

LOWES COMPANIES INC
Form 10-Q
September 02, 2014

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 1, 2014

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 incorporation or
organization)

(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).

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 29, 2014

Common Stock, \$.50 par value

987,110,345

LOWE'S COMPANIES, INC.
 - TABLE OF CONTENTS -
 PART I - Financial Information

Page No.

| | | |
|-----------------------------|---|-----------|
| Item 1. | Financial Statements | |
| | Consolidated Balance Sheets — August 1, 2014 (Unaudited), August 2, 2013 (Unaudited) and January 31, 2014 | <u>3</u> |
| | Consolidated Statements of Current and Retained Earnings (Unaudited) — Three and six months ended August 1, 2014 and August 2, 2013 | <u>4</u> |
| | Consolidated Statements of Comprehensive Income (Unaudited) — Three and six months ended August 1, 2014 and August 2, 2013 | <u>4</u> |
| | Consolidated Statements of Cash Flows (Unaudited) — Six months ended August 1, 2014 and August 2, 2013 | <u>5</u> |
| | <u>Notes to Consolidated Financial Statements (Unaudited)</u> | <u>6</u> |
| | <u>Report of Independent Registered Public Accounting Firm</u> | <u>13</u> |
| Item 2. | <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | <u>14</u> |
| Item 3. | <u>Quantitative and Qualitative Disclosures about Market Risk</u> | <u>20</u> |
| Item 4. | <u>Controls and Procedures</u> | <u>20</u> |
| PART II - Other Information | | |
| Item 1A. | <u>Risk Factors</u> | <u>22</u> |
| Item 2. | <u>Unregistered Sales of Equity Securities and Use of Proceeds</u> | <u>22</u> |
| Item 6. | <u>Exhibits</u> | <u>23</u> |
| | <u>Signature</u> | <u>24</u> |

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) August 1, 2014 | (Unaudited) August 2, 2013 | January 31, 2014 | |
|---|-------------------------------|-------------------------------|------------------|---|
| Assets | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | \$1,039 | \$1,085 | \$391 | |
| Short-term investments | 90 | 189 | 185 | |
| Merchandise inventory - net | 9,315 | 9,106 | 9,127 | |
| Deferred income taxes - net | 276 | 224 | 252 | |
| Other current assets | 355 | 309 | 341 | |
| Total current assets | 11,075 | 10,913 | 10,296 | |
| Property, less accumulated depreciation | 20,368 | 20,969 | 20,834 | |
| Long-term investments | 382 | 306 | 279 | |
| Other assets | 1,312 | 1,220 | 1,323 | |
| Total assets | \$33,137 | \$33,408 | \$32,732 | |
| Liabilities and shareholders' equity | | | | |
| Current liabilities: | | | | |
| Short-term borrowings | \$— | \$— | \$386 | |
| Current maturities of long-term debt | 54 | 47 | 49 | |
| Accounts payable | 6,191 | 5,664 | 5,008 | |
| Accrued compensation and employee benefits | 635 | 651 | 785 | |
| Deferred revenue | 1,039 | 985 | 892 | |
| Other current liabilities | 2,094 | 1,993 | 1,756 | |
| Total current liabilities | 10,013 | 9,340 | 8,876 | |
| Long-term debt, excluding current maturities | 10,063 | 9,015 | 10,086 | |
| Deferred income taxes - net | 187 | 390 | 291 | |
| Deferred revenue - extended protection plans | 743 | 733 | 730 | |
| Other liabilities | 891 | 868 | 896 | |
| Total liabilities | 21,897 | 20,346 | 20,879 | |
| Shareholders' equity: | | | | |
| Preferred stock - \$5 par value, none issued | — | — | — | |
| Common stock - \$.50 par value; | | | | |
| Shares issued and outstanding | | | | |
| August 1, 2014 | 991 | | | |
| August 2, 2013 | 1,063 | | | |
| January 31, 2014 | 1,030 | 496 | 532 | |
| Capital in excess of par value | — | — | — | |
| Retained earnings | 10,749 | 12,504 | 11,355 | |
| Accumulated other comprehensive (loss)/income | (5 |) 26 | (17 |) |
| Total shareholders' equity | 11,240 | 13,062 | 11,853 | |
| Total liabilities and shareholders' equity | \$33,137 | \$33,408 | \$32,732 | |

