

LOWES COMPANIES INC  
Form 10-Q  
December 06, 2006

---

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

**FORM 10-Q**

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

**For the quarterly period ended November 3, 2006**

**Commission file number 1-7898**

**LOWE'S COMPANIES, INC.**

(Exact name of registrant as specified in its charter)

**NORTH CAROLINA**

(State or other jurisdiction of incorporation or organization)

**56-0578072**

(I.R.S. Employer Identification No.)

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

**28117**  
(Zip Code)

Registrant's telephone number, including area code

**(704) 758-1000**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

**x Yes o No**

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer **x** Accelerated filer **o** Non-accelerated filer **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**

Edgar Filing: LOWES COMPANIES INC - Form 10-Q

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

| <b>CLASS</b>                  | <b>OUTSTANDING AT<br/>DECEMBER 1, 2006</b> |
|-------------------------------|--|
| Common Stock, \$.50 par value | 1,522,786,382                              |

---

## LOWE'S COMPANIES, INC.

## - INDEX -

| <b>PART I - Financial Information</b> |  | <b>Page No.</b> |
|---------------------------------------|--|-----------------|
| Item 1.                               | Financial Statements   |                 |
|                                       | <u>Consolidated Balance Sheets (Unaudited) - November 3, 2006, October 28, 2005, as restated, and February 3, 2006</u>                                       | 3               |
|                                       | <u>Consolidated Statements of Current and Retained Earnings (Unaudited) - Three and nine months ended November 3, 2006 and October 28, 2005, as restated</u> | 4               |
|                                       | <u>Consolidated Statements of Cash Flows (Unaudited) - Nine months ended November 3, 2006 and October 28, 2005, as restated</u>                              | 5               |
|                                       | <u>Notes to Consolidated Financial Statements (Unaudited)</u>  | 6-15            |
|                                       | <u>Report of Independent Registered Public Accounting Firm</u>   | 16              |
| Item 2.                               | <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>   | 17-23           |
| Item 3.                               | <u>Quantitative and Qualitative Disclosures about Market Risk</u>  | 23              |
| Item 4.                               | <u>Controls and Procedures</u>   | 23              |
| <b>PART II - Other Information</b>    |  |                 |
| Item 1A.                              | <u>Risk Factors</u>  | 24              |
| Item 2.                               | <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>   | 24              |
| Item 6.                               | <u>Exhibits</u>  | 25              |
|                                       | <u>Signature</u>   | 26              |
|                                       | <u>Exhibit Index</u>   | 27              |



**Part I - FINANCIAL INFORMATION****Item 1. Financial Statements****Lowe's Companies, Inc.****Consolidated Balance****Sheets (Unaudited)**

In Millions, Except Par

Value Data

|   | November 3,<br>2006 | October 28,<br>2005<br>As Restated | February 3,<br>2006 |
|---|---------------------|------------------------------------|---------------------|
| <b>Assets</b>                                   |                     |                                    |                     |
| <b>Current assets:</b>                          |                     |                                    |                     |
| Cash and cash equivalents                       | \$ 657              | \$ 1,445                           | \$ 423              |
| Short-term investments                          | 464                 | 864                                | 453                 |
| Merchandise inventory -<br>net                  | 7,219               | 6,429                              | 6,635               |
| Deferred income taxes -<br>net                  | 157                 | 104                                | 155                 |
| Other current assets                            | 125                 | 200                                | 122                 |
| <b>Total current assets</b>                     | <b>8,622</b>        | <b>9,042</b>                       | <b>7,788</b>        |
| Property, less<br>accumulated depreciation      | 18,188              | 15,410                             | 16,354              |
| Long-term investments                           | 121                 | 296                                | 294                 |
| Other assets                                    | 242                 | 205                                | 203                 |
| <b>Total assets</b>                             | <b>\$ 27,173</b>    | <b>\$ 24,953</b>                   | <b>\$ 24,639</b>    |
| <b>Liabilities and<br/>shareholders' equity</b> |                     |                                    |                     |
| <b>Current liabilities:</b>                     |                     |                                    |                     |
| Current maturities of<br>long-term debt         | \$ 89               | \$ 632                             | \$ 32               |
| Accounts payable                                | 3,416               | 3,201                              | 2,832               |
| Accrued salaries and<br>wages                   | 373                 | 369                                | 424                 |
| Self-insurance liabilities                      | 616                 | 551                                | 571                 |
| Deferred revenue                                | 846                 | 748                                | 709                 |
| Other current liabilities                       | 1,374               | 1,109                              | 1,264               |
| <b>Total current liabilities</b>                | <b>6,714</b>        | <b>6,610</b>                       | <b>5,832</b>        |
|   | 4,337               | 3,749                              | 3,499               |

Long-term debt, excluding  
current maturities

|   |                  |                  |                  |
|---|------------------|------------------|------------------|
| Deferred income taxes -<br>net                        | 683              | 745              | 735              |
| Other long-term liabilities                           | 353              | 290              | 277              |
| <b>Total liabilities</b>                              | <b>12,087</b>    | <b>11,394</b>    | <b>10,343</b>    |
| <b>Shareholders' equity:</b>                          |                  |                  |                  |
| Preferred stock - \$5 par<br>value, none issued       | -                | -                | -                |
| Common stock - \$.50 par<br>value;                    |                  |                  |                  |
| Shares issued and<br>outstanding                      |                  |                  |                  |
| November 3, 2006                                      | 1,520            |                  |                  |
| October 28, 2005                                      | 1,560            |                  |                  |
| February 3, 2006                                      | 1,568            | 760              | 780              |
| Capital in excess of par<br>value                     | -                | 1,235            | 1,320            |
| Retained earnings                                     | 14,323           | 11,544           | 12,191           |
| Accumulated other<br>comprehensive income             | 3                | -                | 1                |
| <b>Total shareholders'<br/>equity</b>                 | <b>15,086</b>    | <b>13,559</b>    | <b>14,296</b>    |
| <b>Total liabilities and<br/>shareholders' equity</b> | <b>\$ 27,173</b> | <b>\$ 24,953</b> | <b>\$ 24,639</b> |

See accompanying notes to the unaudited consolidated financial statements.

