LOWES COMPANIES INC
Form 10-K
April 02, 2013

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

FORM 10-K

(Mark One)

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended February 1, 2013

or

o 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 | 28117 |
| (Address of principal executive offices) | (Zip Code) |
| Registrant's telephone number, including area code | 704-758-1000 |

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class | Name of each exchange on which registered |
|---|---|
| Common Stock, $0.50 Par Value | New York Stock Exchange (NYSE) |

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
x Yes o No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act.
o Yes x No

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.

x Yeso 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).

x Yeso No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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. (Check one):

| | | | |
|---|---|---|---|
| Large accelerated filer x | Accelerated filer o | Non-accelerated filer o | Smaller reporting company o |

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
o Yes x No

As of August 3, 2012, the last business day of the Company's most recent second quarter, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was $29.3 billion based on the closing sale price as reported on the New York Stock Exchange.

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

| CLASS | OUTSTANDING AT MARCH 28, 2013 |
|---|---|
| Common Stock, $0.50 par value | 1,088,511,808 |

DOCUMENTS INCORPORATED BY REFERENCE

| Document | Parts Into Which Incorporated |
|---|---|
| Portions of the Proxy Statement for Lowe's 2013 Annual Meeting of Shareholders | Part III |

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# Part I

## Item 1 - Business

### General Information

Lowe's Companies, Inc. and subsidiaries (the Company or Lowe's) is a Fortune® 100 company and the world's second largest home improvement retailer. As of February 1, 2013, we operated 1,754 stores, comprised of 1,715 stores across 50 U.S. states, 34 stores in Canada and five stores in Mexico. These stores represent approximately 197 million square feet of retail selling space. In 2013, we expect to open approximately 10 stores.

Lowe's was incorporated in North Carolina in 1952 and has been publicly held since 1961. The Company's common stock is listed on the New York Stock Exchange - ticker symbol "LOW".

See Item 6, "Selected Financial Data", of this Annual Report on Form 10-K, for historical revenues, profits and identifiable assets. For additional information about the Company's performance and financial condition, see also Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations", of this Annual Report on Form 10-K.

### Our Promise

We strive to be customers' first choice for home improvement. Customers expect that we will not only sell the products they need and want, but also deliver a full solution by being a partner through each step of the home improvement process, from inspiration and planning to completion and enjoyment. Our goal is to make the process of home improvement as seamless and simple as possible, while ensuring we remain relevant to our customers. We have several initiatives designed to deliver seamless and simple experiences, which include evolving our sales culture across all selling channels, upgrading and continuously enhancing our information technology infrastructure, and allowing access to customers' project and product status at all relevant touch points.

### Customers, Market and Competition

#### Our Customers

We serve homeowners, renters and commercial business customers (Pro customer). Individual homeowners and renters complete a wide array of projects and vary along the spectrum of do-it-yourself (DIY) and do-it-for-me (DIFM). The Pro customer consists of two broad categories, construction trade and maintenance & repair organizations.

Based on our analysis of the market we have identified various types of home improvement customer mindsets. Our target customer mindset is the "creator", whether they are a homeowner, renter, or Pro customer. Creators seek quality tailored experiences, and are on the lookout for new ideas to improve homes. The creator is the most active in the home improvement category in terms of visits and amount of spend. We believe that if we focus on the needs of these more discerning customers we will meet or exceed the needs of other customers.

#### Our Market

We are among the many businesses, including home centers, paint stores, hardware stores, lumber yards and garden centers, whose revenues are included in the Building Material and Garden Equipment and Supplies Dealers Subsector (444) of the Retail Trade Sector of the North American Industry Classification System (NAICS), the standard used by Federal statistical agencies in classifying business establishments for the purpose of collecting, analyzing, and publishing statistical data related to the U.S. business economy. The total annual revenue reported for businesses included in NAICS 444 in 2012 was $294 billion, which represented an increase of 5.4% from the total amount reported in 2011. The total annual revenue reported for businesses included in NAICS 444 in 2011 was $279 billion, which represented an increase of 4.1% over the amount reported for 2010.

NAICS 444 represents less than half of what we consider the total market for our products and services. The broader market in which Lowe's operates includes home-related sales through a variety of companies beyond those in NAICS 444. These include other companies in the retail sector, including mass retailers, home furnishings stores, and online retailers, as well as wholesalers that provide home-related products and services to homeowners, businesses, and the government. Based on our analysis of the most recent comprehensive data available, we estimate the size of the U.S. home improvement market at $645 billion in 2012, comprised of $499 billion of product sales and $146 billion of installed labor sales.

There are many variables that affect consumer demand for the home improvement products and services Lowe's offers. Key indicators we monitor include real disposable personal income, employment, home prices, housing turnover, and home ownership levels. We also monitor demographic and societal trends that shape home improvement industry growth.

- Real disposable personal income is projected to grow at a slower pace in 2013 than in 2012, pulled lower by tax increases and the acceleration of dividend and bonus payments into 2012 that were made to allow recipients to avoid higher tax rates in 2013. Real disposable personal income is forecasted to increase 0.9% in calendar 2013, down from the 1.5% gain recorded in 2012, based on the March 2013 Blue Chip Economic Indicators®. *

- The average unemployment rate for 2013 is forecasted to decline to 7.7% in 2013, according to the March 2013 Blue Chip Economic Indicators. While it is an improvement from the 8.1% average recorded in 2012, the rate remains elevated, suggesting that Americans will continue to face challenging employment prospects this year.

- Recent evidence suggests that home prices are stabilizing. In 2012, home prices recorded their first year-to-year gains since 2007, according to the Federal Home Finance Agency purchase-only index. The gains were driven by strengthening demand and lower inventories of homes for sale. Economists generally expect home prices to continue to increase at a modest single-digit pace in 2013, but remain well below their peak level reached in 2007.

- Housing turnover increased 8.9% in 2012 from low levels, according to The National Association of Realtors and U.S. Census Bureau, but remains 40% below its peak in 2005. Turnover is generally expected to continue to increase in 2013, though at a more moderate rate.

- According to the U.S. Census Bureau, U.S. homeownership rates leveled off at approximately 65.5% in 2012, cushioned by the increase in home buying. That compares with a peak of about 69% in 2004. However, homeownership rates are expected to remain under downward pressure in the coming years as lending standards remain tight and delinquency and foreclosure activity remains elevated.

These indicators are important to our business because they impact income available to purchase our products and services, or define a key customer base for home maintenance, repair, and upgrade projects. Currently, these indicators suggest moderately improving consumer demand for the home improvement products and services we sell. However, in this uncertain economic environment, we continue to balance implementation of our long-term growth plans with our near-term focus on improving performance and maintaining adequate liquidity.

