in an impairment charge of \$49 million, which was recorded in SG&A expense. For the nine months ended October 30, 2009, long-lived asset impairment charges of \$79 million were recorded in SG&A expense.

The following table presents the Company's non-financial assets measured at estimated fair value on a non-recurring basis and any resulting realized losses included in earnings. Because long-lived assets are not measured at fair value on a recurring basis, certain carrying amounts and fair value measurements presented in the table may reflect values at earlier measurement dates and may no longer represent the fair values at October 30, 2009.

|   | Fair Value Measurements -<br>Non-recurring Basis            |  |
|---|---|--|
|   | Operating<br>Stores<br>Long-lived<br>assets<br>held-for-use | Excess<br>Properties<br>Long-lived<br>assets<br>held-for-use |
| (In millions)                                   |   |  |
| For the three months ended<br>October 30, 2009: |   |  |
| Fair value measurement                          | \$ 5  | \$ 20  |
| Carrying amount                                 | 46  | 28   |
| Realized loss                                   | \$ (41 )  | \$ (8 )  |
| For the nine months ended<br>October 30, 2009:  |   |  |
| Fair value measurement                          | \$ 5  | \$ 72  |
| Carrying amount                                 | 46  | 110  |
| Realized loss                                   | \$ (41 )  | \$ (38 )   |

Effective July 31, 2009, the Company adopted the authoritative guidance issued by the FASB that requires that the fair value of all financial assets and liabilities for which it is practicable to estimate fair value be disclosed for interim and annual periods.

The Company's financial instruments not measured at fair value on a recurring basis include cash and cash equivalents, accounts receivable, short-term borrowings, 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. Estimated fair values for long-term debt have been determined using available market information, including reported trades, benchmark yields and broker-dealer quotes.





Carrying amounts and the related estimated fair value of the Company's long-term debt, excluding capital leases and other, are as follows:

| (In millions)                                       | October 30, 2009 |            |
|---|------------------|------------|
|   | Carrying Amount  | Fair Value |
| Long-term debt (excluding capital leases and other) | \$ 4,737         | \$ 5,144   |

Note 3: Restricted Investment Balances - Short-term and long-term investments include restricted balances pledged as collateral for letters of credit for the Company's extended warranty program and for a portion of the Company's casualty insurance and Installed Sales program liabilities. Restricted balances included in short-term investments were \$233 million at October 30, 2009, \$227 million at October 31, 2008, and \$214 million at January 30, 2009. Restricted balances included in long-term investments were \$147 million at October 30, 2009, \$119 million at October 31, 2008, and \$143 million at January 30, 2009.

Note 4: Property - Property is shown net of accumulated depreciation of \$9.7 billion at October 30, 2009, \$8.5 billion at October 31, 2008, and \$8.8 billion at January 30, 2009.

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

| (In millions)   | Three Months Ended |                  | Nine Months Ended |                  |
|---|--------------------|------------------|-------------------|------------------|
|   | October 30, 2009   | October 31, 2008 | October 30, 2009  | October 31, 2008 |
| Extended warranty deferred revenue, beginning of period | \$ 521             | \$ 456           | \$ 479            | \$ 407           |
| Additions to deferred revenue                           | 53                 | 45               | 167               | 150              |
| Deferred revenue recognized                             | (39 )              | (32 )            | (111 )            | (88 )            |
| Extended warranty deferred revenue, end of period       | \$ 535             | \$ 469           | \$ 535            | \$ 469           |

Incremental direct acquisition costs associated with the sale of extended warranties are also deferred and recognized as expense on a straight-line basis over the respective contract term. Deferred costs associated with extended warranty contracts were \$143 million at October 30, 2009, \$116 million at October 31, 2008, and \$121 million at January 30, 2009. The Company's extended warranty deferred costs are included in other assets (non-current) 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 warranty claims incurred is included in self-insurance liabilities on the consolidated balance sheets. Changes in the liability for extended warranty claims are summarized as follows:

| (In millions)   | Three Months Ended  |                     | Nine Months Ended   |                     |
|---|---------------------|---------------------|---------------------|---------------------|
|   | October 30,<br>2009 | October 31,<br>2008 | October 30,<br>2009 | October 31,<br>2008 |
| Liability for extended warranty claims, beginning of period | \$ 21               | \$ 17               | \$ 17               | \$ 14               |
| Accrual for claims incurred                                 | 19                  | 15                  | 49                  | 40                  |
| Claim payments  | (17 )               | (13 )               | (43 )               | (35 )               |
| Liability for extended warranty claims, end of period       | \$ 23               | \$ 19               | \$ 23               | \$ 19               |