**Lowe's  
Companies, Inc.  
Consolidated Statements of Current and  
Retained Earnings (Unaudited)**

In Millions,  
Except Per Share  
Data

|                                     | Three Months Ended |                |                                 |                | Nine Months Ended |                |                                 |                |
|-------------------------------------|--------------------|----------------|---------------------------------|----------------|-------------------|----------------|---------------------------------|----------------|
|                                     | November 3, 2006   |                | October 28, 2005<br>As Restated |                | November 3, 2006  |                | October 28, 2005<br>As Restated |                |
| <b>Current Earnings</b>             | <b>Amount</b>      | <b>Percent</b> | <b>Amount</b>                   | <b>Percent</b> | <b>Amount</b>     | <b>Percent</b> | <b>Amount</b>                   | <b>Percent</b> |
| <b>Net sales</b>                    | <b>\$ 11,211</b>   | <b>100.00</b>  | <b>\$ 10,592</b>                | <b>100.00</b>  | <b>\$ 36,522</b>  | <b>100.00</b>  | <b>\$ 32,435</b>                | <b>100.00</b>  |
| Cost of sales                       | 7,346              | 65.53          | 7,012                           | 66.20          | 24,011            | 65.74          | 21,430                          | 66.07          |
| <b>Gross margin</b>                 | <b>3,865</b>       | <b>34.47</b>   | <b>3,580</b>                    | <b>33.80</b>   | <b>12,511</b>     | <b>34.26</b>   | <b>11,005</b>                   | <b>33.93</b>   |
| Expenses:                           |                    |                |                                 |                |                   |                |                                 |                |
| Selling, general and administrative | 2,320              | 20.70          | 2,212                           | 20.88          | 7,404             | 20.27          | 6,711                           | 20.69          |
| Store opening costs                 | 44                 | 0.39           | 35                              | 0.33           | 97                | 0.27           | 85                              | 0.26           |
| Depreciation                        | 297                | 2.65           | 246                             | 2.32           | 854               | 2.34           | 718                             | 2.21           |
| Interest - net                      | 45                 | 0.40           | 36                              | 0.34           | 110               | 0.30           | 122                             | 0.38           |
| <b>Total expenses</b>               | <b>2,706</b>       | <b>24.14</b>   | <b>2,529</b>                    | <b>23.87</b>   | <b>8,465</b>      | <b>23.18</b>   | <b>7,636</b>                    | <b>23.54</b>   |
| <b>Pre-tax earnings</b>             | <b>1,159</b>       | <b>10.33</b>   | <b>1,051</b>                    | <b>9.93</b>    | <b>4,046</b>      | <b>11.08</b>   | <b>3,369</b>                    | <b>10.39</b>   |
| Income tax provision                | 443                | 3.94           | 405                             | 3.83           | 1,554             | 4.26           | 1,297                           | 4.00           |
| <b>Net earnings</b>                 | <b>\$ 716</b>      | <b>6.39</b>    | <b>\$ 646</b>                   | <b>6.10</b>    | <b>\$ 2,492</b>   | <b>6.82</b>    | <b>\$ 2,072</b>                 | <b>6.39</b>    |
| Weighted average shares outstanding |                    |                |                                 |                |                   |                |                                 |                |
| - basic                             | 1,522              |                | 1,559                           |                | 1,540             |                | 1,552                           |                |
| <b>Basic earnings per share</b>     | <b>\$ 0.47</b>     |                | <b>\$ 0.41</b>                  |                | <b>\$ 1.62</b>    |                | <b>\$ 1.34</b>                  |                |
|                                     | 1,551              |                | 1,608                           |                | 1,571             |                | 1,608                           |                |

Weighted average  
shares outstanding  
- diluted

|                                       |                |                |                |                |
|---------------------------------------|----------------|----------------|----------------|----------------|
| <b>Diluted earnings<br/>per share</b> | <b>\$ 0.46</b> | <b>\$ 0.40</b> | <b>\$ 1.59</b> | <b>\$ 1.29</b> |
|---------------------------------------|----------------|----------------|----------------|----------------|

|                                     |                |                |                |                |
|-------------------------------------|----------------|----------------|----------------|----------------|
| <b>Cash dividends<br/>per share</b> | <b>\$ 0.05</b> | <b>\$ 0.03</b> | <b>\$ 0.13</b> | <b>\$ 0.08</b> |
|-------------------------------------|----------------|----------------|----------------|----------------|

**Retained  
Earnings**

|                                      |           |           |           |           |
|--------------------------------------|-----------|-----------|-----------|-----------|
| Balance at<br>beginning of<br>period | \$ 13,843 | \$ 10,944 | \$ 12,191 | \$ 9,597  |
| Net earnings                         | 716       | 646       | 2,492     | 2,072     |
| Cash dividends                       | (76)      | (46)      | (200)     | (125)     |
| Share repurchases                    | (160)     | -         | (160)     | -         |
| Balance at end of<br>period          | \$ 14,323 | \$ 11,544 | \$ 14,323 | \$ 11,544 |

See accompanying notes to the unaudited consolidated financial statements.



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

|   | <b>Nine Months Ended</b> |                    |
|---|--------------------------|--------------------|
|   | <b>November 3,</b>       | <b>October 28,</b> |
|   | <b>2006</b>              | <b>2005</b>        |
|   |                          | <b>As Restated</b> |
| <b>Cash flows from operating activities:</b>  |                          |                    |
| Net earnings  | \$ 2,492                 | \$ 2,072           |
| Adjustments to reconcile net earnings to net cash provided by operating activities: |                          |                    |
| Depreciation and amortization   | 907                      | 771                |
| Deferred income taxes   | (54)                     | 24                 |
| Loss on disposition/writedown of fixed and other assets                             | 35                       | 23                 |
| Share-based payment expense   | 56                       | 57                 |
| Changes in operating assets and liabilities:  |                          |                    |
| Merchandise inventory - net   | (584)                    | (579)              |
| Other operating assets  | (26)                     | (116)              |
| Accounts payable  | 584                      | 506                |
| Other operating liabilities   | 233                      | 602                |
| <b>Net cash provided by operating activities</b>                                    | <b>3,643</b>             | <b>3,360</b>       |
| <b>Cash flows from investing activities:</b>  |                          |                    |
| Purchases of short-term investments   | (248)                    | (1,581)            |
| Proceeds from sale/maturity of short-term investments                               | 490                      | 1,083              |
| Purchases of long-term investments  | (225)                    | (249)              |
| Proceeds from sale/maturity of long-term investments                                | 141                      | 10                 |
| Increase in other long-term assets  | (8)                      | (34)               |
| Fixed assets acquired   | (2,724)                  | (2,277)            |
| Proceeds from the sale of fixed and other long-term assets                          | 30                       | 44                 |
| <b>Net cash used in investing activities</b>  | <b>(2,544)</b>           | <b>(3,004)</b>     |
| <b>Cash flows from financing activities:</b>  |                          |                    |
| Proceeds from issuance of long-term debt  | 991                      | 987                |
| Repayment of long-term debt   | (24)                     | (23)               |
| Proceeds from issuance of common stock under employee stock purchase plan           | 36                       | 32                 |
| Proceeds from issuance of common stock from stock options exercised                 | 64                       | 183                |
| Cash dividend payments  | (200)                    | (125)              |
| Repurchase of common stock  | (1,737)                  | (495)              |
| Excess tax benefits of share-based payments   | 5                        | -                  |
| <b>Net cash (used in) provided by financing activities</b>                          | <b>(865)</b>             | <b>559</b>         |
| Net increase in cash and cash equivalents   | 234                      | 915                |
| Cash and cash equivalents, beginning of period                                      | 423                      | 530                |
| <b>Cash and cash equivalents, end of period</b>                                     | <b>\$ 657</b>            | <b>\$ 1,445</b>    |

See accompanying notes to the unaudited consolidated financial statements.

5

---

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

**Note 1: Basis of Presentation** - The accompanying Consolidated Financial Statements (Unaudited) and notes are presented in accordance with the rules and regulations of the Securities and Exchange Commission (SEC) 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 November 3, 2006 and October 28, 2005, the results of operations for the three and nine months ended November 3, 2006 and October 28, 2005, and cash flows for the nine months ended November 3, 2006 and October 28, 2005.

These interim unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Lowe's Companies, Inc. (the Company) Annual Report on Form 10-K, for the fiscal year ended February 3, 2006, as amended on Form 10-K/A (the Annual Report). The financial results for the interim periods may not be indicative of the financial results for the entire fiscal year.

Certain prior interim period amounts have been reclassified to conform to current classifications. Self-insurance liabilities and deferred revenues are separately presented on the consolidated balance sheets and were reclassified from other current liabilities. The Company also reclassified depreciation expense associated with its distribution network from depreciation expense to cost of sales on the consolidated statements of earnings.

The Company's Board of Directors approved a 2-for-1 stock split of its common shares on May 25, 2006. The stock split was effective June 30, 2006 to shareholders of record on June 16, 2006. The par value of the Company's common stock remained at \$0.50 per share. The par value of the additional shares issued to effect the stock split totaling \$384 million was reclassified from Capital in Excess of Par Value to Common Stock on the Company's consolidated balance sheet. All prior period common share and per common share amounts have been retroactively adjusted to reflect the 2-for-1 stock split.

**Note 2: Restatement** - During the first quarter of 2006, management reviewed the Company's method of accounting for early payment discounts on merchandise purchases and determined it should recognize these discounts initially as a reduction of inventory cost and then as a reduction to cost of sales when the related inventory is sold in accordance with Emerging Issues Task Force Issue No. 02-16, "Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor." The Company previously recognized early payment discounts as a financing component of merchandise purchases by reducing cost of sales when the related product was purchased. Prior period financial statements have been restated for the timing of recognition of early payment discounts. The restatement for the timing of recognition of early payment discounts did not affect total operating, investing or financing cash flows.