Our Competition

The home improvement retailing business includes many competitors. We compete with other home improvement warehouse chains and lumberyards in most of our trade areas. We also compete with traditional hardware, plumbing, electrical and home supply retailers. In addition, we compete, with respect to some of our products, with general merchandise retailers, mail order firms, warehouse clubs, online and other specialty retailers. Our customers value reputation, customer experience, quality and price of merchandise, and range and availability of products and services.  Location of stores also continues to be a key competitive factor in our industry. However, the increasing use of technology and the simplicity of online shopping also underline the importance of multi-channel presence as a competitive factor.  See further discussion of competition in Item 1A, "Risk Factors", of this Annual Report on Form 10-K.

*Blue Chip Economic Indicators® (ISSN: 0193-4600) is published monthly by Aspen Publishers, 76 Ninth Avenue, New York, NY 10011, a division of Wolters Kluwer Law and Business.   Printed in the U.S.A.

## Products and Services

### Our Products

#### Product Selection
To meet customers' varying home improvement needs, we offer a complete line of products for maintenance, repair, remodeling, and home decorating.  We offer home improvement products in the following categories: Plumbing; Appliances; Tools & Outdoor Power Equipment; Lawn & Garden; Fashion Electrical; Lumber; Seasonal Living; Paint; Home Fashions, Storage & Cleaning; Flooring; Millwork; Building Materials; Hardware; and Cabinets & Countertops.  A typical Lowe's store stocks approximately 40,000 items, with hundreds of thousands of items available through our Special Order Sales system, Lowes.com, Lowes.ca and ATGstores.com.  In 2012, Lowe's implemented flexible fulfillment, which allows the customer to order parcel post eligible products that are stocked in a regional distribution center (RDC), a store, or in a vendor's distribution center, and have them shipped directly to a home or place of business.  Most items can be ordered and delivered within two days.  See Note 16 of the Notes to Consolidated Financial Statements included in Item 8, "Financial Statements and Supplementary Data", of this Annual Report on Form 10-K for historical revenues by product category for each of the last three fiscal years.

We are committed to offering a wide selection of national brand name merchandise, as well as building long-term value for Lowe's through the development of private brands.  In addition, we are dedicated to ensuring product is sourced in a responsible, efficient, and cost effective manner through our supply chain.

#### National Brand Name Merchandise
In many product categories, customers look for a brand they know and trust to instill confidence in their purchase.  Each Lowe's store carries a wide selection of national brand-name merchandise such as Whirlpool® appliances and water heaters, GE® and Samsung® appliances, Stainmaster® carpets, Valspar® paints and stains, Pella® windows and doors, Sylvania® light bulbs, Dewalt® power tools, Owens Corning® roofing, Johns Manville® insulation, James Hardie® fiber cement siding, Husqvarna® outdoor power equipment, Werner® ladders and many more.  Our merchandise selection provides the DIY, DIFM and Pro customer a one-stop shop for a wide variety of national brand name merchandise needed to complete home improvement, repair, maintenance or construction projects.

#### Private Brands
Private brands are an important element of our overall portfolio, helping to differentiate us from the competition with unique innovations and designs and providing a value alternative to national brands.  We sell private brands throughout our stores including Tools, Seasonal Living, Home Fashions, Storage & Cleaning, Paint, Fashion Plumbing, Flooring, Millwork, Hardware, Fashion Electrical and Lumber.  Some of Lowe's most important private brands include Kobalt® tools, allen+roth® home décor products, Blue Hawk® home improvement products, Portfolio® lighting products, Garden Treasures® lawn and patio products, Utilitech® electrical and utility products, Reliabilt® doors and windows, Aquasource® faucets, sinks and toilets, Harbor Breeze® ceiling fans, Top Choice® lumber products and Iris® home automation and management products.

#### Supply Chain
We source our products from over 7,000 vendors worldwide with no single vendor accounting for more than 7% of total purchases.  We believe that alternative and competitive suppliers are available for virtually all of our products.  Whenever possible, we purchase directly from manufacturers to provide savings for customers and improve our gross margin.

To efficiently move product from our vendors to our stores and maintain in-stock levels, we own and operate 14 highly-automated RDCs in the United States, with a fifteenth RDC expected to open in the first quarter of 2013.  On average, each domestic RDC currently serves approximately 120 stores. In addition, we lease and operate a distribution facility to serve our Canadian stores.

We also operate 15 flatbed distribution centers to distribute merchandise that requires special handling due to size or type of packaging such as lumber, boards, panel products, pipe, siding, ladders and building materials. Additionally, we operate four facilities to support our import business and flexible fulfillment capabilities. We also utilize three third-party transload facilities, which are the first point of receipt for imported products. The transload facilities sort and allocate products to RDCs based on individual store demand and forecasts.

On average, in fiscal 2012, approximately 75% of the total dollar amount of stock merchandise we purchased was shipped through our distribution network, while the remaining portion was shipped directly to our stores from vendors.

Our Services

Installed Sales
We offer installation services through independent contractors in many of our product categories, with Flooring, Millwork and Cabinets & Countertops accounting for the majority of installed sales. Our Installed Sales model, which separates selling and project administration tasks, allows our sales associates to maintain their focus on project selling, while project managers ensure that the details related to installing the products are efficiently executed. Installed Sales, which includes both product and labor, accounted for approximately 7% of total sales in fiscal 2012.

Pro Services
During 2012, we rebranded our commercial business program as Pro Services with the intent of re-energizing our focus on the Pro customer. Pro Services employees are a dedicated team that supports the Pro customer. To meet the needs of our Pro customer, we provide job lot quantities in categories such as Building Materials, Plumbing, Electrical, Hardware, Paint, and Tools & Outdoor Power Equipment that are critical to the success of the Pro customer. In addition, we provide Pro customers 5% off their purchases every day when they use Lowe's proprietary credit.

Extended Protection Plans and Repair Services
We offer extended protection plans in Appliances and Tools & Outdoor Power Equipment. Lowe’s extended protection plans provide customers with product protection that enhances or extends the manufacturer’s warranty. We provide in-warranty and out-of-warranty repair services for major appliances, outdoor power equipment and tools through our stores or in the home through our Lowe’s Authorized Service Repair Network. Our contact center takes the calls, diagnoses the problems, and facilitates the resolutions making after-sales service simpler for customers because we manage the entire process.

Credit Financing
We offer a proprietary consumer credit card for retail customers under an agreement with GE Capital Retail Bank. This program provides Lowe's consumer credit cardholders with 5% off their purchases every day. For purchases above $299, customers have their choice of short-term no-interest financing or the 5% off value. For purchases above $3,500, customers have their choice of 5.99% interest for 84 months or the 5% off value.