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 1, 2014 | | August 2, 2013 | | August 1, 2014 | | August 2, 2013 | |
| | Amount | Percent | Amount | Percent | Amount | Percent | Amount | Percent |
| Current Earnings | | | | | | | | |
| Net sales | \$16,599 | 100.00 | \$15,711 | 100.00 | \$30,001 | 100.00 | \$28,800 | 100.00 |
| Cost of sales | 10,864 | 65.45 | 10,314 | 65.65 | 19,508 | 65.02 | 18,848 | 65.44 |
| Gross margin | 5,735 | 34.55 | 5,397 | 34.35 | 10,493 | 34.98 | 9,952 | 34.56 |
| Expenses: | | | | | | | | |
| Selling, general and administrative | 3,541 | 21.33 | 3,414 | 21.73 | 6,859 | 22.87 | 6,635 | 23.04 |
| Depreciation | 375 | 2.26 | 367 | 2.33 | 748 | 2.49 | 719 | 2.50 |
| Interest - net | 126 | 0.76 | 110 | 0.70 | 250 | 0.83 | 223 | 0.77 |
| Total expenses | 4,042 | 24.35 | 3,891 | 24.76 | 7,857 | 26.19 | 7,577 | 26.31 |
| Pre-tax earnings | 1,693 | 10.20 | 1,506 | 9.59 | 2,636 | 8.79 | 2,375 | 8.25 |
| Income tax provision | 654 | 3.94 | 565 | 3.60 | 973 | 3.25 | 893 | 3.11 |
| Net earnings | \$1,039 | 6.26 | \$941 | 5.99 | \$1,663 | 5.54 | \$1,482 | 5.14 |
| Weighted average common shares outstanding - basic | 995 | | 1,067 | | 1,005 | | 1,077 | |
| Basic earnings per common share | \$1.04 | | \$0.88 | | \$1.65 | | \$1.37 | |
| Weighted average common shares outstanding - diluted | 996 | | 1,068 | | 1,007 | | 1,079 | |
| Diluted earnings per common share | \$1.04 | | \$0.88 | | \$1.64 | | \$1.36 | |
| Cash dividends per share | \$0.23 | | \$0.18 | | \$0.41 | | \$0.34 | |
| Retained Earnings | | | | | | | | |
| Balance at beginning of period | \$10,985 | | \$12,618 | | \$11,355 | | \$13,224 | |
| Net earnings | 1,039 | | 941 | | 1,663 | | 1,482 | |
| Cash dividends | (229) | | (192) | | (411) | | (366) | |
| Share repurchases | (1,046) | | (863) | | (1,858) | | (1,836) | |
| Balance at end of period | \$10,749 | | \$12,504 | | \$10,749 | | \$12,504 | |

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

Lowe's Companies, Inc.

Consolidated Statements of Comprehensive Income (Unaudited)

In Millions, Except Percentage Data

| | Three Months Ended | | | | Six Months Ended | | | |
|---|--------------------|---------|----------------|---------|------------------|---------|----------------|---------|
| | August 1, 2014 | | August 2, 2013 | | August 1, 2014 | | August 2, 2013 | |
| | Amount | Percent | Amount | Percent | Amount | Percent | Amount | Percent |
| Net earnings | \$1,039 | 6.26 | \$941 | 5.99 | \$1,663 | 5.54 | \$1,482 | 5.14 |
| Foreign currency translation adjustments - net of tax | 4 | 0.02 | (26) | (0.17) | 12 | 0.04 | (26) | (0.09) |
| Other comprehensive income/(loss) | 4 | 0.02 | (26) | (0.17) | 12 | 0.04 | (26) | (0.09) |
| Comprehensive income | \$1,043 | 6.28 | \$915 | 5.82 | \$1,675 | 5.58 | \$1,456 | 5.05 |

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 1, 2014 | August 2, 2013 |
| Cash flows from operating activities: | | |
| Net earnings | \$1,663 | \$1,482 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: | | |
| Depreciation and amortization | 798 | 767 |
| Deferred income taxes | (137) | (56) |
| Loss on property and other assets - net | 29 | 12 |
| Loss on equity method investments | 31 | 27 |
| Share-based payment expense | 53 | 44 |
| Changes in operating assets and liabilities: | | |
| Merchandise inventory - net | (182) | (517) |
| Other operating assets | 90 | 4 |
| Accounts payable | 1,180 | 1,009 |
| Other operating liabilities | 398 | 584 |
| Net cash provided by operating activities | 3,923 | 3,356 |
| Cash flows from investing activities: | | |
| Purchases of investments | (300) | (303) |
| Proceeds from sale/maturity of investments | 293 | 224 |
| Capital expenditures | (384) | (376) |
| Contributions to equity method investments - net | (151) | (113) |
| Proceeds from sale of property and other long-term assets | 24 | 47 |
| Other - net | (7) | 3 |
| Net cash used in investing activities | (525) | (518) |
| Cash flows from financing activities: | | |
| Net change in short-term borrowings | (386) | — |
| Repayment of long-term debt | (25) | (22) |
| Proceeds from issuance of common stock under share-based payment plans | 68 | 100 |
| Cash dividend payments | (369) | (352) |
| Repurchase of common stock | (2,051) | (2,027) |
| Other - net | 12 | 8 |
| Net cash used in financing activities | (2,751) | (2,293) |
| Effect of exchange rate changes on cash | 1 | (1) |
| Net increase in cash and cash equivalents | 648 | 544 |
| Cash and cash equivalents, beginning of period | 391 | 541 |
| Cash and cash equivalents, end of period | \$1,039 | \$1,085 |

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 1, 2014, and August 2, 2013, and the results of operations and comprehensive income for the three and six months ended August 1, 2014, and August 2, 2013 and cash flows for the six months ended August 1, 2014, and August 2, 2013.