The following tables summarize the effects of the restatement on the Company's consolidated balance sheet as of October 28, 2005, as well as the related effects on the Company's consolidated statements of earnings for the three and nine month periods ended October 28, 2005.

## Consolidated Balance Sheet

| (In Millions)                                     | October 28,<br>2005                      |                | October 28,<br>2005 |  |
|---|--|----------------|---------------------|--|
|   | As Previously<br>Reported <sup>(1)</sup> | Adjustments    | As Restated         |  |
| Merchandise inventory - net                       | \$ 6,499                                 | \$ (70)        | \$ 6,429            |  |
| Deferred income taxes - net                       | 76                                       | 28             | 104                 |  |
| <b>Total current assets</b>                       | <b>9,084</b>                             | <b>(42)</b>    | <b>9,042</b>        |  |
| <b>Total assets</b>                               | <b>\$ 24,995</b>                         | <b>\$ (42)</b> | <b>\$ 24,953</b>    |  |
| Retained earnings                                 | 11,586                                   | (42)           | 11,544              |  |
| <b>Total shareholders' equity</b>                 | <b>13,601</b>                            | <b>(42)</b>    | <b>13,559</b>       |  |
| <b>Total liabilities and shareholders' equity</b> | <b>\$ 24,995</b>                         | <b>\$ (42)</b> | <b>\$ 24,953</b>    |  |

## Consolidated Statement of Earnings

| Three Months Ended<br>(In Millions, Except Per Share Data) | October 28,<br>2005                      |                  | October 28,<br>2005 |  |
|--|--|------------------|---------------------|--|
|  | As Previously<br>Reported <sup>(1)</sup> | Adjustments      | As Restated         |  |
| Cost of sales  | \$ 7,008                                 | \$ 4             | \$ 7,012            |  |
| <b>Gross margin</b>  | <b>3,584</b>                             | <b>(4)</b>       | <b>3,580</b>        |  |
| <b>Pre-tax earnings</b>                                    | <b>1,055</b>                             | <b>(4)</b>       | <b>1,051</b>        |  |
| Income tax provision                                       | 406                                      | (1)              | 405                 |  |
| <b>Net earnings</b>  | <b>\$ 649</b>                            | <b>\$ (3)</b>    | <b>\$ 646</b>       |  |
| <b>Basic earnings per share</b>                            | <b>\$ 0.42</b>                           | <b>\$ (0.01)</b> | <b>\$ 0.41</b>      |  |
| <b>Diluted earnings per share</b>                          | <b>\$ 0.41</b>                           | <b>\$ (0.01)</b> | <b>\$ 0.40</b>      |  |

## Consolidated Statement of Earnings

| Nine Months Ended<br>(In Millions, Except Per Share Data) | October 28,<br>2005                      |                  | October 28,<br>2005 |  |
|---|--|------------------|---------------------|--|
|   | As Previously<br>Reported <sup>(1)</sup> | Adjustments      | As Restated         |  |
| Cost of sales   | \$ 21,422                                | \$ 8             | \$ 21,430           |  |
| <b>Gross margin</b>                                       | <b>11,013</b>                            | <b>(8)</b>       | <b>11,005</b>       |  |
| <b>Pre-tax earnings</b>                                   | <b>3,377</b>                             | <b>(8)</b>       | <b>3,369</b>        |  |
| Income tax provision                                      | 1,300                                    | (3)              | 1,297               |  |
| <b>Net earnings</b>                                       | <b>\$ 2,077</b>                          | <b>\$ (5)</b>    | <b>\$ 2,072</b>     |  |
| <b>Basic earnings per share</b>                           | <b>\$ 1.34</b>                           | <b>\$ -</b>      | <b>\$ 1.34</b>      |  |
|   | <b>\$ 1.30</b>                           | <b>\$ (0.01)</b> | <b>\$ 1.29</b>      |  |

**Diluted earnings per  
share**

<sup>(1)</sup> Certain amounts have been reclassified to conform to current classifications. Refer to Note 1 of the notes to consolidated financial statements (unaudited).

7

---

**Note 3: Earnings Per Share** - Basic earnings per share (EPS) excludes dilution and is computed by dividing the applicable net earnings by the weighted-average number of common shares outstanding for the period. Diluted earnings per share is calculated based on the weighted-average shares of common stock as adjusted for the potential dilutive effect of share-based awards and convertible notes as of the balance sheet date. The following table reconciles EPS for the three and nine months ended November 3, 2006 and October 28, 2005.

| (In Millions, Except Per Share Data)                                 | Three Months Ended |                  | Nine Months Ended |                  |
|--|--------------------|------------------|-------------------|------------------|
|  | November 3, 2006   | October 28, 2005 | November 3, 2006  | October 28, 2005 |
| <b>Net earnings</b>  | \$ 716             | \$ 646           | \$ 2,492          | \$ 2,072         |
| Weighted average shares outstanding                                  | 1,522              | 1,559            | 1,540             | 1,552            |
| <b>Basic earnings per share</b>                                      | \$ 0.47            | \$ 0.41          | \$ 1.62           | \$ 1.34          |
| <b>Diluted earnings per share:</b>                                   |                    |                  |                   |                  |
| Net earnings   | \$ 716             | \$ 646           | \$ 2,492          | \$ 2,072         |
| Net earnings adjustment for interest on convertible debt, net of tax | 1                  | 3                | 3                 | 9                |
| <b>Net earnings, as adjusted</b>                                     | \$ 717             | \$ 649           | \$ 2,495          | \$ 2,081         |
| Weighted average shares outstanding                                  | 1,522              | 1,559            | 1,540             | 1,552            |
| Dilutive effect of stock options                                     | 8                  | 9                | 8                 | 9                |
| Dilutive effect of convertible debt                                  | 21                 | 40               | 23                | 47               |
| <b>Weighted average shares, as adjusted</b>                          | <b>1,551</b>       | <b>1,608</b>     | <b>1,571</b>      | <b>1,608</b>     |
| <b>Diluted earnings per share</b>                                    | \$ 0.46            | \$ 0.40          | \$ 1.59           | \$ 1.29          |

Stock options to purchase 11.3 million and 5.6 million shares of common stock for the three month periods ended November 3, 2006 and October 28, 2005, respectively, were excluded from the computation of diluted earnings per share because their effect would have been anti-dilutive. Stock options to purchase 10.7 million and 5.2 million shares of common stock for the nine month periods ended November 3, 2006 and October 28, 2005, respectively, were excluded from the computation of diluted earnings per share because their effect would have been anti-dilutive.

**Note 4: Restricted Investment Balances** - Short-term and long-term investments include restricted balances pledged as collateral for letters of credit for the Company's extended warranty program and for a portion of the Company's casualty insurance and installed sales program liabilities. Restricted balances included in short-term investments were \$220 million at November 3, 2006, \$154 million at October 28, 2005, and \$152 million at February 3, 2006. Restricted balances included in long-term investments were \$42 million at November 3, 2006, \$43 million at October 28, 2005, and \$74 million at February 3, 2006.

**Note 5: Property** - Property is shown net of accumulated depreciation of \$5.9 billion at November 3, 2006, \$4.8 billion at October 28, 2005, and \$5.1 billion at February 3, 2006.

**Note 6: Long-Term Debt** - In October 2006, the Company issued \$1 billion of unsecured senior notes, comprised of two tranches: \$550 million of 5.4% Senior Notes maturing in October 2016 and \$450 million of 5.8% Senior Notes maturing in October 2036 (collectively, the "Senior Notes"). The 5.4% Senior Notes and the 5.8% Senior Notes were

each issued at a discount of approximately \$4.4 million. Interest on the Senior Notes is payable semiannually in arrears in April and October of each year until maturity, beginning in April 2007. The discount associated with the issuance is included in long-term debt and is being amortized over the respective terms of the Senior Notes. Issuance costs were approximately \$1.6 million and are being amortized over the respective terms of the Senior Notes. The net proceeds of approximately \$991 million were used for general corporate purposes, including capital expenditures and working capital needs, and to finance repurchases of our common stock.