We also offer proprietary credit programs for Pro customers. They include a Lowe’s Business Account, which is ideal for small to medium size businesses and offers minimum monthly payments, and Lowe’s Accounts Receivable, which is ideal for medium to large size businesses that pay in full each month. These programs provide a 5% discount to Pro customers when they use their Lowe’s commercial credit account. We also offer the Lowe’s Business Rewards Card from American Express®, which also offers 5% off everyday purchases.

For additional information regarding our credit programs, see the summary of our significant accounting policies in Note 1 of the Notes to Consolidated Financial Statements included in Item 8, “Financial Statements and Supplementary Data”, of this Annual Report on Form 10-K.

MyLowes

In 2011, we introduced MyLowes, a new online tool that is unique in the home improvement industry and makes managing, maintaining and improving homes simpler and more intuitive.  Using the capabilities provided by MyLowes, customers can create home profiles, save room dimensions and paint colors, organize owners' manuals and product warranties, create shopping, to-do and wish lists for projects on the horizon, set recurring reminders for common maintenance items and store purchase history from across all Lowe's channels. Since the introduction in 2011, there have been over 18 million unique key fob swipes, and over 5 million registered users on MyLowes.

Selling Channels

We have multiple channels through which we engage customers and sell our products and services, including in-store, online, on-site and contact centers. Although we sell through all of these channels, our primary channel to fulfill customer orders continues to be our retail home improvement stores. Regardless of the channel through which customers choose to engage with us, we strive to provide them with a seamless experience and an endless aisle of products, enabled by our flexible fulfillment capabilities.

In-Store
Our 1,754 retail home improvement stores are generally open seven days per week and average approximately 113,000 square feet of retail selling space, plus approximately 32,000 square feet of outdoor garden center selling space. Our stores offer similar products and services, with certain variations based on local market factors. We continue to develop and implement tools to make our sales associates more efficient and to integrate our order management and fulfillment processes. Our stores now have Wi-Fi capabilities that provide customers with internet access, making information available quickly to further simplify the shopping experience.

Online
Through Lowes.com, Lowes.ca, ATGstores.com and mobile applications, we seek to empower consumers by providing a 24/7 shopping experience and helping reduce the complexity of product decisions and home improvement projects by providing online product information, customer ratings and reviews, online buying guides and how-to videos and information. These tools help consumers make more informed purchasing decisions and give them confidence as they undertake home improvement projects. Providing mobile technology and applications to customers and to our associates is an important first step towards seamless and simple experiences, and allows us to participate in the evolution to mobile technology. Lowes.com accounted for approximately 1.5% of our total sales, and our consumer facing mobile properties have grown to represent 20% of overall Lowes.com traffic. We also enable customers to choose from a variety of fulfillment options, including buying online and picking up in-store as well as parcel shipment to their homes.

On-Site
We have on-site specialists available to retail and Pro customers to assist them in selecting products and services for their projects. Account Executives ProServices meet with Pro customers in their place of business or on a job site and leverage stores within the area to ensure we meet customer needs for products and resources. Our Project Specialist Exteriors (PSE) program is available in most Lowe’s stores to discuss exterior projects such as roofing, siding, fencing, and windows, whose characteristics lend themselves to an in-home consultative sales approach. In addition, our Project Specialist Interiors (PSI) program, launched in 2012, is available in certain locations to provide similar consultative services on interior projects such as kitchens and bathrooms. PSE and PSI employees take the measurements, produce a quote, and tender the sale in the customer's home.

Contact Centers
Lowe’s has two contact centers which are located in Wilkesboro, NC, and Albuquerque, NM. These contact centers provide direct support, including sales tendering, to customers who contact them via phone, e-mail or letter. They also provide store support, online sales support, and facilitate repair services.

Employees

As of February 1, 2013, we employed approximately 160,000 full-time and 85,000 part-time employees. No employees in the U.S. or Canada are subject to collective bargaining agreements. Certain employees in Mexico are subject to collective bargaining agreements. Management considers its relations with employees to be good.

Seasonality and Working Capital

The retail business in general is subject to seasonal influences, and our business is, to some extent, seasonal. Historically, we have realized the highest volume of sales during our second fiscal quarter (May, June and July) and the lowest volume of sales during our fourth fiscal quarter (November, December and January). Accordingly, our working capital requirements have historically been greater during our fourth fiscal quarter as we build inventory in anticipation of the spring selling season and as we experience lower fourth fiscal quarter sales volumes. We fund our working capital requirements primarily through cash flows generated from operations, but also with short-term borrowings, as needed. For more detailed information, see the Financial Condition, Liquidity and Capital Resources section in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations", of this Annual Report on Form 10-K.

Intellectual Property

The name "Lowe's" is a registered service mark of one of our wholly-owned subsidiaries. We consider this mark and the accompanying name recognition to be valuable to our business. This subsidiary has various additional trademarks, trade names and service marks, many of which are used in our private brand program. The subsidiary also maintains various Internet domain names that are important to our business. We also own registered and unregistered copyrights, and maintain patent portfolios related to some of our products and services and seek to patent or otherwise protect certain innovations that we incorporate into our products, services, or business operations.

Environmental Stewardship

Lowe's environmental stewardship has been defined by addressing our company's environmental footprint and helping our customers do the same.

Lowe's recognizes how efficient operations can help protect the environment and our bottom line. We examine our operations to deliver efficiencies in energy and water use, fuel consumption, and waste and recycling. We annually track our carbon footprint and participate in the Carbon Disclosure Project, an independent nonprofit organization hosting the largest database of primary corporate climate change information in the world. To further reduce our footprint, we design energy-efficient features (energy-efficient lighting, white membrane cool roofs and HVAC units that meet or exceed ENERGY STAR® qualifications) into new stores and during retrofits of existing stores and participate in demand response programs where we voluntarily reduce our lighting and HVAC loads during peak electrical demand periods.

We also strive to deliver products to our stores in an environmentally responsible manner. We achieve that through participation in the SmartWay® Transport Partnership, an innovative program launched by the EPA in 2004 that promotes environmentally cleaner, more fuel-efficient transportation options. Lowe's received a 2012 SmartWay Excellence Award, our fourth consecutive SmartWay honor, for initiatives that resulted in reduced emissions, greater fuel efficiency and less overall highway congestion. Our efforts included increasing shipping by rail, increasing efficiency of truckload shipments and continuing to use a higher percentage of SmartWay carriers.

We are also focused on helping consumers reduce their energy and water use and their environmental footprint while saving money through our products and services. We offer a wide selection of environmentally responsible and energy-efficient products for the home, including ENERGY STAR appliances, WaterSense® labeled toilets, paint with no volatile organic compounds (VOC), indoor and outdoor LED lighting, and, in certain states, electric vehicle charging stations. Through our in-home sales specialists we offer customers installation of insulation and energy efficient windows. Additionally, we offer in-store customer recycling for plastic bags, CFLs, plastic plant containers and rechargeable batteries.