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 31, 2014 (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 1, 2014, January 31, 2014, and August 2, 2013, classified by fair value hierarchy:

| (In millions) | August 1, 2014 | Fair Value Measurements at Reporting Date | | |
|-------------------------------------|----------------|---|---------|---------|
| | | Using Level 1 | Level 2 | Level 3 |
| Available-for-sale securities: | | | | |
| Money market funds | \$55 | \$55 | \$— | \$— |
| Certificates of deposit | 21 | 21 | — | — |
| Municipal floating rate obligations | 7 | — | 7 | — |
| Municipal obligations | 7 | — | 7 | — |
| Total short-term investments | \$90 | \$76 | \$14 | \$— |
| Available-for-sale securities: | | | | |
| Municipal floating rate obligations | \$375 | \$— | \$375 | \$— |
| Municipal obligations | 7 | — | 7 | — |
| Total long-term investments | \$382 | \$— | \$382 | \$— |

Table of Contents

| (In millions) | January 31, 2014 | Fair Value Measurements at Reporting Date | | |
|-------------------------------------|------------------|---|---------|---------|
| | | Using Level 1 | Level 2 | Level 3 |
| Available-for-sale securities: | | | | |
| Money market funds | \$128 | \$128 | \$— | \$— |
| Certificates of deposit | 21 | 21 | — | — |
| Municipal floating rate obligations | 18 | — | 18 | — |
| Municipal obligations | 18 | — | 18 | — |
| Total short-term investments | \$185 | \$149 | \$36 | \$— |
| Available-for-sale securities: | | | | |
| Municipal floating rate obligations | \$265 | \$— | \$265 | \$— |
| Municipal obligations | 14 | — | 14 | — |
| Total long-term investments | \$279 | \$— | \$279 | \$— |
| | | | | |
| | | | | |
| (In millions) | August 2, 2013 | Using Level 1 | Level 2 | Level 3 |
| Available-for-sale securities: | | | | |
| Money market funds | \$105 | \$105 | \$— | \$— |
| Certificates of deposit | 21 | 21 | — | — |
| Municipal floating rate obligations | 17 | — | 17 | — |
| Municipal obligations | 46 | — | 46 | — |
| 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 | \$— |

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 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 1, 2014 and August 2, 2013, 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

7

Table of Contents

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 1, 2014, eight operating locations experienced a triggering event and were evaluated for recoverability. Three of these eight operating locations were determined to be impaired due to a decline in cash flow trends and an unfavorable sales outlook at these three locations, resulting in an impairment loss of \$26 million. The discounted cash flow model used to estimate the fair value of the three impaired operating locations assumed average annual sales growth rates ranging from 4.0% to 9.4% over the remaining lives of the locations and applied a discount rate of approximately 6.6%.

The other five operating locations that experienced a triggering event during 2014 were determined to be recoverable and, therefore, were not impaired. For these five locations, the expected undiscounted cash flows substantially exceeded the net book value of each location's assets. A 10% reduction in projected sales used to estimate future cash flows at the latest date these five operating locations were evaluated for impairment would have resulted in their impairment and increased recognized impairment losses by \$62 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.

The following table presents 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. 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 1, 2014 and August 2, 2013.

Fair Value Measurements - Nonrecurring Basis

| | August 1, 2014 | Three Months Ended August 1, 2014 | Six Months Ended August 1, 2014 |
|----------------------|-------------------------|-----------------------------------|---------------------------------|
| (In millions) | Fair Value Measurements | Impairment Losses | |
| Assets-held-for-use: | | | |
| Operating locations | \$9 | \$(3) | \$(26) |
| Total | \$9 | \$(3) | \$(26) |

| | August 2, 2013 | Three Months Ended August 2, 2013 | Six Months Ended August 2, 2013 |
|-----------------------|-------------------------|-----------------------------------|---------------------------------|
| (In millions) | Fair Value Measurements | Impairment Losses | |
| Assets-held-for-use: | | | |
| Excess properties | \$11 | \$(3) | \$(3) |
| Assets-held-for-sale: | | | |
| Excess properties | 6 | — | (2) |
| Total | \$17 | \$(3) | \$(5) |

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 incremental borrowing rate.

Table of Contents

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 1, 2014 | | August 2, 2013 | | January 31, 2014 | |
|--|-----------------|------------|-----------------|------------|------------------|------------|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Unsecured notes (Level 1) | \$9,619 | \$10,823 | \$8,629 | \$9,459 | \$9,617 | \$10,630 |
| Mortgage notes (Level 2) | 16 | 18 | 18 | 20 | 17 | 19 |
| Long-term debt (excluding capitalized lease obligations) | \$9,635 | \$10,841 | \$8,647 | \$9,479 | \$9,634 | \$10,649 |

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 \$66 million at August 1, 2014, \$163 million at August 2, 2013, and \$162 million at January 31, 2014.

Restricted balances included in long-term investments were \$300 million at August 1, 2014, \$230 million at August 2, 2013, and \$268 million at January 31, 2014.

Note 4: Property - Property is shown net of accumulated depreciation of \$14.9 billion at August 1, 2014, \$13.8 billion at August 2, 2013, and \$14.2 billion at January 31, 2014.