The Senior Notes may be redeemed by the Company at any time, in whole or in part, at a redemption price plus accrued interest to the date of redemption. The redemption price is equal to the greater of (1) 100% of the principal amount of the Senior Notes to be redeemed, or (2) the sum of the present values of the remaining scheduled payments of principal and interest thereon, discounted to the date of redemption on a semi-annual basis at a specified rate. The indenture governing the Senior Notes does not limit the aggregate principal amount of debt securities that the Company may issue, nor is the Company required to

maintain financial ratios or specified levels of net worth or liquidity. However, the indenture contains various restrictive covenants, none of which is expected to impact the Company's liquidity or capital resources.

### Note 7: Supplemental Disclosure

Net interest expense is comprised of the following:

| (In Millions)               | Three Months Ended  |                        | Nine Months Ended   |                        |
|-----------------------------|---------------------|------------------------|---------------------|------------------------|
|                             | November<br>3, 2006 | October<br>28,<br>2005 | November<br>3, 2006 | October<br>28,<br>2005 |
| Long-term debt              | \$ 45               | \$ 45                  | \$ 129              | \$ 124                 |
| Capitalized leases          | 9                   | 9                      | 27                  | 29                     |
| Interest income             | (9)                 | (13)                   | (36)                | (28)                   |
| Interest capitalized        | (10)                | (9)                    | (23)                | (19)                   |
| Other                       | 10                  | 4                      | 13                  | 16                     |
| <b>Net interest expense</b> | <b>\$ 45</b>        | <b>\$ 36</b>           | <b>\$ 110</b>       | <b>\$ 122</b>          |

Supplemental disclosures of cash flow information:

| (In Millions)  | Nine Months Ended      |                        |
|--|------------------------|------------------------|
|  | November<br>3,<br>2006 | October<br>28,<br>2005 |
| Cash paid for interest (net of amount capitalized)                               | \$ 155                 | \$ 128                 |
| Cash paid for income taxes   | \$ 1,617               | \$ 1,264               |
| Non-cash investing and financing activities:                                     |                        |                        |
| Conversions of long-term debt to equity  | \$ 75                  | \$ 295                 |
| Non-cash fixed asset acquisitions, including assets acquired under capital lease | \$ 198                 | \$ 26                  |

**Note 8: Comprehensive Income** - Comprehensive income represents changes in shareholders' equity from non-owner sources and is comprised primarily of net earnings plus or minus unrealized gains or losses on available-for-sale equity securities, as well as foreign currency translation adjustments. Comprehensive income totaled \$718 million and \$646 million, compared to net earnings of \$716 million and \$646 million for the three months ended November 3, 2006 and October 28, 2005, respectively. For the nine months ended November 3, 2006 and October 28, 2005, comprehensive income totaled \$2.5 billion and \$2.1 billion, compared to net earnings of \$2.5 billion and \$2.1 billion, respectively.

**Note 9: Accounting for Share-Based Payment** - Prior to February 1, 2003, the Company accounted for share-based payment plans under the recognition and measurement provisions of Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," and related Interpretations, as permitted by Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation." Effective February 1, 2003, the Company adopted the fair value recognition provisions of SFAS No. 123 prospectively for all employee awards granted or modified after January 31, 2003. Therefore, in accordance with the requirements of SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure," costs related to share-based payment plans included in the determination of net earnings were less than that which would have been recognized if the fair-value-based method had been applied to all awards since the original effective date of SFAS No. 123. Effective February 4, 2006, the Company adopted the fair value recognition provisions of SFAS No. 123(R), "Share-Based



Payment,” using the modified-prospective-transition method. Under that transition method, compensation cost recognized in the three and nine month periods ended November 3, 2006 included: (a) the pro rata compensation cost for all share-based payments granted prior to, but not yet vested as of February 4, 2006, based on the grant-date fair value estimated in accordance with the original provisions of SFAS No. 123, and (b) the pro rata compensation cost for all share-based payments granted on or subsequent to February 4, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS No. 123(R). In accordance with the modified-prospective-transition method of SFAS No. 123(R), results for prior periods have not been restated. For all grants, the amount of share-based payment expense recognized has been adjusted for estimated forfeitures of awards for which the requisite service is not expected to be provided. Estimated forfeiture rates are developed based on the Company’s analysis of historical forfeiture data for homogeneous employee groups. Prior to the adoption of the fair value recognition provisions of SFAS No. 123(R), share-based payment expense was adjusted for

actual forfeitures as they occurred. This transition resulted in a pre-tax cumulative effect adjustment of \$10 million as of February 4, 2006. The cumulative effect adjustment was presented as a reduction of share-based payment expense in the first quarter of 2006.

For the three month periods ended November 3, 2006 and October 28, 2005, the Company recognized share-based payment expense in selling, general and administrative (SG&A) expenses on the consolidated statements of current and retained earnings (unaudited) totaling \$22 million and \$19 million, respectively. For the nine month periods ended November 3, 2006 and October 28, 2005, share-based payment expense included in SG&A expenses totaled \$56 million and \$57 million, respectively. The total income tax benefit recognized was \$7 million and \$5 million for the three month periods ended November 3, 2006 and October 28, 2005, respectively. For the nine month periods ended November 3, 2006 and October 28, 2005, the total income tax benefit recognized was \$17 million and \$15 million, respectively.

Total unrecognized share-based payment expense for all share-based payment plans was \$136 million at November 3, 2006, of which \$18 million will be recognized during the remainder of 2006, \$58 million in 2007, \$39 million in 2008 and \$21 million thereafter. This results in these amounts being recognized over a weighted-average period of 1.3 years.

Prior to the adoption of SFAS No. 123(R), the Company presented all tax benefits of deductions resulting from the exercise of stock options as operating cash flows in the consolidated statements of cash flows (unaudited). SFAS No. 123(R) requires the cash flows resulting from the tax benefits of deductions in excess of the compensation cost recognized for those options (excess tax benefits) to be classified as financing cash flows. In accordance with the modified-prospective-transition method of SFAS No. 123(R), the prior period consolidated statement of cash flows (unaudited) has not been restated to reflect this change.

As the Company adopted the fair-value recognition provisions of SFAS No. 123 prospectively for all employee awards granted or modified after January 31, 2003, share-based payment expense included in the determination of net earnings for the three and nine month periods ended October 28, 2005 is less than that which would have been recognized if the fair-value-based method had been applied to all awards since the original effective date of SFAS No. 123. The following table illustrates the effect on net earnings and earnings per share in the period if the fair-value-based method had been applied to all outstanding and unvested awards.

|  | <b>Three Months<br/>Ended<br/>October 28,<br/>2005</b> | <b>Nine Months<br/>Ended<br/>October 28,<br/>2005</b> |
|--|--|---|
| (In Millions, Except Per Share Data)   |  |   |
| <b>Net earnings, as reported</b>   | <b>\$ 646</b>  | <b>\$ 2,072</b>                                       |
| Add: Stock-based compensation expense included in net earnings, net of related tax effects   | 12   | 34  |
| Deduct: Total stock-based compensation expense determined under the fair-value-based method for all awards, net of related tax effects | (12)   | (37)  |
| <b>Pro forma net earnings</b>  | <b>\$ 646</b>  | <b>\$ 2,069</b>                                       |
| Earnings per share:  |  |   |
| Basic - as reported  | \$ 0.41  | \$ 1.34   |

Edgar Filing: LOWES COMPANIES INC - Form 10-Q

|                       |    |      |    |      |
|-----------------------|----|------|----|------|
| Basic - pro forma     | \$ | 0.41 | \$ | 1.33 |
| Diluted - as reported | \$ | 0.40 | \$ | 1.29 |
| Diluted - pro forma   | \$ | 0.40 | \$ | 1.29 |

10

---

### Overview of Share-Based Payment Plans

The Company has (a) four equity incentive plans, referred to as the “2006,” “2001,” “1997,” and “1994” Incentive Plans, (b) one share-based plan for awards to non-employee directors and (c) an employee stock purchase plan (ESPP) that allows employees to purchase Company shares through payroll deductions. These plans contain a nondiscretionary antidilution provision that is designed to equalize the value of an award as a result of an equity restructuring. Share-based awards in the form of incentive and non-qualified stock options, performance accelerated restricted stock (PARS), restricted stock and deferred stock units may be granted to key employees from the 2006 plan. No new awards may be granted from the 2001, 1997 and 1994 plans.