Our role in helping consumers with their conservation was recognized by the U.S. Environmental Protection Agency (EPA) with our third consecutive ENERGY STAR Sustained Excellence Award (2010-2012), which honors our long-standing leadership as a retailer of energy-efficient products. Lowe’s has received 10 consecutive ENERGY STAR awards (2003-2012), including four ENERGY STAR Partner of the Year awards for educating consumers about the

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benefits of energy efficiency. In 2012, the EPA WaterSense program also honored Lowe’s with our fourth consecutive award for employee training, consumer education and national efforts to promote water conservation.

For more information on Lowe’s environmental leadership efforts, please visit Lowes.com/SocialResponsibility.

Compliance with Environmental Matters

Our operations are subject to numerous federal, state and local laws and regulations that have been enacted or adopted regulating the discharge of materials into the environment, or otherwise relating to the protection of the environment. These laws and regulations may increase our costs of doing business in a variety of ways, including indirectly through increased energy costs, as utilities, refineries, and other major emitters of greenhouse gases are subjected to additional regulation or legislation that results in greater control over greenhouse gas emissions. We do not anticipate any material capital expenditures during fiscal 2013 for environmental control facilities or other costs of compliance with such laws or regulations.

Reaching Out / Our Community

Lowe’s has a long and proud history of supporting local communities through public education and community improvement projects. In 2012, Lowe's and Lowe's Charitable and Educational Foundation (LCEF) contributed more than $30 million to schools and community organizations in the United States, Canada and Mexico. LCEF was created in 1957 to assist communities through financial contributions while also encouraging employees to become involved through volunteerism. In 2012, Lowe’s and LCEF supported more than 8,000 community and education projects. LCEF funds our signature education grant program, Lowe’s Toolbox for Education®, and national partnerships such as SkillsUSA® and the Boys & Girls Clubs of America. Lowe’s Toolbox for Education grants totaling more than $34 million have benefited approximately 4 million schoolchildren since 2006. Lowe’s has worked with Habitat for Humanity® since 2003 to combat substandard housing. Our commitment through 2013 will bring Lowe's Habitat contributions to nearly $40 million since the partnership began. We also partner with customers to support the American Red Cross, contributing more than $24 million since 1999. Lowe’s encourages employee volunteerism through the Lowe’s Heroes program, a companywide initiative. Lowe's Heroes participated in more than 1,300 projects across North America in 2012. For more information on our community involvement, please see the Lowe’s Social Responsibility Report at Lowes.com/SocialResponsibility.

Available Information

Our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, are made available free of charge through our internet website at www.Lowes.com/investor, as soon as reasonably practicable after such documents are electronically filed with, or furnished to, the Securities and Exchange Commission (SEC). The public may also read and copy any materials the Company files with the SEC at the SEC’s Public Reference Room at 100 F Street, NE, Washington, DC 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site, www.sec.gov, that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

Item 1A - Risk Factors

We have developed a risk management process using periodic surveys, external research, planning processes, risk mapping, analytics and other tools to identify and evaluate the operational, financial, environmental, reputational, strategic and other risks that could adversely affect our business. For more information about our risk management process, which is administered by our Chief Risk Officer and includes developing risk mitigation controls and procedures for the material risks we identify, see the description included in the proxy statement for our annual meeting of shareholders (as defined in Item 10 of Part III of this Annual Report on Form 10-K) under “Board’s Role in the Risk Management Process”.

We describe below all known material risks that could adversely affect our results of operations, financial condition or business prospects. These risk factors may change from time to time and may be amended, supplemented or superseded by updates to the risk factors contained in our future periodic reports on Form 10-K, Form 10-Q and reports on other forms we file with the Securities and Exchange Commission. All forward-looking statements about our future results of operations or other matters made by us in this Annual Report on Form 10-K, in our Annual Report to Lowe's Shareholders and in our subsequently filed reports to the Securities and Exchange Commission, as well as in our press releases and other public communications, are qualified by the risks described below.

Our sales are dependent upon the health and stability of the general economy.
General economic factors and other conditions, both domestically and internationally, may adversely affect the U.S. economy, the global economy and our financial performance. These include, but are not limited to, periods of slow economic growth or recession, volatility and/or lack of liquidity from time to time in U.S. and world financial markets and the consequent reduced availability and/or higher cost of borrowing to Lowe's and its customers, the "sequester" and related governmental spending and budget matters, slower rates of growth in real disposable personal income, sustained high rates of unemployment, high consumer debt levels, increasing fuel and energy costs, inflation or deflation of commodity prices, natural disasters, acts of terrorism and developments in the war against terrorism in Asia, the Middle East and other parts of the world. The continuing sluggish pace of the recovery from the deep global recession could continue to have an adverse effect on the rate of growth of discretionary spending by consumers and the share of such discretionary spending on home improvement products and services.

Adverse changes in economic factors specific to the home improvement industry may negatively impact the rate of growth of our total sales and comparable sales.
Sales of many of our product categories and services are driven by the activity level of home improvement projects. Slowly recovering home prices, the large number of households that continue to have little or negative equity, slowly declining mortgage delinquency and foreclosure rates, restrictions on the availability of mortgage financing, slower household formation growth rates, and lower housing turnover through existing home sales, have limited, and may continue to limit, consumers' discretionary spending, particularly on larger home improvement projects that are important to our business.

Changes in existing or new laws and regulations or regulatory enforcement priorities could adversely affect our business.
Laws and regulations at the local, regional, state, federal and international levels change frequently and the changes can impose significant costs and other burdens of compliance on our business and our vendors. Any changes in regulations, the imposition of additional regulations, or the enactment of any new legislation that affect employment/labor, trade, product safety, transportation/logistics, energy costs, health care, cyber-security, tax or environmental issues, could have an adverse impact, directly or indirectly, on our financial condition and results of operations. Changes in enforcement priorities by governmental agencies charged with enforcing existing laws and regulations can increase our cost of doing business. In addition, we are subject to various procurement regulations applicable to our contracts for sales to the U.S Government and could be adversely affected by changes in those regulations or any negative findings from an audit or investigation.

We have many competitors who could take sales and market share from us if we fail to execute our merchandising, marketing and distribution strategies effectively.
We operate in a highly competitive market for home improvement products and services and have numerous large and small, direct and indirect competitors. The competitive environment in which we operate is particularly challenging during periods of slow economic growth and high unemployment with heavy promotions, particularly of discretionary items. The principal competitive factors in our industry include location of stores, customer service, quality and price of merchandise and services, in-stock levels, and merchandise assortment and presentation. Our failure to respond effectively to competitive pressures and changes in the markets for home improvement products and services could

affect our financial performance. Moreover, changes in the promotional pricing and other practices of our competitors, including the effects of competitor liquidation activities, may impact our expected results.