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 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 1, 2014 | August 2, 2013 | August 1, 2014 | August 2, 2013 |
| Deferred revenue - extended protection plans, beginning of period | \$730 | \$717 | \$730 | \$715 |
| Additions to deferred revenue | 90 | 85 | 165 | 155 |
| Deferred revenue recognized | (77 |) (69 |) (152 |) (137 |
| Deferred revenue - extended protection plans, end of period | \$743 | \$733 | \$743 | \$733 |

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 \$40 million at August 1, 2014, \$72 million at August 2, 2013, and \$53 million at January 31, 2014. 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 1, 2014 | August 2, 2013 | August 1, 2014 | August 2, 2013 |
| Liability for extended protection plan claims, beginning of period | \$17 | \$20 | \$18 | \$20 |
| Accrual for claims incurred | 32 | 29 | 61 | 56 |

Edgar Filing: LOWES COMPANIES INC - Form 10-Q

| | | | | | |
|---|------|-------|-------|-------|---|
| Claim payments | (32 |) (22 |) (62 |) (49 |) |
| Liability for extended protection plan claims, end of period | \$17 | \$27 | \$17 | \$27 | |

9

Table of Contents

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, which may be made under pre-set trading plans meeting the requirements of Rule 10b5-1(c) of the Securities Exchange Act of 1934, or through private off-market transactions. Shares purchased under the repurchase program are retired and returned to authorized and unissued status. On February 1, 2013, the Company's Board of Directors authorized a \$5.0 billion share repurchase program with no expiration. On January 31, 2014, the Company's Board of Directors authorized an additional \$5.0 billion share repurchase program with no expiration. As of August 1, 2014, the Company had \$4.3 billion remaining in its share repurchase program.

In May 2014, the Company entered into an Accelerated Share Repurchase (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 13.6 million shares. Subsequent to the end of the second fiscal quarter, on August 21, 2014, the Company finalized the transaction and received an additional 2.3 million shares.

Under the terms of the ASR agreement, 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 the 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 the agreement 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.

The ASR agreement was accounted for as a treasury stock transaction and a forward stock purchase contract. 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.

During the three and six months ended August 1, 2014, the Company also repurchased shares of its common stock through the open market totaling 8.1 million and 26.0 million shares, respectively, for a cost of \$380 million and \$1.2 billion, 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 1, 2014, and August 2, 2013 were as follows:

| | Three Months Ended | | August 2, 2013 | |
|--------------------------------|--------------------|---------------------|----------------|---------------------|
| | August 1, 2014 | | | |
| (In millions) | Shares | Cost ⁽¹⁾ | Shares | Cost ⁽¹⁾ |
| Share repurchase program | 21.7 | \$1,130 | 27.1 | \$1,003 |
| Shares withheld from employees | — | 2 | 0.1 | 2 |
| Total share repurchases | 21.7 | \$1,132 | 27.2 | \$1,005 |
| | Six Months Ended | | August 2, 2013 | |
| | August 1, 2014 | | | |
| (In millions) | Shares | Cost ⁽²⁾ | Shares | Cost ⁽²⁾ |
| Share repurchase program | 39.6 | \$1,980 | 50.6 | \$2,013 |
| Shares withheld from employees | 0.9 | 44 | 1.0 | 38 |
| Total share repurchases | 40.5 | \$2,024 | 51.6 | \$2,051 |

- (1) Reductions of \$1.0 billion and \$863 million were recorded to retained earnings, after capital in excess of par value was depleted, for the three months ended August 1, 2014 and August 2, 2013, respectively.
- (2) Reductions of \$1.9 billion and \$1.8 billion were recorded to retained earnings, after capital in excess of par value was depleted, for the six months ended August 1, 2014 and August 2, 2013, respectively.

Table of Contents

Note 7: Income Taxes - The Company is subject to examination by various foreign and domestic taxing authorities. During fiscal 2014, the Company began participating in the Internal Revenue Service (IRS) Compliance Assurance Program, which enables the Company to work with the IRS in an effort to resolve issues relating to the Company's current federal tax liability prior to the filing of the Company's federal tax return.

During the six months ended August 1, 2014, the Company resolved various federal items identified through a previous audit cycle, which resulted in the reduction of its unrecognized tax benefits by \$57 million. The Company's federal return for fiscal year 2012 is currently under examination by the IRS. The Company's Canadian operations are currently under audit by the Canada Revenue Agency for fiscal years 2009 and 2010. The Company also has ongoing U.S. state audits covering tax years 2006 through 2012.

At August 1, 2014, the Company had remaining unrecognized tax benefits of \$5 million. It is reasonably possible that the Company will resolve \$5 million in unrecognized tax benefits within the next 12 months. 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 1, 2014, and August 2, 2013.