The share-based plan for non-employee directors is referred to as the Amended and Restated Directors’ Stock Option and Deferred Stock Unit Plan (Directors’ Plan). Prior to the amendment to the Directors’ Plan in 2005, each non-employee Director was awarded 8,000 options on the date of the first board meeting after each annual meeting of the Company’s shareholders, which occurs in the second quarter of each fiscal year. Since the amendment to the Directors’ Plan in 2005, each non-employee Director is awarded a number of deferred stock units determined by dividing the annual award amount by the fair market value of a share of the Company’s common stock on the award date and rounding up to the next 100 units. The annual award amount used to determine the number of deferred stock units granted to each director was \$115,000 and \$85,000 in 2006 and 2005, respectively.

Share-based awards were authorized for grant to key employees and non-employee directors for up to 169.0 million shares of common stock. Stock options were authorized for up to 129.2 million shares, while PARS, restricted stock and deferred stock units, which represent nonvested stock, were authorized for up to 39.8 million shares of common stock.

At November 3, 2006, there were 49.8 million shares available for grant under the 2006 and Directors’ plans, and 2.8 million shares available under the ESPP.

General terms and methods of valuation for the Company’s share-based awards are as follows:

#### Stock Options

Stock options generally have terms of seven years, with normally one-third of each grant vesting each year for three years, and are assigned an exercise price of not less than the fair market value of a share of the Company’s common stock on the date of grant.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model. When determining expected volatility, the Company considers the historical performance of the Company’s stock as well as implied volatility. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant based on the option’s expected term. The expected term of the options is based on the Company’s evaluation of option holders’ exercise patterns and represents the period of time that options are expected to remain unexercised. The Company uses historical data to estimate the timing and amount of forfeitures. These options are expensed on a straight-line basis over the vesting period, which is considered to be the requisite service period. The assumptions used in the Black-Scholes option-pricing model for options granted in the three and nine month periods ended November 3, 2006 and October 28, 2005 were as follows:

|  | Three Months Ended |                  | Nine Months Ended |                  |
|--|--------------------|------------------|-------------------|------------------|
|  | November 3, 2006   | October 28, 2005 | November 3, 2006  | October 28, 2005 |
| Assumptions used:                        |                    |                  | 22.3%             |                  |
| Expected volatility                      | 25.0%              | 28.5%-32.7%      | -29.4%            | 28.5%-34.1%      |
| Weighted average expected volatility     | 25.0%              | 28.7%            | 26.8%             | 31.4%            |
| Expected dividend yield                  | 0.30%              | 0.25%-0.27%      | 0.27%-0.31%       | 0.23%-0.27%      |
| Weighted average dividend yield          | 0.30%              | 0.27%            | 0.28%             | 0.24%            |
| Risk-free interest rate                  | 4.54%              | 4.09%-4.13%      | 4.54%-4.97%       | 3.76%-4.13%      |
| Weighted average risk-free interest rate | 4.54%              | 4.09%            | 4.69%             | 3.81%            |
| Expected term, in years                  | 4                  | 3-4              | 3-4               | 3-4              |
| Weighted average expected term, in years | 4                  | 3.05             | 3.57              | 3.23             |

The weighted-average grant-date fair value of options granted was \$7.86 and \$8.07 for the three month periods ended November 3, 2006 and October 28, 2005, respectively. The weighted-average grant-date fair value of options granted was \$8.86 and \$7.81 for the nine month periods ended November 3, 2006 and October 28, 2005, respectively. The total intrinsic value of options exercised, representing the difference between the exercise price and the market price on the date of exercise, was approximately \$8 million and \$29 million for the three month periods ended November 3, 2006 and October 28, 2005, respectively. For the nine month periods ended November 3, 2006 and October 28, 2005, the total intrinsic value of options exercised totaled \$40 million and \$147 million, respectively.

Transactions related to stock options issued under the 2006, 2001, 1997, 1994 and Directors' plans for the nine months ended November 3, 2006 are summarized as follows:

|  | Shares<br>(In<br>Thousands) | Weighted-Average<br>Exercise Price<br>Per Share | Weighted-Average<br>Remaining Term<br>(In Years) | Aggregate<br>Intrinsic<br>Value<br>(In<br>Thousands) |
|--|-----------------------------|---|--|--|
| Outstanding at February 3, 2006                                | 30,595                      | \$ 22.48  |  |  |
| Granted  | 6,691                       | 33.65   |  |  |
| Canceled, forfeited or expired                                 | (960)                       | 31.05   |  |  |
| Exercised  | (3,286)                     | 19.66   |  |  |
| Outstanding at November 3, 2006                                | 33,040                      | 24.79   | 3.78   | \$ 172,252   |
| Vested and expected to vest at November 3, 2006 <sup>(1)</sup> | 31,991                      | 24.54   | 3.71   | 172,110  |
| Exercisable at November 3, 2006                                | 21,958                      | \$ 21.33  | 2.77   | \$ 170,236   |

(1) Includes outstanding vested options as well as outstanding, nonvested options after a forfeiture rate is applied.

Performance Accelerated Restricted Stock Awards

PARS are valued at the market price of a share of the Company's common stock on the date of grant. In general, these awards vest at the end of a five-year service period from the date of grant unless performance acceleration goals are achieved in which case awards vest 50% at the end of three years or 100% at the end of four years. The performance acceleration goals are based on targeted Company return on beginning non-cash assets, as defined in the PARS agreement. PARS are expensed on a straight-line basis over the shorter of the explicit service period related to the service condition or the implicit service period related to the performance conditions, based on the probability of meeting the conditions. The Company uses historical data to estimate the timing and amount of forfeitures. No PARS were granted during the three month period ended November 3, 2006. The weighted-average grant-date fair value of PARS granted was \$33.05 for the three month period ended October 28, 2005. The weighted-average grant-date fair value of PARS granted was \$34.10 and \$29.24 for the nine month periods ended November 3, 2006 and October 28, 2005, respectively. No PARS vested during the three and nine month periods ended November 3, 2006 or the three month period ended

October 28, 2005. The total fair value of PARS vested during the nine month period ended October 28, 2005 was \$1 million.

Transactions related to PARS issued under the 2006, 2001, 1997 and 1994 plans for the nine months ended November 3, 2006 are summarized as follows:

|                                  | Shares    | Weighted-Average<br>Grant-Date Fair<br>Value Per Share |
|----------------------------------|-----------|--|
| Nonvested at February 3, 2006    | 595,830   | \$ 29.25   |
| Granted                          | 893,160   | 34.10  |
| Canceled or forfeited            | (50,410)  | 32.33  |
| Nonvested at November 3,<br>2006 | 1,438,580 | \$ 32.17   |

#### Restricted Stock Awards

The restricted stock awards are valued at the market price of a share of the Company's common stock on the date of grant. In general, these awards vest at the end of a three-year period from the date of grant and are expensed on a straight-line basis over that period, which is considered to be the requisite service period. The Company uses historical data to estimate the timing and amount of forfeitures. The weighted-average grant-date fair value of restricted stock awards granted was \$27.33 and \$32.32 for the three month periods ended November 3, 2006 and October 28, 2005, respectively. The weighted-average grant-date fair value of restricted stock awards granted was \$27.34 and \$32.30 for the nine month periods ended November 3, 2006 and October 28, 2005, respectively. No restricted stock awards vested during the three and nine month periods ended November 3, 2006 or the three month period ended October 28, 2005. The total fair value of restricted stock awards vested during the nine month period ended October 28, 2005 was \$4 million.