Note 6: Comprehensive Income - Comprehensive income represents changes in shareholders' equity from non-owner sources and is comprised of net earnings plus or minus unrealized gains or losses on available-for-sale securities and foreign currency translation adjustments. The following table reconciles net earnings to comprehensive income for the three and nine months ended October 30, 2009, and October 31, 2008.

| (In millions)                            | Three Months Ended  |                     | Nine Months Ended   |                     |
|--|---------------------|---------------------|---------------------|---------------------|
|  | October 30,<br>2009 | October 31,<br>2008 | October 30,<br>2009 | October 31,<br>2008 |
| Net earnings                             | \$ 344              | \$ 488              | \$ 1,578            | \$ 2,033            |
| Foreign currency translation adjustments | -                   | (10 )               | 51                  | (9 )                |
| Net unrealized investment (losses) gains | -                   | (2 )                | 2                   | (3 )                |
| Comprehensive income                     | \$ 344              | \$ 476              | \$ 1,631            | \$ 2,021            |

Note 7: Earnings Per Share - Effective January 31, 2009, the Company adopted authoritative guidance issued by the FASB that states that all outstanding unvested share-based payment awards that contain rights to nonforfeitable dividends participate in undistributed earnings with common shareholders and, therefore, need to be included in the earnings allocation in computing earnings per share under the two-class method. The retrospective application of the provisions of the guidance reduced previously reported basic earnings per common share by \$0.01 for the nine months ended October 31, 2008.

Under the two-class method, net earnings are reduced by the amount of dividends declared in the period for each class of common stock and participating security. The remaining undistributed earnings are then allocated to common stock and participating securities as if all of the net earnings for the period had been distributed. 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 and convertible notes. The following table reconciles earnings per common share for the three and nine months ended October 30, 2009, and October 31, 2008.



Edgar Filing: LOWES COMPANIES INC - Form 10-Q

| (In millions, except per share data)                                  | Three Months Ended  |                     | Nine Months Ended   |                     |
|---|---------------------|---------------------|---------------------|---------------------|
|   | October 30,<br>2009 | October 31,<br>2008 | October 30,<br>2009 | October 31,<br>2008 |
| <b>Basic earnings per common share:</b>                               |                     |                     |                     |                     |
| Net earnings  | \$ 344              | \$ 488              | \$ 1,578            | \$ 2,033            |
| Less: Net earnings allocable to participating securities              | (3 )                | (2 )                | (12 )               | (11 )               |
| Net earnings allocable to common shares                               | \$ 341              | \$ 486              | \$ 1,566            | \$ 2,022            |
| Weighted-average common shares outstanding                            | 1,466               | 1,459               | 1,464               | 1,456               |
| Basic earnings per common share                                       | \$ 0.23             | \$ 0.33             | \$ 1.07             | \$ 1.39             |
| <b>Diluted earnings per common share:</b>                             |                     |                     |                     |                     |
| Net earnings  | \$ 344              | \$ 488              | \$ 1,578            | \$ 2,033            |
| Net earnings adjustment for interest on convertible notes, net of tax | -                   | -                   | -                   | 2                   |
| Net earnings, as adjusted   | 344                 | 488                 | 1,578               | 2,035               |
| Less: Net earnings allocable to participating securities              | (3 )                | (2 )                | (12 )               | (11 )               |
| Net earnings allocable to common shares                               | \$ 341              | \$ 486              | \$ 1,566            | \$ 2,024            |
| Weighted-average common shares outstanding                            | 1,466               | 1,459               | 1,464               | 1,456               |
| Dilutive effect of non-participating share-based awards               | 3                   | 2                   | 2                   | 2                   |
| Dilutive effect of convertible notes                                  | -                   | -                   | -                   | 11                  |
| Weighted-average common shares, as adjusted                           | 1,469               | 1,461               | 1,466               | 1,469               |
| Diluted earnings per common share                                     | \$ 0.23             | \$ 0.33             | \$ 1.07             | \$ 1.38             |

Stock options to purchase 18.0 million and 19.4 million shares of common stock were excluded from the computation of diluted earnings per common share because their effect would have been anti-dilutive for the three months ended October 30, 2009, and October 31, 2008, respectively. Stock options to purchase 21.5 million and 17.8 million shares of common stock were excluded from the computation of diluted earnings per common share because their effect would have been anti-dilutive for the nine months ended October 30, 2009, and October 31, 2008, respectively.