| (In millions, except per share data) | Three Months Ended | | Six Months Ended | |
|--|--------------------|----------------|------------------|----------------|
| | August 1, 2014 | August 2, 2013 | August 1, 2014 | August 2, 2013 |
| Basic earnings per common share: | | | | |
| Net earnings | \$1,039 | \$941 | \$1,663 | \$1,482 |
| Less: Net earnings allocable to participating securities | (6 |) (6 |) (9 |) (10 |
| Net earnings allocable to common shares | \$1,033 | \$935 | \$1,654 | \$1,472 |
| Weighted-average common shares outstanding | 995 | 1,067 | 1,005 | 1,077 |
| Basic earnings per common share | \$1.04 | \$0.88 | \$1.65 | \$1.37 |
| Diluted earnings per common share: | | | | |
| Net earnings | \$1,039 | \$941 | \$1,663 | \$1,482 |
| Less: Net earnings allocable to participating securities | (6 |) (6 |) (9 |) (10 |
| Net earnings allocable to common shares | \$1,033 | \$935 | \$1,654 | \$1,472 |
| Weighted-average common shares outstanding | 995 | 1,067 | 1,005 | 1,077 |
| Dilutive effect of non-participating share-based awards | 1 | 1 | 2 | 2 |
| Weighted-average common shares, as adjusted | 996 | 1,068 | 1,007 | 1,079 |
| Diluted earnings per common share | \$1.04 | \$0.88 | \$1.64 | \$1.36 |

Stock options to purchase 0.1 million and 2.1 million shares of common stock for the three months ended August 1, 2014, and August 2, 2013, respectively, were excluded from the computation of diluted earnings per common share because their effect would have been anti-dilutive. No stock options were anti-dilutive for the six months ended August 1, 2014. Stock options to purchase 1.8 million shares of common stock for the six months ended August 2, 2013, were excluded from the computation of diluted earnings per common share because their effect would have been anti-dilutive.

Note 9: Supplemental Disclosure

11

Table of Contents

Net interest expense is comprised of the following:

| (In millions) | Three Months Ended | | Six Months Ended | |
|-------------------------------|--------------------|----------------|------------------|----------------|
| | August 1, 2014 | August 2, 2013 | August 1, 2014 | August 2, 2013 |
| Long-term debt | \$114 | \$103 | \$229 | \$207 |
| Capitalized lease obligations | 11 | 9 | 21 | 19 |
| Interest income | (1 |) (1 |) (1 |) (2 |
| Interest capitalized | — | (1 |) (1 |) (2 |
| Interest on tax uncertainties | — | (2 |) (2 |) (2 |
| Other | 2 | 2 | 4 | 3 |
| Interest - net | \$126 | \$110 | \$250 | \$223 |

Supplemental disclosures of cash flow information:

| (In millions) | Six Months Ended | |
|---|------------------|----------------|
| | August 1, 2014 | August 2, 2013 |
| Cash paid for interest, net of amount capitalized | \$248 | \$226 |
| Cash paid for income taxes - net | \$797 | \$746 |
| Non-cash investing and financing activities: | | |
| Non-cash property acquisitions, including assets acquired under capital lease | \$4 | \$6 |
| Cash dividends declared but not paid | \$229 | \$192 |

Note 10: Recent Accounting Pronouncements - In April 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-08, Reporting Discontinued Operations and Disclosures of Components of an Entity. The ASU amends the definition of a discontinued operation and also provides new disclosure requirements for disposals meeting the definition, and for those that do not meet the definition, of a discontinued operation. Under the new guidance, a discontinued operation may include a component or a group of components of an entity, or a business or nonprofit activity that has been disposed of or is classified as held for sale, and represents a strategic shift that has or will have a major effect on an entity's operations and financial results. The ASU also expands the scope to include the disposals of equity method investments and acquired businesses held for sale. The guidance will be effective prospectively for interim and annual periods beginning on or after December 15, 2014, with early adoption permitted. The adoption of the guidance by the Company is not expected to have a material impact on its consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers. The ASU is a comprehensive new revenue recognition model that requires a company to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance will be effective for interim and annual reporting periods beginning after December 15, 2016 and early adoption is not permitted. Accordingly, the Company will adopt this ASU in the first quarter of fiscal year 2017. Companies may use either a full retrospective or a modified retrospective approach to adopt this ASU. The Company is currently evaluating the transition methods and the impact of the standard on our consolidated financial statements.

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 1, 2014 and August 2, 2013, and the related consolidated statements of current and retained earnings and comprehensive income for the fiscal three-month and six-month periods ended August 1, 2014 and August 2, 2013, and of cash flows for the fiscal six-month periods ended August 1, 2014 and August 2, 2013. 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 31, 2014, 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 March 31, 2014, 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 31, 2014 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 2, 2014

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 1, 2014, and August 2, 2013. 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 31, 2014 (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 2013. 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 sales for the second quarter of fiscal 2014 increased 5.7% to \$16.6 billion with comparable sales increasing 4.4%. Net earnings for the second quarter increased 10.4% to \$1.0 billion with diluted earnings per share increasing 18.2% to \$1.04 per share. Delivering on our commitment to return excess cash to shareholders, during the second quarter, we paid \$183 million in dividends and repurchased a total of \$1.1 billion of common stock through our share repurchase program.

We delivered solid results for the second quarter with comparable sales increases across all regions and product categories. We were able to recover most of the outdoor product sales that were missed in the first quarter due to unfavorable weather conditions. Performance in outdoor products was strong with a comparable sales increase of approximately 6.5% for the second quarter, while comparable sales of indoor products increased approximately 3%. Through our enhanced Sales & Operations Planning process we were able to improve seasonal planning, which helped us to effectively manage inventory and staffing needed to recover sales while ensuring we addressed key summer holidays.