Transactions related to restricted stock issued under the 2006, 2001, 1997 and 1994 plans for the nine months ended November 3, 2006 are summarized as follows:

|                               | Shares    | Weighted-Average<br>Grant-Date Fair<br>Value Per Share |
|-------------------------------|-----------|--|
| Nonvested at February 3, 2006 | 1,765,312 | \$ 31.17   |
| Granted                       | 206,886   | 27.34  |
| Canceled or forfeited         | (84,616)  | 30.80  |
| Nonvested at November 3, 2006 | 1,887,582 | \$ 30.77   |

#### Deferred Stock Units

The deferred stock units are valued at the market price of a share of the Company's common stock on the date of grant. For key employees, these awards generally vest over three to five years and are expensed on a straight-line basis over that period, which is considered to be the requisite service period. The Company uses historical data to estimate the timing and amount of forfeitures. For non-employee directors, these awards vest immediately and are expensed on the grant date. The weighted-average grant-date fair value of deferred stock units granted was \$31.02 and \$28.58 for the three and nine month periods ended November 3, 2006 and October 28, 2005, respectively. No deferred stock units vested during the three month periods ended November 3, 2006 and October 28, 2005. The total fair value of deferred stock units vested during the nine month periods ended November 3, 2006 and October 28, 2005 was \$5 million and

\$17 million, respectively. There were 568,000 deferred stock units outstanding at November 3, 2006.

Transactions related to deferred stock units issued under the 2006, 2001, 1997, 1994 and Directors' plans for the nine months ended November 3, 2006 are summarized as follows:

13

---



|                               | Shares    | Weighted-Average<br>Grant-Date Fair<br>Value Per Share |
|-------------------------------|-----------|--|
| Nonvested at February 3, 2006 | 500,000   | \$ 19.65   |
| Granted                       | 38,000    | 31.02  |
| Vested                        | (158,000) | 22.38  |
| Nonvested at November 3, 2006 | 380,000   | \$ 19.65   |

### ESPP

The purchase price of the shares under the ESPP equals 85% of the closing price on the date of purchase. The Company's share-based payment expense is equal to 15% of the closing price on the date of purchase. Prior to the adoption of SFAS No. 123(R), the ESPP was considered an equity award. In connection with the implementation of SFAS No. 123(R), the ESPP was reclassified as a liability award. This liability award is measured at fair value at each reporting date and the share-based payment expense is recognized over the six-month offering period. Twenty million shares were authorized for this plan with 2,833,844 remaining available at November 3, 2006. The Company issued 1,351,394 shares of common stock pursuant to this plan during the nine month period ended November 3, 2006.

**Note 10: Shareholders' Equity** - In August 2006, the Company's Board of Directors authorized up to an additional \$2 billion in share repurchases through fiscal 2008. The Company repurchased 56.8 million and 16.5 million common shares under the share repurchase program during the first nine months of fiscal 2006 and 2005, respectively. The total cost of the share repurchases was \$1.7 billion (of which \$160 million was recorded as a reduction in retained earnings after capital in excess of par value was depleted) and \$495 million, respectively. As of November 3, 2006, the Company had remaining authorization under the share repurchase program of \$1.5 billion.

During the first nine months of fiscal 2006, holders of \$107 million principal amount, \$74 million carrying amount, of the Company's convertible notes issued in February 2001 exercised their right to convert the notes into 3.5 million shares of the Company's common stock at the rate of 32.896 shares per note. During the first nine months of fiscal 2005, holders of \$434 million principal amount, \$295 million carrying amount, of convertible notes exercised their right to convert the notes into 14.3 million shares of the Company's common stock at the rate of 32.896 shares per note.

During the first nine months of fiscal 2006, holders of an insignificant number of the Company's senior convertible notes issued in October 2001 exercised their right to convert the notes into shares of the Company's common stock at the rate of 34.424 shares per note. There were no conversions during the first nine months of fiscal 2005.

The convertible note agreements contain a nondiscretionary antidilution provision that is designed to equalize the conversion value as a result of an equity restructuring.

**Note 11: Recent Accounting Pronouncements** - In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, "Fair Value Measurements." The Statement provides a single definition of fair value, together with a framework for measuring it, and requires additional disclosure about the use of fair value to measure assets and liabilities. SFAS No. 157 also emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and sets out a fair value hierarchy with the highest priority being quoted prices in active markets. Under the Statement, fair value measurements are required to be disclosed by level within that hierarchy. The Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company is currently evaluating the effect that the adoption of SFAS No. 157 will have on its consolidated financial statements.

In July 2006, the FASB issued Interpretation No. 48 (FIN 48), "Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109." This Interpretation clarifies the accounting for uncertainty in income taxes and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This Interpretation also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The

Interpretation is effective for fiscal years beginning after December 15, 2006. The Company is currently evaluating the effect that the adoption of FIN 48 will have on its consolidated financial statements.

In June 2006, the Emerging Issues Task Force (EITF) reached a consensus on Issue No. 05-1 (EITF 05-1), "Accounting for the Conversion of an Instrument that Becomes Convertible Upon the Issuer's Exercise of a Call Option." This guidance provides that, upon the issuer's exercise of a call option, the call option and the resulting equity securities issued be accounted for as a conversion; provided that the debt instrument, at issuance, contains a substantive conversion feature. The transaction, otherwise, should be recorded as a debt extinguishment. The guidance is effective for all conversions within the scope of EITF 05-1 that result from the exercise of call options in interim or annual reporting periods beginning after June 28, 2006. For instruments issued before the effective date, the assessment as to whether a substantive conversion feature exists at issuance should be based on assumptions, considerations, and/or marketplace information available as of the issuance date. The Company's convertible notes contain substantive conversion features. Therefore, the call option and resulting issuance of equity securities would be accounted for as a conversion upon exercise. There is no impact of this consensus to the Company's consolidated financial statements.

In June 2006, the EITF reached a consensus on Issue No. 06-3 (EITF 06-3), "Disclosure Requirements for Taxes Assessed by a Governmental Authority on Revenue-Producing Transactions." This guidance provides that entities should present such taxes on either a gross or net basis based on their accounting policies, which should be disclosed pursuant to APB No. 22, "Disclosure of Accounting Policies." If such taxes are reported gross and are significant, entities should disclose the amount of those taxes. The guidance should be applied to financial reports through retrospective application for all periods presented, if amounts are significant, for interim and annual reporting periods beginning after December 15, 2006. The Company's accounting policy is to record such taxes on a net basis, which is disclosed in the revenue recognition accounting policy in Note 1 of the Company's Annual Report. Therefore, the implementation of EITF 06-3 in the first quarter of fiscal 2007 is not expected to have a material impact on the Company's consolidated financial statements.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have reviewed the accompanying consolidated balance sheets of Lowe's Companies, Inc. and subsidiaries (the "Company") as of November 3, 2006 and October 28, 2005, and the related consolidated statements of current and retained earnings for the fiscal three and nine-month periods then ended, and of cash flows for the fiscal nine-month periods ended November 3, 2006 and October 28, 2005. These interim financial statements are the responsibility of the Company's management.

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

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

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of the Company as of February 3, 2006, and the related consolidated statements of earnings, shareholders' equity, and cash flows for the year then ended (not presented herein); and in our report dated April 6, 2006 (September 29, 2006 as to Note 2 and the last paragraph of Note 1), we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet of Lowe's Companies, Inc. and subsidiaries as of February 3, 2006 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ DELOITTE & TOUCHE LLP

Charlotte, North Carolina  
December 5, 2006

**Item 2.**

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

This discussion and analysis summarizes the significant factors affecting our consolidated operating results, liquidity and capital resources during the three and nine month periods ended November 3, 2006. This discussion and analysis should be read in conjunction with the consolidated financial statements and notes to the consolidated financial statements that are included in our Annual Report on Form 10-K for the fiscal year ended February 3, 2006, as amended on Form 10-K/A (the Annual Report), as well as the consolidated financial statements (unaudited) and notes to the consolidated financial statements (unaudited) contained in this report.