Our inability to effectively manage our relationships with selected suppliers of brand name products could negatively impact our ability to differentiate ourselves from competitors.
Part of our strategy includes continued differentiation from competitors. To better distinguish our product offering, we form strategic relationships with selected suppliers to market and develop products under a variety of recognized and respected national brand names. The inability to effectively and efficiently manage and maintain the relationships with these suppliers could negatively impact our business plan and financial results.

Operating internationally presents unique challenges that have required us to adapt our store operations, merchandising, marketing and distribution functions to serve customers in Canada and Mexico and to work effectively with our joint venture partner in Australia.
A significant portion of our anticipated store growth over the next five years will be in Canada and Mexico. We are also in a joint venture with Australia’s largest retailer, Woolworths Limited, to develop a network of home improvement stores for consumers in Australia. Expanding internationally presents unique challenges that may increase the anticipated costs and risks, and slow the anticipated rate, of such expansion.

If the domestic or international supply chain for our products is disrupted, our sales and gross margin would be adversely impacted.
We source, stock, and sell products from over 7,000 domestic and international vendors. We source a large number of those products from foreign manufacturers with China being the largest source. Financial instability among key vendors, political instability or labor unrest in source countries, retaliatory trade restrictions imposed by either the United States or a major source country, tariffs, currency exchange rates and transport capacity and costs are beyond our control and could negatively impact our business if they seriously disrupted the movement of products through our supply chain or increased their costs.

If we are unable to secure or develop and implement sufficiently robust new technologies to deliver business process solutions within the appropriate time frame, cost and functionality, our strategic initiatives that are dependent upon these technologies may not be successful.
The success of our strategic initiatives designed to increase our sales and capture a greater percentage of our customers’ expenditures on home improvement projects is dependent in varying degrees on the timely delivery and the functionality of information technology systems to support them. Extended delays or cost overruns in securing, developing and otherwise implementing technology solutions to support the new business initiatives we are developing now, and will be developing in the future, would delay and possibly even prevent us from realizing the projected benefits of those initiatives.

We may not be able to achieve the objectives of the strategic initiatives we have underway if our organization is unable to make the transformational changes we are undertaking in our business model.
We are adapting our business model to meet our customers’ changing expectations that we will not only sell them the products and services they need and want, but also deliver, using new tools, skills and processes, a full service experience by being a part of their home improvement projects from start to finish. Our strategies require transformational changes to our business model and will require new competencies in some positions, and our employees and independent contractors, such as third-party installers and repair technicians, will not only have to understand non-traditional selling platforms but also commit to fundamental changes in Lowe’s culture and the processes through which they have traditionally interacted with customers. To the extent they are unable or unwilling to make these transformational changes, our strategic initiatives designed to increase our sales and capture a greater percentage of our customers’ expenditures on home improvement projects may not be as successful as we expect them to be. The many challenges our management faces in effectively managing our business as we adapt our business model also increase the risk that we may not achieve our objectives.

Our financial performance could suffer if we fail to properly maintain our critical information systems or if those systems are seriously disrupted.

An important part of our efforts to achieve efficiencies, cost reductions, and sales and cash flow growth is the maintenance and ongoing improvements of our existing management information systems that support operations such as inventory replenishment, merchandise ordering, transportation, receipt processing and product delivery. Our financial performance could be adversely affected if our management information systems are seriously disrupted or we are unable to maintain, improve, upgrade, and expand our systems.

As customer-facing technology systems become an increasingly important part of our multi-channel sales and marketing strategy, the failure of those systems to perform effectively and reliably could keep us from delivering positive customer experiences.

Access to the internet from computers, smart phones and other mobile communication devices has empowered our customers and changed the way they shop and how we interact with them. Our website, Lowes.com, is a sales channel for our products, and is also a method of making product, project and other relevant information available to them that influences our in-store sales. In addition to Lowes.com, we have multiple affiliated websites and mobile apps through which we seek to inspire, inform, cross-sell, establish online communities among and otherwise interact with our customers. Performance issues with these customer-facing technology systems, including temporary outages caused by distributed denial of service or other cyber-attacks, or a complete failure of one or more of them without a disaster recovery plan that can be quickly implemented could quickly destroy the positive benefits they provide to our home improvement business and negatively affect our customers' perceptions of Lowe's as a reliable online vendor and source of information about home improvement products and services.

Our business and our reputation could be adversely affected by the failure to protect sensitive customer, employee or vendor data or to comply with evolving regulations relating to our obligation to protect our systems and assets and such data from the threat of cyber-attacks.

Cyber-attacks designed to gain access to sensitive information by breaching mission critical systems of large organizations are constantly evolving, and high profile electronic security breaches leading to unauthorized release of confidential information have occurred recently at a number of major U.S. companies despite widespread recognition of the cyber-attack threat and improved data protection methods. While we have invested in the protection of our information technology and maintain what we believe are adequate security procedures and controls over financial and other individually identifiable customer, employee and vendor data provided to us, a breach in our systems that results in the unauthorized release of individually identifiable customer or other sensitive data could nonetheless occur and have a material adverse effect on our reputation and lead to financial losses from remedial actions, loss of business or potential liability, including for possible punitive damages. An electronic security breach resulting in the unauthorized release of sensitive data from our information systems could also materially increase the costs we already incur to protect against such risks. In addition, as the regulatory environment relating to retailers and other company's obligation to protect such sensitive data becomes stricter, a material failure on our part to comply with applicable regulations could subject us to fines or other regulatory sanctions and potentially to lawsuits.

If we fail to hire, train, manage and retain qualified sales associates and specialists, or contract with qualified installers and repair technicians, with expanded skill sets who can work effectively and collaboratively in an increasingly culturally diverse environment, we could lose sales to our competitors.

Our customers, whether they are homeowners or commercial businesses, expect our sales associates and specialists to be well trained and knowledgeable about the products we sell and the home improvement services we provide. Our customers also expect the independent contractors who install products they purchase from us to perform the installation in a timely and capable manner. Increasingly, our sales associates and specialists must have expanded skill sets, including in some instances the ability to do in-home or telephone sales. In addition, in many of our stores our employees and third-party contractors must be able to serve customers whose primary language and cultural traditions are different from their own. Also, as our employees become increasingly culturally diverse, our managers and sales associates must be able to manage and work collaboratively with employees whose primary language and cultural traditions are different from their own.

Failure of a key vendor or service provider that we cannot quickly replace could disrupt our operations and negatively impact our business.

No single vendor of the products we sell accounts for more than 7% of our total purchases, but we rely upon a number of vendors as the sole or primary source of some of the products we sell. We also rely upon many independent service providers for technology solutions and other services that are important to many aspects of our business. If these vendors

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or service providers fail or are unable to perform as expected and we are unable to replace them quickly, our business could be adversely affected at least temporarily until we are able to do so and potentially, in some cases, permanently.