During the second quarter, we continued to develop customer experience design capabilities that differentiate Lowe's from other home improvement retailers by working with customers to better understand their purchase drivers. For example, within Seasonal Living, performance in patio & outdoor fashion products exceeded strong first quarter results and generated a double-digit comparable sales increase, which we attribute to the Outdoor Living Experience that was rolled out to two-thirds of our stores in advance of the spring selling season. To help customers envision and create their outdoor space we displayed patio sets with coordinating rugs, umbrellas, and accessories, along with grills and other outdoor products just as they would have expected in their own backyard.

We continued to see strength in our Pro Services business, which outperformed the company comparable sales average for the 12th consecutive quarter. Increased consumer willingness to complete refresh projects, coupled with our strong product offering, led to notable strength in Pro sales. During 2014, we will continue to invest in our core product and service offering for Pros, a segment that is growing faster than the rest of the home improvement market.

From a macroeconomic perspective, economic forecasts suggest continued growth in the home improvement market, as employment, income, and consumer spending levels continue to improve. Indicators from the housing market appear to be mixed as home values have increased moderately while existing home sales in total have declined in the current year. However, existing home sales excluding distressed sales, which we believe is a more appropriate indicator of the long-term health of our industry, have shown a slight increase through the first half of the year revealing a more positive and sustainable trend. In light of these factors, we believe home improvement spending will continue to progress in tandem with strengthening job and income growth. Continued improvement in the macroeconomic landscape together with our strengthening execution, strategic priorities, and focus on productivity and flow through, give us confidence in our Business Outlook for 2014.

Table of Contents

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 1, 2014 | August 2, 2013 | | | |
| Net sales | 100.00 | % 100.00 | % N/A | 5.7 | % |
| Gross margin | 34.55 | 34.35 | 20 | 6.3 | |
| Expenses: | | | | | |
| Selling, general and administrative | 21.33 | 21.73 | (40 |) 3.7 | |
| Depreciation | 2.26 | 2.33 | (7 |) 2.2 | |
| Interest - net | 0.76 | 0.70 | 6 | 14.1 | |
| Total expenses | 24.35 | 24.76 | (41 |) 3.9 | |
| Pre-tax earnings | 10.20 | 9.59 | 61 | 12.4 | |
| Income tax provision | 3.94 | 3.60 | 34 | 15.8 | |
| Net earnings | 6.26 | % 5.99 | % 27 | 10.4 | % |
| EBIT margin ¹ | 10.96 | % 10.29 | % 67 | 12.5 | % |
| | | | | | |
| | Six Months Ended | | | | |
| | August 1, 2014 | August 2, 2013 | 2014 vs. 2013 | 2014 vs. 2013 | |
| Net sales | 100.00 | % 100.00 | % N/A | 4.2 | % |
| Gross margin | 34.98 | 34.56 | 42 | 5.4 | |
| Expenses: | | | | | |
| Selling, general and administrative | 22.87 | 23.04 | (17 |) 3.4 | |
| Depreciation | 2.49 | 2.50 | (1 |) 4.0 | |
| Interest - net | 0.83 | 0.77 | 6 | 12.1 | |
| Total expenses | 26.19 | 26.31 | (12 |) 3.7 | |
| Pre-tax earnings | 8.79 | 8.25 | 54 | 11.0 | |
| Income tax provision | 3.25 | 3.11 | 14 | 8.9 | |
| Net earnings | 5.54 | % 5.14 | % 40 | 12.2 | % |
| EBIT margin ¹ | 9.62 | % 9.02 | % 60 | 11.1 | % |

Table of Contents

| Other Metrics | Three Months Ended | | Six Months Ended | |
|---|--------------------|----------------|------------------|----------------|
| | August 1, 2014 | August 2, 2013 | August 1, 2014 | August 2, 2013 |
| Comparable sales increase ⁽²⁾ | 4.4 | % 9.6 | % 2.8 | % 4.6 |
| Total customer transactions (in millions) | 253 | 240 | 460 | 441 |
| Average ticket ⁽³⁾ | \$65.65 | \$65.60 | \$65.21 | \$65.32 |
| At end of period: | | | | |
| Number of stores ⁽⁴⁾ | 1,837 | 1,758 | | |
| Sales floor square feet (in millions) | 201 | 198 | | |
| Average store size selling square feet (in thousands) ^{(4), (5)} | 109 | 112 | | |
| Return on invested capital ⁽⁶⁾ | 12.6 | % 10.6 | % | |

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

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

(2) to close is no longer considered comparable as of the beginning of the month in which we announce its closing. Acquired locations are included in the comparable sales calculation beginning in the first full month following the first anniversary of the date of the acquisition. Comparable sales includes online sales, which did not have a meaningful impact for the periods presented.

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

(4) The number of stores as of August 1, 2014 includes 73 Orchard Supply Hardware (Orchard) stores.

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

(5) the end of the period. The average Lowe's home improvement store has approximately 112,000 square feet of retail selling space, while the average Orchard store has approximately 36,000 square feet of retail selling space.

(6) Return on invested capital is a non-GAAP financial measure. See below for additional information and a reconciliation to the most comparable GAAP measure.

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.