As described in Note 2 to the consolidated financial statements (unaudited), during the first quarter of 2006, we reviewed our method of accounting for early payment discounts on merchandise purchases and determined we should recognize these discounts initially as a reduction of inventory cost and then as a reduction to cost of sales when the related inventory is sold. We previously recognized early payment discounts as a financing component of merchandise purchases by reducing cost of sales when the related product was purchased. Prior period financial statements have been restated for the timing of recognition of early payment discounts. The fiscal year 2005 information presented in the accompanying Management's Discussion and Analysis reflects such restatement.

The Board of Directors approved a 2-for-1 stock split of our common shares on May 25, 2006. The stock split was effective June 30, 2006 to shareholders of record on June 16, 2006. All prior period common share and per common share amounts have been retroactively adjusted to reflect the 2-for-1 stock split.

**CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

The following discussion and analysis of the financial condition and results of operations are based on the consolidated financial statements (unaudited) and notes to consolidated financial statements (unaudited) contained in this report that have been prepared 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 preparation of these financial statements requires us to make estimates that affect the reported amounts of assets, liabilities, sales and expenses, and related disclosures of contingent assets and liabilities. We base these estimates on historical results and various other assumptions believed to be reasonable, all of which form the basis for making estimates concerning the carrying values of assets and liabilities that are not readily available from other sources. Actual results may differ from these estimates.

Our significant accounting policies are described in Note 1 to the consolidated financial statements presented in the 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 since the filing of our Annual Report, as amended.

**OPERATIONS**

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



|  | Three Months Ended |                | Basis Point<br>Increase /<br>(Decrease)<br>in<br>Percentage<br>of Net Sales<br>from Prior<br>Period<br>2006 vs.<br>2005 | Percentage<br>Increase /<br>(Decrease)<br>in Dollar<br>Amounts<br>from Prior<br>Period<br>2006 vs.<br>2005 |
|--|--------------------|----------------|---|--|
|  | November           | October        |   |  |
|  | 3, 2006            | 28, 2005       |   |  |
| <b>Net sales</b>                       | <b>100.00%</b>     | <b>100.00%</b> | <b>N/A</b>  | <b>6%</b>  |
| <b>Gross margin</b>                    | <b>34.47</b>       | <b>33.80</b>   | <b>67</b>   | <b>8</b>   |
| Expenses:                              |                    |                |   |  |
| Selling, general and<br>administrative | 20.70              | 20.88          | (18)  | 5  |
| Store opening costs                    | 0.39               | 0.33           | 6   | 26   |
| Depreciation                           | 2.65               | 2.32           | 33  | 21   |
| Interest                               | 0.40               | 0.34           | 6   | 25   |
| <b>Total expenses</b>                  | <b>24.14</b>       | <b>23.87</b>   | <b>27</b>   | <b>7</b>   |
| <b>Pre-tax earnings</b>                | <b>10.33</b>       | <b>9.93</b>    | <b>40</b>   | <b>10</b>  |
| Income tax provision                   | 3.94               | 3.83           | 11  | 9  |
| <b>Net earnings</b>                    | <b>6.39%</b>       | <b>6.10%</b>   | <b>29</b>   | <b>11%</b>   |

|  | Nine Months Ended |                | Basis Point<br>Increase /<br>(Decrease)<br>in<br>Percentage<br>of Net Sales<br>from Prior<br>Period<br>2006 vs.<br>2005 | Percentage<br>Increase /<br>(Decrease)<br>in Dollar<br>Amounts<br>from Prior<br>Period<br>2006 vs.<br>2005 |
|--|-------------------|----------------|---|--|
|  | November          | October 28,    |   |  |
|  | 3, 2006           | 2005           |   |  |
| <b>Net sales</b>                       | <b>100.00%</b>    | <b>100.00%</b> | <b>N/A</b>  | <b>13%</b>   |
| <b>Gross margin</b>                    | <b>34.26</b>      | <b>33.93</b>   | <b>33</b>   | <b>14</b>  |
| Expenses:                              |                   |                |   |  |
| Selling, general and<br>administrative | 20.27             | 20.69          | (42)  | 10   |
| Store opening costs                    | 0.27              | 0.26           | 1   | 14   |
| Depreciation                           | 2.34              | 2.21           | 13  | 19   |
| Interest                               | 0.30              | 0.38           | (8)   | (10)   |
| <b>Total expenses</b>                  | <b>23.18</b>      | <b>23.54</b>   | <b>(36)</b>   | <b>11</b>  |
| <b>Pre-tax earnings</b>                | <b>11.08</b>      | <b>10.39</b>   | <b>69</b>   | <b>20</b>  |
| Income tax provision                   | 4.26              | 4.00           | 26  | 20   |
| <b>Net earnings</b>                    | <b>6.82%</b>      | <b>6.39%</b>   | <b>43</b>   | <b>20%</b>   |

| Other Metrics | Three Months Ended  |                     | Nine Months Ended   |                     |
|---------------|---------------------|---------------------|---------------------|---------------------|
|               | November<br>3, 2006 | October<br>28, 2005 | November<br>3, 2006 | October<br>28, 2005 |
|               |                     |                     |                     |                     |

|   |          |          |          |          |
|---|----------|----------|----------|----------|
| Comparable store sales changes <sup>(1)</sup> | (4.0)%   | 6.2%     | 1.7%     | 5.5      |
| Customer transactions (in millions)           | 165      | 154      | 524      | 480      |
| Average ticket <sup>(2)</sup>                 | \$ 67.97 | \$ 68.81 | \$ 69.68 | \$ 67.51 |
| <b>At end of period:</b>                      |          |          |          |          |
| Number of stores                              | 1,330    | 1,170    |          |          |
| Sales floor square feet (in millions)         | 151      | 133      |          |          |
| Average store size square feet (in thousands) | 114      | 114      |          |          |

<sup>(1)</sup> We define a comparable store as a store that has been open longer than 13 months. A store that is identified for relocation is no longer considered comparable one month prior to its relocation. The relocated store must then remain open greater than 13 months to be considered comparable.

<sup>(2)</sup> We define average ticket as net sales divided by number of customer transactions.

The combined effects of a slowing housing market in parts of the U.S., significant deflation in certain commodity categories and a lower level of hurricane activity and related rebuilding efforts this year have created a challenging sales environment for home improvement.

Whether we are in a period of expanding or slowing sales, our number one priority continues to be providing great products and service to customers. We continue to invest in our stores and infrastructure to better serve customers and further capture market share. We are confident we have the processes in place to capture market share, control our expenses and drive solid earnings growth going forward despite a challenging sales environment.



*Net Sales* - Despite a slowing sales environment, our employees' focus on serving customers combined with the solid performance of our new stores drove sales for the third quarter and nine months ended November 3, 2006. Our store expansion program added 160 stores during the last 12 months, of which 49 stores were added in the third quarter of 2006. The strong performance of our new stores is a clear indication that our diligent site selection process is ensuring that we are opening stores in the right markets around the country.

Comparable store sales declined 4.0% for the third quarter compared to an increase of 6.2% in the third quarter of 2005. Last year's comparable store sales results included an approximate 100 basis point positive impact from sales associated with hurricane-affected markets. Average ticket decreased approximately 1% to \$67.97 in the third quarter of 2006, while total customer transactions increased approximately 7% compared to the third quarter of 2005.

While seven of our 21 regions had positive comparable store sales in the third quarter, sales in many areas of the country were pressured. Greatest among these were locations that experienced a lift in sales in the prior two years from intense hurricane rebuilding efforts. The areas with the weakest comparable store sales this quarter were those in coastal markets impacted by last year's storms. We also experienced sales weakness in the Northeast and California. These markets, which had significant home price appreciation over the past several years, were experiencing slowing rates of appreciation or declines in home prices in the third quarter. We are also watching how markets with more rational appreciation over the past few years react to the much-publicized concerns about housing. Consumers in these markets appeared to be taking a conservative approach to home improvement spending, especially for large projects.