Note 8: Supplemental Disclosure

Net interest expense is comprised of the following:

| (In millions)         | Three Months Ended  |                     | Nine Months Ended   |                     |
|-----------------------|---------------------|---------------------|---------------------|---------------------|
|                       | October 30,<br>2009 | October 31,<br>2008 | October 30,<br>2009 | October 31,<br>2008 |
| Long-term debt        | \$ 73               | \$ 73               | \$ 219              | \$ 219              |
| Short-term borrowings | -                   | 2                   | 2                   | 9                   |

Edgar Filing: LOWES COMPANIES INC - Form 10-Q

|                      |       |       |        |        |
|----------------------|-------|-------|--------|--------|
| Capitalized leases   | 7     | 7     | 21     | 24     |
| Interest income      | (4 )  | (11 ) | (13 )  | (32 )  |
| Interest capitalized | (4 )  | (10 ) | (12 )  | (25 )  |
| Other                | 5     | 4     | 14     | 15     |
| Interest - net       | \$ 77 | \$ 65 | \$ 231 | \$ 210 |

12

---

## Supplemental disclosures of cash flow information:

| (In millions)                                     | Nine Months Ended |                  |
|---|-------------------|------------------|
|   | October 30, 2009  | October 31, 2008 |
| Cash paid for interest, net of amount capitalized | \$ 284            | \$ 287           |
| Cash paid for income taxes                        | \$ 788            | \$ 952           |
| Non-cash investing and financing activities:      |                   |                  |
| Non-cash property acquisitions                    | \$ 47             | \$ 185           |
| Change in equity method investments               | \$ (3 )           | \$ (5 )          |
| Conversions of long-term debt to equity           | \$ -              | \$ 1             |

Note 9: Recent Accounting Pronouncements – In June 2009, the FASB issued authoritative guidance which amends the derecognition guidance on accounting for transfers of financial assets. The guidance is effective for financial asset transfers occurring in fiscal years beginning after November 15, 2009, and interim periods within those fiscal years. The Company does not expect the adoption of the guidance to have a material impact on its consolidated financial statements.

In June 2009, the FASB issued authoritative guidance which amends the consolidation guidance for variable interest entities. The guidance is effective for fiscal years beginning after November 15, 2009, and interim periods within those fiscal years. The Company does not expect the adoption of the guidance to have a material impact on its consolidated financial statements.

In October 2009, the FASB issued authoritative guidance on multiple-deliverable revenue arrangements, which addresses the unit of accounting for arrangements involving multiple deliverables. The guidance also addresses how arrangement consideration should be allocated to separate units of accounting, when applicable, and expands the disclosure requirements for multiple-deliverable arrangements. The guidance is effective for fiscal years beginning after June 15, 2010. The Company is currently evaluating the impact of the guidance on its consolidated financial statements.

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 October 30, 2009 and October 31, 2008, and the related consolidated statements of current and retained earnings for the fiscal three and nine-month periods then ended, and of cash flows for the fiscal nine-month periods ended October 30, 2009 and October 31, 2008. 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 January 30, 2009, and the related consolidated statements of earnings, shareholders' equity, and cash flows for the fiscal year then ended (not presented herein); and in our report dated March 31, 2009, 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 January 30, 2009 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  
December 1, 2009



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 nine months ended October 30, 2009, and October 31, 2008. 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 January 30, 2009 (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 2008. This discussion and analysis is presented in six sections:

Executive Overview  
Operations  
Financial Condition, Liquidity and Capital Resources  
Off-Balance Sheet Arrangements  
Contractual Obligations and Commercial Commitments  
Company Outlook

EXECUTIVE OVERVIEW

The broad-based pressures of the macro environment continued to impact our sales during the third quarter of 2009, as we experienced comparable store sales declines of 7.5% compared to the third quarter of 2008. We are encouraged, however, by certain signs of stabilization that we have noticed in our business. Based on the results of our quarterly consumer survey, homeowners' perception of the value of their home improved for the first time in five quarters, which also mirrored other national home price indicators. Our survey also showed some evidence of increased consumer interest in flooring, kitchen and bathroom projects. Comparable store transaction count related to average tickets above \$500 improved compared to the second quarter of 2009 to an approximate 10% decline, partially driven by our carpet installation promotion during the quarter. In addition, our comparable store detail fees, which represent the first step in the installation process, increased during the quarter. While still a decline from the third quarter of 2008, comparable store Installed Sales increased approximately 2,000 basis points compared to the second quarter of 2009.