Table of Contents

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:

| (In millions, except percentage data) | For the periods ended | | |
|--|-----------------------|----------------|--------|
| Calculation of Return on Invested Capital | August 1, 2014 | August 2, 2013 | |
| Numerator ⁽¹⁾ | | | |
| Net earnings | \$2,467 | \$2,165 | |
| Plus: | | | |
| Interest expense - net | 503 | 447 | |
| Provision for income taxes | 1,467 | 1,299 | |
| Earnings before interest and taxes | 4,437 | 3,911 | |
| Less: | | | |
| Income tax adjustment ⁽²⁾ | 1,657 | 1,466 | |
| Net operating profit after tax | \$2,780 | \$2,445 | |
| Effective tax rate | 37.3 | % | 37.5 % |
| Denominator | | | |
| Average debt and equity ⁽³⁾ | \$22,051 | \$23,016 | |
| Return on invested capital | 12.6 | % | 10.6 % |
| | | | |
| Calculation of Return on Average Debt and Equity | | | |
| Numerator ⁽¹⁾ | | | |
| Net earnings | \$2,467 | \$2,165 | |
| Denominator | | | |
| Average debt and equity ⁽³⁾ | \$22,051 | \$23,016 | |
| Return on average debt and equity | 11.2 | % | 9.4 % |

⁽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 5.7% to \$16.6 billion in the second quarter of 2014. Comparable sales increased 4.4% over the same period, driven by a 3.1% increase comparable customer transactions and a 1.3% increase in comparable average ticket.

During the second quarter, we experienced comparable sales increases in all 12 product categories with comparable sales increases above the company average in the following: Lawn & Garden, Millwork, Paint, and Tools & Hardware. Customers took advantage of improved weather during the quarter to refresh the interiors and exteriors of their homes, which was evidenced by strong performance in Lawn & Garden, Millwork and Paint. In addition, within Paint, we experienced strong customer response to our Valspar Reserve exterior and interior paints, which were introduced at the end of the first quarter. Within Tools & Hardware, our enhanced Sales and Operations Planning Process helped us drive strong performance in power tools.

Net sales increased 4.2% to \$30.0 billion for the first six months of 2014 compared to 2013. Comparable sales increased 2.8% over the same period, primarily driven by a 1.8% increase in comparable average ticket. Comparable customer transactions increased 1.0% over the same period.

Gross Margin – For the second quarter of 2014, gross margin increased 20 basis points as a percentage of sales, primarily driven by our Value Improvement program.

Gross margin as a percentage of sales increased 42 basis points in the first six months of 2014 compared to 2013, which was also driven primarily by our Value Improvement program.

Table of Contents

SG&A – For the second quarter of 2014, SG&A expense leveraged 40 basis points as a percentage of sales compared to the second quarter of 2013. This was driven by leverage of 28 basis points in incentive compensation, due to lower attainment levels compared to the prior year. We also experienced 11 basis points of leverage in operating salaries and nine basis points of leverage in advertising expense, primarily due to the increase in sales. These were partially offset by 17 basis points of deleverage in employee insurance costs, primarily due to additional costs associated with the Affordable Care Act, which drove a 10% increase in enrollment.

SG&A expense as a percentage of sales leveraged 17 basis points in the first six months of 2014 compared to 2013 due to the same factors that impacted SG&A expense in the second quarter, partially offset by deleverage associated with long-lived asset impairments.

Depreciation – Depreciation expense leveraged seven basis points for the second quarter of 2014 compared to the prior year due to increased sales. Property, less accumulated depreciation, decreased to \$20.4 billion at August 1, 2014 compared to \$21.0 billion at August 2, 2013. As of August 1, 2014 and August 2, 2013, we owned 86% and 89% of our stores, respectively, which included stores on leased land.

Interest – Net – Interest expense for the second quarter and first six months of 2014 increased compared to the prior year primarily due to the issuance of \$1 billion of unsecured notes in September 2013.

Income Tax Provision – Our effective income tax rates were 38.6% and 36.9% for the three and six months ended August 1, 2014, respectively, and 37.5% and 37.6% for the three and six months ended August 2, 2013, respectively. The higher effective income tax rate for the three months ended August 1, 2014, was attributable to the expiration of certain federal tax statutes.

The lower effective income tax rate for the six months ended August 1, 2014, was attributable to the favorable settlement of certain federal tax matters during the year, partially offset by the expiration of certain federal tax statutes. Our effective income tax rate was 37.8% for fiscal 2013.

LOWE'S BUSINESS OUTLOOK

As of August 20, 2014, the date of our second quarter 2014 earnings release, our fiscal year 2014 guidance expected total sales to increase approximately 4.5% and comparable sales to increase approximately 3.5%. We expected to open approximately 10 home improvement and five Orchard stores during 2014. Earnings before interest and taxes as a percentage of sales (operating margin) were expected to increase approximately 65 basis points, and the effective income tax rate was expected to be approximately 37.2%. Diluted earnings per share of approximately \$2.63 were expected for fiscal 2014.

We repurchased 39.6 million shares for \$2.0 billion under our share repurchase program in the first six months of fiscal 2014. Our guidance assumed a total of \$3.4 billion of share repurchases 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 1, 2014, versus the six months ended August 2, 2013, was primarily driven by changes in working capital and an increase in net earnings. The increase in net cash used in financing activities for the six months ended August 1, 2014, versus the six months ended August 2, 2013, was driven primarily by repayments of short-term borrowings.