Failure to achieve and maintain a high level of product and service quality could damage our image with customers and negatively impact our sales, profitability, cash flows and financial condition.
Product and service quality issues could result in a negative impact on customer confidence in Lowe's and the Company's brand image. As a result, Lowe's reputation as a retailer of high quality products and services, including both national and Lowe's private brands, could suffer and impact customer loyalty. Additionally, a decline in product and service quality could result in product recalls, product liability and warranty claims.

Future litigation or governmental proceedings could result in material adverse consequences, including judgments or settlements.
We are, and in the future will become, involved in lawsuits, regulatory inquiries, and governmental and other legal proceedings arising out of the ordinary course of our business. Some of these proceedings may raise difficult and complicated factual and legal issues and can be subject to uncertainties and complexities. The timing of the final resolutions to lawsuits, regulatory inquiries, and governmental and other legal proceedings is typically uncertain. Additionally, the possible outcomes of, or resolutions to, these proceedings could include adverse judgments or settlements, either of which could require substantial payments. None of the legal proceedings in which we are currently involved, individually or collectively, is considered material.

Item 1B - Unresolved Staff Comments

None.

Item 2 - Properties

At February 1, 2013, our properties consisted of 1,754 stores in the U.S., Canada and Mexico with a total of approximately 197 million square feet of selling space. Of the total stores operating at February 1, 2013, approximately 89% are owned, which includes stores on leased land, with the remainder being leased from third parties. We also operate regional distribution centers and other facilities to support distribution and fulfillment, as well as data centers and various support offices. Our executive offices are located in Mooresville, North Carolina.

Item 3 - Legal Proceedings

In April 2012, one of the Company's principal operating subsidiaries, Lowe's HIW, Inc., received a subpoena from the District Attorney of the County of Alameda, along with other environmental prosecutorial offices in the state of California, seeking documents and information relating to the handling, storage and disposal of hazardous waste. The subsidiary is cooperating fully with the request.

In addition to these matters, we are also a defendant in legal proceedings considered to be in the normal course of business, none of which, individually or collectively, is considered material.

Item 4 - Mine Safety Disclosures

Not applicable.

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EXECUTIVE OFFICERS AND CERTAIN SIGNIFICANT EMPLOYEES OF THE REGISTRANT

Set forth below is a list of names and ages of the executive officers and certain significant employees of the registrant indicating all positions and offices with the registrant held by each such person and each person's principal occupations or employment during the past five years. Each executive officer of the registrant is elected by the board of directors at its first meeting after the annual meeting of shareholders and thereafter as appropriate. Each executive officer of the registrant holds office from the date of election until the first meeting of the directors held after the next annual meeting of shareholders or until a successor is elected.

| Name | Age | Title |
|---|---|---|
| Robert A. Niblock | 50 | Chairman of the Board, President and Chief Executive Officer since 2011; Chairman of the Board and Chief Executive Officer, 2006 – 2011; Chairman of the Board, President and Chief Executive Officer, 2005 – 2006. |
| Maureen K. Ausura | 57 | Chief Human Resources Officer since 2012; Executive Vice President, Human Resources, 2011 – 2012; Senior Vice President, Human Resources, 2005 – 2011. |
| Gregory M. Bridgeford | 58 | Chief Customer Officer since 2012, Executive Vice President, Business Development, 2004 – 2012. |
| Marshall A. Croom | 52 | Chief Risk Officer since 2012; Senior Vice President and Chief Risk Officer, 2009 – 2012; Senior Vice President, Merchandising and Store Support, 2006 – 2009. |
| Rick D. Damron | 50 | Chief Operating Officer since 2012; Executive Vice President, Store Operations, 2011 – 2012; Senior Vice President, Logistics, 2009 – 2011; Senior Vice President, Store Operations – North Central Division, 2008 – 2009. |
| Matthew V. Hollifield | 46 | Senior Vice President and Chief Accounting Officer since 2005. |
| Robert F. Hull, Jr. | 48 | Chief Financial Officer since 2012; Executive Vice President and Chief Financial Officer since 2004. |
| Gaither M. Keener, Jr. | 63 | Chief Legal Officer, Chief Compliance Officer and Secretary since 2012; Executive Vice President, General Counsel, Secretary and Chief Compliance Officer, 2011 – 2012; Senior Vice President, General Counsel, Secretary and Chief Compliance Officer, 2006 – 2011. |
| Richard D. Maltsbarger | 37 | Business Development Executive since 2012; Senior Vice President, Strategy, 2011– 2012; Vice President, Strategic Planning 2010 – 2011; Vice President, Research, 2006 – 2010. |
| N. Brian Peace | 47 | |

| | | |
|---|---|---|
| | | Corporate Administration Executive since 2012; Senior Vice President, Corporate Affairs, 2006 – 2012. |
| William D. Robinson | 53 | Head of International Operations and Development since 2012; Senior Vice President, International Operations and Customer Support Services, 2011 – 2012; Vice President, Store Operations and Special Projects, 2008 – 2010. |
| Kevin V. Summers | 43 | Chief Information Officer since 2012; Senior Vice President and Global Chief Information Officer, Whirlpool Corporation, 2007 – 2012. |

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Part II

Item 5 - Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Lowe's common stock is traded on the New York Stock Exchange (NYSE). The ticker symbol for Lowe's is “LOW”. As of March 28, 2013, there were 27,259 holders of record of Lowe's common stock. The following table sets forth, for the periods indicated, the high and low sales prices per share of the common stock as reported by the NYSE Composite Tape and the dividends per share declared on the common stock during such periods.

| | Fiscal 2012 | | | Fiscal 2011 | | |
|---|---|---|---|---|---|---|
| | High | Low | Dividend | High | Low | Dividend |
| 1st Quarter | $ 32.29 | $ 26.58 | $ 0.14 | $ 27.45 | $ 24.13 | $ 0.11 |
| 2nd Quarter | 31.37 | 24.76 | 0.16 | 26.60 | 21.31 | 0.14 |
| 3rd Quarter | 33.63 | 25.34 | 0.16 | 22.48 | 18.07 | 0.14 |
| 4th Quarter | $ 39.26 | $ 31.23 | $ 0.16 | $ 27.57 | $ 20.34 | $ 0.14 |

Total Return to Shareholders

The following information in Item 5 of this Annual Report on Form 10-K is not deemed to be “soliciting material” or to be “filed” with the SEC or subject to Regulation 14A or 14C under the Securities Exchange Act of 1934 or to the liabilities of Section 18 of the Securities Exchange Act of 1934, and will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent we specifically incorporate it by reference into such a filing.