As further evidence of stabilizing trends, we experienced improvement from the second quarter of 2009 in comparable store sales in 45 of 50 states in the U.S., including approximately 500 basis points of improvement in our Western U.S. markets. Some of the largest improvements came from areas that were the most negatively impacted by the housing downturn. We experienced improving comparable store sales each month of the quarter, from a decline of 8.7% in August, to a negative 7.9% in September and decline of 5.6% in October, which is an encouraging sign.

Despite the external pressures weighing on our sales, we continue to grow our market share. According to third party estimates, we gained unit market share in 14 of our 20 product categories and gained 130 basis points of total store market share during the third calendar quarter. Many consumers have become more disciplined in their spending and are looking for ways to save money by completing home improvement projects themselves instead of relying on others. Therefore, we have modified our print ads to more prominently feature repair and maintenance-related projects. We have also added how-to informational project boards in key departments in our stores and more than 200 how-to videos on Lowes.com to give customers project information and tips needed to successfully complete their home improvement projects. These efforts led third quarter comparable store sales in certain repair and maintenance categories to perform above our company average comparable store sales change.

As the economy and the housing market continue the bottoming and recovery process, we anticipate continued macroeconomic hurdles, including declining home values and rising unemployment. However, we are encouraged by the signs of stabilization we are seeing in our business and we are confident that we are well positioned to capture additional market share.

## OPERATIONS

The following tables set forth the percentage relationship to net sales of each line item of the consolidated statements of earnings, 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).

Edgar Filing: LOWES COMPANIES INC - Form 10-Q

|  | Three Months Ended  |                     | Basis Point<br>Increase /<br>(Decrease)<br>in<br>Percentage<br>of Net<br>Sales from<br>Prior<br>Period<br>2009 vs.<br>2008 | Percentage Increase /<br>(Decrease) in Dollar<br>Amounts from Prior<br>Period<br>2009 vs. 2008 |
|--|---------------------|---------------------|--|--|
|  | October<br>30, 2009 | October<br>31, 2008 |  |  |
| Net sales                              | 100.00%             | 100.00%             | N/A  | (3.0)%   |
| Gross margin                           | 34.20               | 33.98               | 22   | (2.4)  |
| Expenses:                              |                     |                     |  |  |
| Selling, general and<br>administrative | 25.25               | 23.23               | 202  | 5.4  |
| Store opening costs                    | 0.09                | 0.27                | (18)   | (66.8)   |
| Depreciation                           | 3.54                | 3.29                | 25   | 4.6  |
| Interest - net                         | 0.68                | 0.56                | 12   | 17.6   |
| Total expenses                         | 29.56               | 27.35               | 221  | 4.8  |
| Pre-tax earnings                       | 4.64                | 6.63                | (199)  | (32.1)   |
| Income tax provision                   | 1.62                | 2.47                | (85)   | (36.4)   |
| Net earnings                           | 3.02%               | 4.16%               | (114)  | (29.6)%  |
| EBIT margin (1)                        | 5.32%               | 7.19%               | (187)  | (28.3)%  |