Sources of Liquidity

In addition to our cash flows from operations, liquidity is provided by our short-term borrowing facilities. On August 29, 2014, we entered into a new five year unsecured revolving credit agreement (the 2014 Credit Facility) to replace the amended and restated senior credit agreement dated October 2011 (the Second Amended and Restated Credit Agreement). The 2014 Credit Facility provides for borrowings up to \$1.75 billion and expires in August 2019. Subject to obtaining commitments from the lenders and satisfying other conditions specified in the 2014 Credit Facility, we may increase the aggregate availability under the facility by an additional \$500 million. The 2014 Credit Facility supports our commercial paper program and has a \$500 million letter of credit sublimit. Letters of credit issued pursuant to the 2014 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 2014 Credit Facility. The 2014 Credit Facility contains certain restrictive

Table of Contents

covenants, which include maintenance of an adjusted debt leverage ratio as defined by the credit agreement. Thirteen banking institutions are participating in the 2014 Credit Facility. For additional information about the 2014 Credit Facility, see the Current Report on Form 8-K we filed on September 2, 2014 with the Securities and Exchange Commission.

The 2011 Second Amended and Restated Credit Agreement also contained certain restrictive covenants, which included maintenance of a debt leverage ratio as defined by the 2011 Second Amended and Restated Credit Agreement. At August 1, 2014, we were in compliance with those covenants. In addition, there were no outstanding borrowings or letters of credit under the 2011 Second Amended and Restated Credit Agreement and no outstanding borrowings under our commercial paper program at August 1, 2014.

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 2, 2014, 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 Outlook | Stable | Stable |

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, 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 2014 capital forecast is approximately \$1.2 billion. Investments in our existing stores are expected to account for approximately 45% of net cash outflow including investments in store equipment, resets and remerchandising. Approximately 25% 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 2014 consist of approximately 10 new home improvement stores, approximately half of which will be leased, and five new Orchard stores, all of which will be leased. Other planned capital expenditures, accounting for 10% of planned net cash outflow, are for investments in our distribution network.

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 1, 2014, we had a remaining repurchase authorization of \$4.3 billion with no expiration date. Our Business Outlook included above assumed approximately

\$3.4 billion in share repurchases for 2014. 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.

Table of Contents

CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

As of August 1, 2014, there were no material changes to our contractual obligations and commercial commitments outside the ordinary course of business since the end of 2013. 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. Although we believe that the expectations, opinions, projections, and comments reflected in these 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 either expressed or implied by our forward-looking statements including, but not limited to, changes in general economic conditions, such as the rate 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 release 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 release 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 January 31, 2014.

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

Table of Contents

Chief Executive Officer and Chief Financial Officer concluded that, as of August 1, 2014, 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 1, 2014, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Table of Contents

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 for the fiscal year ended January 31, 2014.

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 fiscal 2014:

| (In millions, except average price paid per share) | Total Number of Shares Purchased ¹ | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs ² | Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs ² |
|--|---|------------------------------|---|---|
| May 3, 2014 - May 30, 2014 ³ | 14.6 | \$46.81 | 14.6 | \$4,623 |
| May 31, 2014 - July 4, 2014 | 2.6 | 46.89 | 2.6 | 4,503 |
| July 5, 2014 - August 1, 2014 | 4.5 | 47.75 | 4.5 | 4,288 |
| As of August 1, 2014 | 21.7 | \$47.02 | 21.7 | \$4,288 |

During the second quarter of fiscal 2014, the Company repurchased an aggregate of 21.7 million shares of its ¹ common stock. The total number of shares purchased also includes an insignificant number of 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 On February 1, 2013, the Company's Board of Directors authorized a \$5.0 billion share repurchase program with no expiration. On January 31, 2014, the Company's Board of Directors authorized an additional \$5.0 billion of share repurchases with no expiration. As of August 1, 2014, the Company had total share repurchase authorization remaining available of \$4.3 billion. In fiscal 2014, the Company expects to repurchase shares totaling \$3.4 billion through purchases made from time to time either in the open market, including through pre-set trading plans, or through private off market transactions in accordance with SEC regulations.

³ In May 2014, 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 agreement, the Company paid \$750 million to the financial institution and received an initial delivery of 13.6 million shares in the second quarter of fiscal 2014. In August 2014, the Company finalized the transaction and received an additional 2.3 million shares. The average price paid per share reflected in the table above was derived using the fair market value of the shares on the date the initial 13.6 million shares were delivered. See Note 6 to the consolidated financial statements included in this report.

Table of Contents

Item 6. - Exhibits

| Exhibit Number | Exhibit Description | Incorporated by Reference | | | Filing Date |
|-------------------|--|---------------------------|-----------|------------|-------------------|
| | | Form | 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.‡ | | | | |

* Management contract or compensatory plan or arrangement required to be filed as an exhibit to this form.

‡ 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 2, 2014

Date

/s/ Matthew V. Hollifield

Matthew V. Hollifield

Senior Vice President and Chief Accounting Officer

24