The following table and graph compare the total returns (assuming reinvestment of dividends) of the Company's common stock, the S&P 500 Index and the S&P Retailing Industry Group Index (S&P Retail Index). The graph assumes $100 invested on February 1, 2008 in the Company's common stock and each of the indices.

| | 2/1/2008 | 1/30/2009 | 1/29/2010 | 1/28/2011 | 2/3/2012 | 2/1/2013 |
|---|---|---|---|---|---|---|
| Lowe’s | $ 100.00 | $ 72.71 | $ 87.62 | $ 104.10 | $ 114.68 | $ 165.83 |
| S&P 500 | 100.00 | 60.63 | 80.72 | 97.88 | 105.38 | 121.25 |
| S&P Retail Index | $ 100.00 | $ 62.28 | $ 96.88 | $ 123.20 | $ 141.07 | $ 177.59 |

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Issuer Purchases of Equity Securities

The following table sets forth information with respect to purchases of the Company's common stock made during the fourth quarter of 2012:

| (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 |
|---|---|---|---|---|
| November 3, 2012 – November 30, 2012 | 4.3 | $ 35.15 | 4.3 | $ 750 |
| December 1, 2012 – January 4, 2013 | 17.0 | 35.20 | 17.0 | 150 |
| January 5, 2013 – February 1, 2013 | - | - | - | 5,000 |
| As of February 1, 2013 | 21.3 | $ 35.19 | 21.3 | $ 5,000 |

1 During the fourth quarter of fiscal 2012, the Company repurchased an aggregate of 21.3 million shares of its 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 the statutory withholding tax liability upon the vesting of restricted stock awards.

2 Authorization for up to $5.0 billion of share repurchases with no expiration was approved on August 19, 2011 by the Company's Board of Directors. On February 1, 2013, the Company's Board of Directors authorized an additional $5.0 billion of share repurchases with no expiration. The remaining prior authorization of $150 million was simultaneously terminated. Although the repurchase authorization has no expiration, the Company expects to execute the program by the end of fiscal 2014 through purchases made from time to time either in the open market or through private off market transactions in accordance with SEC regulations.

Item 6 - Selected Financial Data

| Selected Statement of Earnings Data (In millions, except per share data) | 2012 | 2011 1 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|
| Net sales | $ 50,521 | $ 50,208 | $ 48,815 | $ 47,220 | $ 48,230 |
| Gross margin | 17,327 | 17,350 | 17,152 | 16,463 | 16,501 |
| Net earnings | 1,959 | 1,839 | 2,010 | 1,783 | 2,195 |
| Basic earnings per common share | 1.69 | 1.43 | 1.42 | 1.21 | 1.50 |
| Diluted earnings per common share | 1.69 | 1.43 | 1.42 | 1.21 | 1.49 |
| Dividends per share | $ 0.620 | $ 0.530 | $ 0.420 | $ 0.355 | $ 0.335 |
| Selected Balance Sheet Data | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| Total assets | $ 32,666 | $ 33,559 | $ 33,699 | $ 33,005 | $ 32,625 |
| Long-term debt, excluding current maturities | $ 9,030 | $ 7,035 | $ 6,537 | $ 4,528 | $ 5,039 |

1 Fiscal 2011 contained 53 weeks, while all other years contained 52 weeks.

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Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis summarizes the significant factors affecting our consolidated operating results, financial condition, liquidity and capital resources during the three-year period ended February 1, 2013 (our fiscal years 2012, 2011 and 2010). Fiscal year 2011 contains 53 weeks of operating results compared to fiscal years 2012 and 2010 which contain 52 weeks. Unless otherwise noted, all references herein for the years 2012, 2011 and 2010 represent the fiscal years ended February 1, 2013, February 3, 2012 and January 28, 2011, respectively. We intend for this discussion to provide the reader with information that will assist in understanding our financial statements, the changes in certain key items in those financial statements from year to year, and the primary factors that accounted for those changes, as well as how certain accounting principles affect our financial statements. This discussion should be read in conjunction with our consolidated financial statements and notes to the consolidated financial statements included in this Annual Report on Form 10-K that have been prepared in accordance with accounting principles generally accepted in the United States of America. 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

During 2012, we made progress on our key initiatives, continuing our journey to become the customer’s first choice in home improvement. The economic environment showed signs of improvement as fiscal 2012 represented the first year of growth across all of the core housing metrics: housing turnover, single-family starts, and median home prices. These recent positive trends helped consumers regain confidence in both the local housing markets and their home values. Consequently, we were able to deliver solid results for the year. Net earnings for 2012 increased 6.5% to $2.0 billion and diluted earnings per share increased 18.2% to $1.69. Net sales for 2012 increased 0.6% to $50.5 billion. Fiscal 2011 contained an extra week which contributed $766 million to 2011 net sales or $0.05 to diluted earnings per share. Comparable sales were 1.4%, driven by a 0.9% increase in comparable average ticket and a 0.5% increase in comparable transactions.

For 2012, cash flows from operating activities were approximately $3.8 billion, with $1.2 billion used for capital expenditures. Our strong financial position and positive cash flows provided us with the ability to make strategic investments in our core business and to return cash to shareholders through both dividends and share repurchases. During fiscal 2012, we paid $704 million in dividends and repurchased approximately 146 million shares of common stock for a total of $4.35 billion under our share repurchase program.

Continuing our journey

In 2012, we continued to deliver on our commitment to retail excellence by building on our core strengths, while developing capabilities to provide seamless support across channels and a simplified home improvement experience.

To further deliver a seamless and simple experience, we continued to upgrade our IT infrastructure and gave customers and associates greater access to information and products through enhanced mobile technology, MyLowes, and flexible fulfillment. In 2012, we made additional improvements to our associates' iPhone® capabilities to enable them to deliver better customer experiences in the aisle by giving them immediate access to the information they need, such as the ability to identify available rebates. Our MyLowes customer base also continues to grow. Since the launch of MyLowes in late

2011, there have been over 18 million unique key fob swipes and over 5 million cardholders have registered their cards on MyLowes. We also experienced strong customer response to our iPhone® and AndroidTM mobile applications which have grown to represent approximately 20% of overall Lowes.com traffic. In addition, flexible fulfillment now allows us to deliver in-stock Lowes.com parcel orders to customers in over 90% of US markets within 24 hours at standard shipping rates.

As we redefine our business to become more seamless and simple, we must also continue to protect retail relevance. In 2012, our focus was on two key initiatives: Value Improvement and Product Differentiation. Value Improvement is designed to enhance our ability to offer compelling products and value while Product Differentiation is designed to help us drive excitement and flexibility in our stores by highlighting innovative products through better display techniques. These strategic initiatives build on Lowe's core strengths and are expected to deliver comparable transaction growth, better gross margins, and greater inventory productivity by localizing assortments and driving excitement in our stores.