|  | Nine Months Ended   |                     | Basis Point<br>Increase /<br>(Decrease)<br>in<br>Percentage<br>of Net<br>Sales from<br>Prior<br>Period<br>2009 vs.<br>2008 | Percentage<br>Increase /<br>(Decrease)<br>in Dollar<br>Amounts<br>from Prior<br>Period<br>2009 vs.<br>2008 |
|--|---------------------|---------------------|--|--|
|  | October<br>30, 2009 | October<br>31, 2008 |  |  |
| Net sales                              | 100.00%             | 100.00%             | N/A  | (3.1)%   |
| Gross margin                           | 34.84               | 34.34               | 50   | (1.7)  |
| Expenses:                              |                     |                     |  |  |
| Selling, general and<br>administrative | 24.09               | 22.13               | 196  | 5.4  |
| Store opening costs                    | 0.10                | 0.18                | (8)  | (46.3)   |
| Depreciation                           | 3.27                | 2.99                | 28   | 6.1  |
| Interest - net                         | 0.62                | 0.55                | 7  | 9.8  |
| Total expenses                         | 28.08               | 25.85               | 223  | 5.2  |
| Pre-tax earnings                       | 6.76                | 8.49                | (173)  | (22.9)   |
| Income tax provision                   | 2.50                | 3.17                | (67)   | (23.8)   |

Edgar Filing: LOWES COMPANIES INC - Form 10-Q

|                 |       |       |       |         |
|-----------------|-------|-------|-------|---------|
| Net earnings    | 4.26% | 5.32% | (106) | (22.4)% |
| EBIT margin (1) | 7.38% | 9.04% | (166) | (20.9)% |

| Other metrics:  | Three Months Ended  |                     | Nine Months Ended   |                     |
|---|---------------------|---------------------|---------------------|---------------------|
|   | October 30,<br>2009 | October 31,<br>2008 | October 30,<br>2009 | October 31,<br>2008 |
| Comparable store sales changes (2)                        | (7.5) %             | (5.9) %             | (8.0) %             | (6.5) %             |
| Total customer transactions (in millions)                 | 185                 | 179                 | 596                 | 577                 |
| Average ticket (3)  | \$ 61.43            | \$ 65.64            | \$ 62.14            | \$ 66.32            |
| At end of period:   |                     |                     |                     |                     |
| Number of stores  | 1,699               | 1,616               |                     |                     |
| Sales floor square feet (in millions)                     | 192                 | 183                 |                     |                     |
| Average store size selling square feet (in thousands) (4) | 113                 | 113                 |                     |                     |

- (1) We define EBIT margin as earnings before interest and taxes as a percentage of sales (operating margin).
- (2) We define a comparable store as a store that has been open longer than 13 months. A store that is identified for relocation is no longer considered comparable one month prior to its relocation. The relocated store is considered comparable once it has been open longer than 13 months.
- (3) We define average ticket as net sales divided by the total number of customer transactions.
- (4) We define average store size selling square feet as sales floor square feet divided by the number of stores open at the end of the period.

Net Sales - As a result of the difficult economic environment, net sales decreased for both the three and nine months ended October 30, 2009, as compared to 2008. Comparable store customer transactions remained relatively stable with a decrease of 0.8%, while comparable store average ticket decreased 6.7%.

During the quarter, we experienced comparable store sales increases in our appliances, flooring, and paint categories. The increase in comparable store sales in appliances was driven by attractive value and consumers' willingness to invest in products that increase energy efficiency. Consumers also responded favorably to our carpet installation promotion, which led to positive comparable store sales in flooring. Additionally, consumers' continued willingness to complete small Do-It-Yourself projects that enhance the appearance of their homes and outdoor spaces contributed to comparable store sales increases in paint, as well as above average comparable store sales changes in our nursery and lawn & landscape products categories during the quarter. Other categories that performed above our average comparable store sales change included rough plumbing, lighting, seasonal living, fashion plumbing, and home environment.

We experienced single-digit comparable store sales declines in most of our geographic markets during the quarter. However, certain areas of the Gulf Coast experienced double-digit declines in comparable store sales as a result of comparisons to last year's hurricane-related spending.

Despite the pressures of the macro environment on our sales, we experienced sequential improvement in comparable store sales from a decline of 9.5% in the second quarter to a decline of 7.5% in the third quarter of 2009. Our Western U.S. markets experienced 500 basis points of sequential improvement, which is an encouraging sign that certain housing markets, including many of the hardest hit areas, may be reaching a bottom.

Gross Margin - For the third quarter of 2009, gross margin increased 22 basis points as a percentage of sales compared to the third quarter of 2008. Lower inventory shrink had a positive impact of 11 basis points. Lower distribution costs favorably impacted gross margin by six basis points, driven by lower fuel costs. Additionally, the mix of products sold across product categories positively impacted gross margin by five basis points in the quarter.

The increase in gross margin as a percentage of sales for the first nine months of 2009 compared to 2008 was primarily attributable to lower product costs, the mix of products sold across product categories, and lower inventory shrink.

SG&A - For the third quarter of 2009, SG&A increased 202 basis points as a percentage of sales compared to the third quarter of 2008, primarily driven by de-leverage of 66 basis points in store payroll resulting from comparable store sales declines and maintaining base staffing hours to ensure we maintain high customer service levels. In addition, following an evaluation of the expected performance of certain assets and re-evaluation of future projects, we recorded a \$49 million charge for the impairment of three operating stores and certain excess properties to adjust their carrying amounts to fair value and an additional \$8 million charge for the write-off of other capitalized costs associated with projects which were discontinued. As a result of these charges recorded during the quarter, we experienced 41 basis points of de-leverage. We also experienced approximately 25 basis points of de-leverage in

fixed expenses such as rent, property taxes and utilities as a result of comparable store sales declines, and 18 basis points of de-leverage in employee insurance due to rising health care costs and higher participant enrollment. Additionally, as a result of an increase in achievement against performance targets, we experienced de-leverage of 15 basis points in bonus expense in the third quarter of 2009.

The increase in SG&A as a percentage of sales for the first nine months of 2009 compared to 2008 was primarily attributable to the same factors that contributed to the increase in SG&A in the third quarter of 2009, as well as increased losses associated with our proprietary credit program. During the first nine months of 2009, we recognized long-lived asset impairment charges of \$79 million, as well as \$39 million in write-offs of other capitalized costs associated with projects which were discontinued.

**Store Opening Costs** - Store opening costs, which include payroll and supply costs incurred prior to store opening as well as grand opening advertising costs, totaled \$10 million and \$31 million in the third quarters of 2009 and 2008, respectively. Because store opening costs are expensed as incurred, the timing of expense recognition fluctuates based on the timing of store openings. We opened 12 stores in the third quarter of 2009, compared to the opening of 39 stores in the third quarter of 2008. Store opening costs for stores opened during both the third quarters of 2009 and 2008 averaged approximately \$0.7 million per store.

Store opening costs totaled \$38 million and \$70 million for the first nine months of 2009 and 2008, respectively. These costs were associated with the opening of 51 stores in 2009, including three stores in Canada, compared to 82 stores in 2008, including one store in Canada. Store opening costs for stores opened during the first nine months of 2009 and 2008 averaged approximately \$0.8 million per store.

**Depreciation** - The de-leverage in depreciation expense for the three and nine months ended October 30, 2009, was driven by comparable store sales declines and the addition of 84 stores over the past 12 months. Property, less accumulated depreciation, totaled \$22.6 billion at both October 30, 2009 and October 31, 2008. As of October 30, 2009 and October 31, 2008, we owned 88% of our stores, which includes stores on leased land.

**Income Tax Provision** - Our effective income tax rate was 34.9% and 37.0% for the three and nine months ended October 30, 2009, respectively, and 37.3% and 37.4% for the three and nine months ended October 31, 2008, respectively. The decrease in the third quarter effective tax rate is attributable to the settlement of certain state tax matters. Our effective income tax rate was 37.4% for fiscal 2008.

## FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

### Inventory

At October 30, 2009, merchandise inventory was \$8.4 billion compared to \$8.3 billion at October 31, 2008, and \$8.2 billion at January 30, 2009. The increase of \$97 million or 1.2% versus October 31, 2008, was attributable to sales floor square footage growth of 4.9%, partially offset by a 4.1% reduction in comparable store inventory. We are confident in our inventory position heading into the fourth quarter, as we experienced adequate sell-through of fall seasonal categories and planned our winter seasonal inventory conservatively.

### Cash Flows

Cash flows from operating activities continue to provide the primary source of our liquidity. Net cash provided by operating activities was \$4.4 billion for both the nine months ended October 30, 2009, and October 31, 2008. Decreased net earnings for the nine months ended October 30, 2009 were offset by working capital improvements.

Net cash used in investing activities was \$2.1 billion and \$2.7 billion for the nine months ended October 30, 2009, and October 31, 2008, respectively. The primary component of net cash used in investing activities continues to be opening new stores, investing in existing stores through resets and remerchandising, and investing in our distribution



and corporate infrastructure, including enhancements in information technology. Cash acquisitions of property were \$1.4 billion for the nine months ended October 30, 2009, versus \$2.5 billion for the prior year, a decrease of 44.3%, primarily driven by a reduction in our store expansion program.