Value Improvement enhances our ability to offer compelling products and value by having the right product, at the right quantity, at the right place, at the right time. In 2012, we leveraged our Integrated Planning and Execution tool to create clusters of stores, based on specific differences and customer buying preferences, which enhanced the assortment strategy that was used to guide the line review process. For each cluster, the product assortments were designed to reduce duplication of features and functions within price points to improve the customer experience. We are also working to reduce unit costs by negotiating lower first costs from vendors by eliminating funds set aside for promotional and marketing support. The result is a more localized assortment of products and simpler price point progression within the category. As SKUs are rationalized, the teams are reinvesting the inventory dollars in greater depth of high volume SKUs. In addition, we are increasing our in-stock targets for these new lines to ensure items are available when needed by customers. By the end of 2012, we completed product line reviews and product line resets of approximately 80% and 30% of our business, respectively.

Through our Product Differentiation initiative, we revised many of our end-cap locations to highlight innovative products, significant values, or to showcase specific private or national brands. In addition, we redesigned promotional spaces to better promote seasonally relevant, high value items to drive sales and to provide more open sight lines to navigate and shop at our stores. During 2012, our product differentiation resets were rolled out to approximately 1,250 stores, and we expect to roll the resets out to an additional 160 stores in 2013.

In conjunction with our progress on Value Improvement and Product Differentiation, in 2012 we also initiated sales training programs for store and contact center employees to further develop our sales culture and pave the way for the next phase of our transformation.

Where we go from here – 2013 and beyond

While the housing market is slowly improving, consumers are still coping with the lingering effects of the recession as mortgage delinquency rates remain at historic highs. While we are optimistic about a housing recovery and near-term personal consumption expenditures are expected to grow faster than personal income, employment and income are expected to continue to grow slowly. Consumers will need to continue to prioritize how and where they spend their discretionary income and therefore our outlook for 2013 assumes modest growth in the home improvement market. However we have confidence in our vision and have laid the foundation to continue improving our core business as we move into fiscal year 2013.

In 2013, our Value Improvement initiative will remain the primary focus of the organization. As we improve our product offerings by localizing assortments we expect to drive improved close rates. We also have an opportunity to improve close rates through additional labor in our stores. We expect to add approximately 150 hours per store per week to the staffing model for nearly two-thirds of our stores to help reduce the gap between our weekend versus weekday close rate. Our goal is to better serve customers and close more sales during peak weekday hours by increasing assistance available in the aisles. We believe the increased labor hours and higher in-stock service levels will help us further capitalize on traffic during the week which will result in an improvement in close rates.

In 2013 and beyond, we will further develop our flexible fulfillment capability by deploying Central Dispatch (CDO) and Central Production Offices (CPO). The CDO will allow for centralized delivery scheduling and better route planning, resulting in lower fuel cost, greater fleet utilization, and more productive overall delivery. The CPO will provide operational efficiencies through the consolidation of labor. Today each store has its own installed sales office, whereas, in the future, that labor will be consolidated into our contact centers resulting in a significant reduction of labor hours. The customer's experience will be enhanced through better coordination and consistency.

We will also build trust by partnering with customers to recommend solutions that fit their needs and to help them make the right decisions based on their individual home improvement goals. Beyond 2013, we will further enhance our sales culture by providing our associates the ability to sell seamlessly across channels and to introduce improved project management tools that expand fulfillment capabilities to cultivate personal and simple connections with customers. Associates across selling channels will be provided with a single-view of the customer; one record per customer, from lead capture to project completion. These changes will enable us to improve close rates and capitalize on the momentum of the improving economy and increases in consumer discretionary spending.

By building on core strengths, we have laid the foundation to deliver on our commitment to retail excellence, and will continue to focus on developing the capabilities to provide our customers a seamless and simple home improvement experience going forward.

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 year. This table should be read in conjunction with the following discussion and analysis and the consolidated financial statements, including the related notes to the consolidated financial statements.

| | 2012 | 2011 | Basis Point Increase / (Decrease) in Percentage of Net Sales from Prior Year 1 2012 vs. 2011 | Percentage Increase / (Decrease) in Dollar Amounts from Prior Year 1 2012 vs. 2011 |
|---|---|---|---|---|
| Net sales | 100.00 % | 100.00 % | N/A | 0.6 % |
| Gross margin | 34.30 | 34.56 | (26) | (0.1) |
| Expenses: | | | | |
| Selling, general and administrative | 24.24 | 25.08 | (84) | (2.8) |
| Depreciation | 3.01 | 2.95 | 6 | 2.9 |
| Interest - net | 0.84 | 0.74 | 10 | 13.9 |
| Total expenses | 28.09 | 28.77 | (68) | (1.8) |
| Pre-tax earnings | 6.21 | 5.79 | 42 | 7.9 |
| Income tax provision | 2.33 | 2.13 | 20 | 10.4 |
| Net earnings | 3.88 % | 3.66 % | 22 | 6.5 % |
| EBIT margin 2 | 7.05 % | 6.53 % | 52 | 8.6 % |

| | 2011 | 2010 | Basis Point Increase / (Decrease) in Percentage of Net Sales from Prior Year 1 2011 vs. 2010 | Percentage Increase / (Decrease) in Dollar Amounts from Prior Year 1 2011 vs. 2010 |
|---|---|---|---|---|
| Net sales | 100.00 % | 100.00 % | N/A | 2.9 % |
| Gross margin | 34.56 | 35.14 | (58) | 1.2 |
| Expenses: | | | | |
| Selling, general and administrative | 25.08 | 24.60 | 48 | 4.9 |
| Depreciation | 2.95 | 3.25 | (30) | (6.7) |
| Interest - net | 0.74 | 0.68 | 6 | 11.7 |
| Total expenses | 28.77 | 28.53 | 24 | 3.7 |
| Pre-tax earnings | 5.79 | 6.61 | (82) | (10.0) |

| | | | | |
|---|---|---|---|---|
| Income tax provision | 2.13 | 2.49 | (36) | (12.4) |
| Net earnings | 3.66 % | 4.12 % | (46) | (8.5) % |
| EBIT margin 2 | 6.53 % | 7.29 % | (76) | (7.9) % |

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| Other Metrics | 2012 | 2011 | 2010 |
|---|---|---|---|
| Comparable sales increase 3, 4 | 1.4 % | 0.0 % | 1.3 % |
| Total customer transactions (in millions) 1 | 804 | 810 | 786 |
| Average ticket 5 | $ 62.82 | $ 62.00 | $ 62.07 |
| At end of year: | | | |
| Number of stores | 1,754 | 1,745 | 1,749 |
| Sales floor square feet (in millions) | 197 | 197 | 197 |
| Average store size selling square feet (in thousands) 6 | 113 | 113 | 113 |
| Return on average assets 7 | 5.7 % | 5.4 | |