Net cash used in financing activities was \$1.4 billion for the nine months ended October 30, 2009, driven primarily by \$1.0 billion of net repayment activity related to short-term borrowings. For the prior year, net cash used in financing

activities was \$1.6 billion, driven primarily by \$786 million of net repayment activity related to short-term borrowings, as well as \$564 million of long-term debt repayments primarily related to the redemption in June 2008 of our convertible notes issued in February 2001 and our senior convertible notes issued in October 2001. The ratio of debt to equity plus debt was 20.7%, 22.9% and 25.1% as of October 30, 2009, October 31, 2008, and January 30, 2009, respectively.

#### Sources of Liquidity

In addition to our cash flows from operations, additional liquidity is provided by our short-term borrowing facilities. We have a \$1.75 billion senior credit facility that expires in June 2012. The senior credit facility supports our commercial paper and revolving credit programs. The senior credit facility has a \$500 million letter of credit sublimit. Amounts outstanding under letters of credit reduce the amount available for borrowing under the senior credit facility. Borrowings made under the senior credit facility 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 October 30, 2009. Nineteen banking institutions are participating in the senior credit facility. As of October 30, 2009, there were no outstanding borrowings or letters of credit outstanding under the senior credit facility and no outstanding borrowings under the commercial paper program.

We also have a Canadian dollar (C\$) denominated credit facility in the amount of C\$50 million that provides revolving credit support for our Canadian operations. This uncommitted credit facility provides us with the ability to make unsecured borrowings which are priced at fixed rates based upon market conditions at the time of funding in accordance with the terms of the credit facility. As of October 30, 2009, there were no outstanding borrowings under the C\$ credit facility.

Our debt ratings at October 30, 2009, were as follows:

| Current Debt Ratings | S&P      | Moody's | Fitch    |
|----------------------|----------|---------|----------|
| Commercial Paper     | A1       | P1      | F1       |
| Senior Debt          | A+       | A1      | A+       |
| Outlook              | Negative | Stable  | Negative |

We believe that net cash provided by operating and financing activities will be adequate for our expansion plans and for our other operating requirements over the next 12 months. The availability of funds through the issuance of commercial paper or new debt or the borrowing cost of these funds could be adversely affected due to a debt rating downgrade, which we do not expect, or a deterioration of certain financial ratios. 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.

#### Cash Requirements

#### Capital Expenditures

Our 2009 capital forecast is approximately \$2.2 billion, inclusive of approximately \$300 million of lease commitments, resulting in an anticipated net cash outflow of \$1.9 billion in 2009. Approximately 75% of this planned

commitment is for store expansion. Our expansion plans for 2009 consist of approximately 64 stores that are expected to increase sales floor square footage by approximately 4%. Approximately 98% of the 2009 projects will be owned, which includes approximately 33% ground-leased properties.

At October 30, 2009, we owned and operated 14 regional distribution centers. We also operated 15 flatbed distribution centers for the handling of lumber, building materials and other long-length items. We are confident that our current distribution network has the capacity to ensure that our stores remain in stock and that customer demand is met.

## Debt and Capital

We have no scheduled maturities of long-term debt in 2009. We anticipate repaying the \$500 million 8.25% Notes due June 1, 2010, from net cash provided by operating activities.

During the first nine months of 2009, there were no share repurchases under the share repurchase program. As of October 30, 2009, we had remaining authorization through fiscal 2009 under the share repurchase program of \$2.2 billion.

## 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

There have been no material changes to our contractual obligations and commercial commitments other than in the ordinary course of business since the end of 2008. Refer to the Annual Report on Form 10-K for additional information regarding our contractual obligations and commercial commitments.

## COMPANY OUTLOOK

### Fourth Quarter

As of November 16, 2009, the date of our third quarter 2009 earnings release, we expected to open approximately 13 stores during the fourth quarter of 2009, which ends on January 29, 2010, reflecting square footage growth of approximately 4%. We expected total sales to be essentially flat and comparable store sales to decline 2% to 6%. Earnings before interest and taxes as a percentage of sales (operating margin) was expected to increase approximately 10 basis points. In addition, depreciation expense was expected to be approximately \$400 million and store opening costs were expected to be approximately \$10 million. Diluted earnings per share of \$0.09 to \$0.13 were expected for the fourth quarter. Our outlook for the fourth quarter does not assume any share repurchases. All comparisons are with the fourth quarter of fiscal 2008.

### Fiscal 2009

As of November 16, 2009, the date of our third quarter 2009 earnings release, we expected to open approximately 64 stores during fiscal 2009, which ends on January 29, 2010, reflecting total square footage growth of approximately 4%. We expected total sales in 2009 to decline 2% to 3% and comparable store sales to decline 7% to 8%. Earnings before interest and taxes as a percentage of sales (operating margin) was expected to decline approximately 130 basis points. In addition, depreciation expense was expected to be approximately \$1.61 billion and store opening costs were expected to be approximately \$48 million. Diluted earnings per share of \$1.16 to \$1.20 were expected for fiscal 2009. Our outlook for 2009 does not assume any share repurchases. All comparisons are with fiscal 2008.

## FORWARD-LOOKING STATEMENTS

This Form 10-Q contains “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995 (the “Act”). All statements other than those reciting historic fact are statements that could be “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,” “believes,” “opportunity,” “anticipates,” “desires,” and similar expressions are intended to highlight or indicate “forward-looking statements.” Although we believe that the expectations, opinions, projections, and comments reflected in our forward-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 expressed or implied by our forward-looking statements including, but not limited to, changes in general economic conditions, such as rising unemployment, interest rate and currency fluctuations, higher fuel and other energy costs, slower growth in personal income, changes in consumer spending, the availability and increasing regulation of consumer credit and mortgage financing, changes in the rate of housing turnover, 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 and the level of repairs, remodeling, and additions to existing homes, as well as 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) locate, secure, and successfully develop new sites for store development particularly in major metropolitan markets; (v) respond to fluctuations in the prices and availability of services, supplies, and products; (vi) respond to the growth and impact of competition; (vii) address legislative and regulatory developments; (viii) respond to unanticipated weather conditions that could adversely affect sales; and (ix) execute successfully the business plan for international expansion. 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 and the description of material changes, if any, therein 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. 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 January 30, 2009.

### 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 October 30, 2009, 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 October 30, 2009, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Part II - OTHER INFORMATION

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, other than the following:

Changes in existing or new laws and regulations could adversely affect our business.

Laws and regulations at both the state and federal levels change frequently and can impose significant costs and other burdens of compliance on our business. Any changes in regulations, the imposition of additional regulations, or the enactment of any new legislation that affects employment/labor, trade, product safety, transportation/logistics, energy costs, health care, tax or environmental issues could have an adverse impact on our financial condition and results of operations.

Item 6. - Exhibits

Exhibit 12.1 - Statement Re Computation of Ratio of Earnings to Fixed Charges

Exhibit 15.1 - Deloitte & Touche LLP Letter Re Unaudited Interim Financial Information

Exhibit 31.1 - Certification Pursuant to Rules 13a-14(a) and 15d-14(a) Under the Securities Exchange Act of 1934, as Amended

Exhibit 31.2 - Certification Pursuant to Rules 13a-14(a) and 15d-14(a) Under the Securities Exchange Act of 1934, as Amended

Exhibit 32.1 - Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Exhibit 32.2 - Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Exhibit 101.INS - XBRL Instance Document

Exhibit 101.SCH - XBRL Taxonomy Extension Schema Document

Exhibit 101.CAL - XBRL Taxonomy Extension Calculation Linkbase Document

Exhibit 101.LAB - XBRL Taxonomy Extension Label Linkbase Document

Exhibit 101.PRE - XBRL Taxonomy Extension Presentation Linkbase Document



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.

December 1, 2009  
Date

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

## EXHIBIT INDEX

| Exhibit No. | Description  |
|-------------|--|
| 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 Rules 13a-14(a) and 15d-14(a) Under the Securities Exchange Act of 1934, as Amended          |
| 31.2        | Certification Pursuant to Rules 13a-14(a) and 15d-14(a) Under the Securities Exchange Act of 1934, as Amended          |
| 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.LAB     | XBRL Taxonomy Extension Label Linkbase Document  |
| 101.PRE     | XBRL Taxonomy Extension Presentation Linkbase Document   |