The product categories that performed above our average comparable store sales change for the third quarter included rough plumbing, rough electrical, hardware, home environment, paint, fashion plumbing, lighting, flooring, nursery, seasonal living, home organization and lawn & landscape products. In addition, building materials, tools and cabinets & countertops performed at approximately the overall corporate average comparable store sales change for the third quarter. Outdoor power equipment and lumber both experienced double-digit comparable store sales declines for the third quarter. Generator sales were down significantly in the quarter, impacted by last year's hurricanes. This led to our outdoor power equipment category, which includes generators, delivering the weakest comparable store sales change of the quarter, despite solid market share gains in the category. Deflation in lumber and plywood prices negatively impacted third quarter comparable store sales by approximately 70 basis points, but was partially offset by price inflation in building materials. Unit sales of lumber and plywood were also pressured by slower building activity in the U.S. Eighteen of our 20 product categories gained unit share in the third calendar quarter equating to an industry leading 90 basis points of unit share gain for the total store according to independent measures of market share.

*Gross Margin* - The increase in gross margin as a percentage of sales compared to the third quarter of 2005 was primarily due to positive product sales mix shifts. Last year's third quarter gross margin was negatively impacted by the sale of hurricane-related products that typically have a lower margin than the company average. This factor as well as the lower sales in lumber and outdoor power equipment, which are lower margin categories, resulted in a 42 basis point positive product sales mix impact in the third quarter of 2006. Also, accelerated markdowns in the second quarter of 2006 to sell through seasonal inventory reduced the impact of markdowns in the third quarter of this year relative to last year. Lastly, a greater proportion of imported goods in the product sales mix aided gross margin in the third quarter. These items were slightly offset by higher inventory shrink.

The increase in gross margin as a percentage of sales for the first nine months of 2006 was primarily due to higher margin rates associated with the impact of additional imported goods and changes in product sales mix. These items were slightly offset by the impact of higher fuel prices on our distribution costs over the comparable prior year period.

*SG&A* - SG&A was 20.7% of sales in the third quarter of 2006 and leveraged 18 basis points versus the prior year, driven primarily by lower expenses related to bonus, retirement and insurance plans. Our performance-based bonus and retirement expenses fluctuate with our sales and earnings performance relative to plan. The leverage experienced

in the third quarter was a result of adjusting our accruals based on our forecasted performance against plan. In addition insurance expense leveraged in the third quarter as a result of our ongoing safety initiatives and the benefits of regulatory changes. Our efforts over the past several years to maintain a safe shopping and working environment have resulted in a reduction in both claim incidence and severity. These efforts as well as state regulatory changes contributed to actuarial projections of lower costs to settle current and future claims, which led to a reduction of our actuarially determined

insurance reserves. These items were offset by de-leverage in store payroll. As sales slowed, our stores adjusted their hours accordingly. However, we were not able to reduce payroll at the same rate as sales in part because of our base staffing requirements to maintain customer service levels.

For the first nine months of 2006, the key drivers of the decrease in SG&A as a percentage of sales were also lower expenses related to bonus and retirement plans.

*Store Opening Costs* - Store opening costs, which include payroll and supply costs incurred prior to store opening as well as grand opening advertising costs, are expensed as incurred and totaled \$44 million in the third quarter of 2006 compared to \$35 million in the third quarter of 2005. These costs are associated with the opening of 49 stores in the third quarter of 2006, as compared to the opening of 33 stores in the third quarter of 2005. Store opening costs for stores opened during the quarter averaged approximately \$0.8 million per store in the third quarter of 2006 and \$0.9 million in the third quarter of 2005. Because store opening costs are expensed as incurred, the expenses recognized in any quarter fluctuate based on the timing of store openings.

Store opening costs of \$97 million and \$85 million for the first nine months of 2006 and 2005, respectively, were associated with the opening of 97 stores in 2006 (96 new and 1 relocated), compared to 87 stores in 2005 (84 new and 3 relocated).

*Depreciation* - Depreciation increased 21% and 19% for the three and nine month periods ended November 3, 2006, respectively, compared to the prior year as a result of increased capital expenditures. Property, less accumulated depreciation, totaled \$18.2 billion at November 3, 2006, an increase of 18% from \$15.4 billion at October 28, 2005. This increase resulted from our store expansion program as well as our remerchandising efforts. At November 3, 2006, we owned 85% of our stores, compared to 83% at October 28, 2005, which includes stores on leased land.

*Income Tax Provision* - Our effective income tax rates were 38.2% and 38.5% for the three month periods ended November 3, 2006 and October 28, 2005, respectively. For the nine month periods ended November 3, 2006 and October 28, 2005, our effective income tax rates were 38.4% and 38.5%, respectively. The decreases in our effective income tax rates for the three and nine month periods ended November 3, 2006 as compared to the prior year were a result of increased tax credits and lower state income taxes.

## **LIQUIDITY AND CAPITAL RESOURCES**

The primary sources of liquidity are cash flows from operating activities and our \$1 billion senior credit facility that expires in July 2009. Net cash provided by operating activities totaled \$3.6 billion and \$3.4 billion for the nine month periods ended November 3, 2006 and October 28, 2005, respectively. The increase in cash provided by operating activities resulted primarily from increased net earnings. Working capital at November 3, 2006 was \$1.9 billion compared to \$2.4 billion at October 28, 2005 and \$2.0 billion at February 3, 2006. The decrease in working capital from the third quarter of 2005 primarily resulted from share repurchases and the \$600 million repayment of notes that matured in December 2005, partially offset by increased net earnings.

The primary component of net cash used in investing activities continues to be opening new stores, investing in existing stores through minor resets and remerchandising, and investing in our distribution and information technology infrastructure. Cash acquisitions of fixed assets were \$2.7 billion and \$2.3 billion for the nine month periods ended November 3, 2006 and October 28, 2005, respectively. At November 3, 2006, we operated 1,330 stores in 49 states with 151 million square feet of retail selling space, representing a 13% increase over the retail selling space at October 28, 2005.

Net cash used in financing activities was \$865 million for the nine month period ended November 3, 2006, compared to net cash provided by financing activities of \$559 million for the nine month period ended October 28, 2005. The change in cash flows from financing activities was primarily the result of greater repurchases of common stock under our share repurchase program compared to the nine months ended October 28, 2005. The ratio of debt to equity plus debt was 22.7%, 24.4% and 19.8% as of November 3, 2006, October 28, 2005 and February 3, 2006, respectively.

Our 2006 capital budget is \$4.2 billion, inclusive of approximately \$387 million of ground-leased properties. Actual capital expenditures through the third quarter of 2006 and amounts forecasted through the end of fiscal 2006 are consistent with the 2006 budgeted amount. Approximately 79% of this planned commitment is for store expansion and new distribution centers. Expansion plans for 2006 consist of 155 stores, including four relocations of older stores. This planned expansion is expected to increase sales floor square footage by approximately 12%. All of the 2006 projects will be owned, which includes stores on leased land.

On November 3, 2006, we owned and operated 11 regional distribution centers (RDCs). We expect to open additional RDCs in Rockford, Illinois, and Lebanon, Oregon, in 2007. On November 3, 2006, we operated 14 flatbed distribution centers for the handling of lumber, building materials and other long-length items. We owned 12 of these flatbed distribution centers, and we leased two flatbed distribution centers. We expect to open two additional flatbed distribution centers in 2007.

We have a \$1 billion senior credit facility that expires in July 2009. The senior credit facility is available to support our \$1 billion commercial paper program and for direct borrowings. Borrowings made are priced based upon market conditions at the time of funding in accordance with the terms of the senior credit facility. The senior credit facility contains certain restrictive covenants, which include maintenance of a debt leverage ratio as defined by the facility. We were in compliance with those covenants at November 3, 2006. Fifteen banking institutions are participating in the \$1 billion senior credit facility. As of November 3, 2006, there were no outstanding borrowings under the senior credit facility or under our commercial paper program.

From their issuance through the end of the third quarter of 2006, principal amounts of \$957 million, or approximately 95%, of our February 2001 convertible debentures had converted from debt to equity. There were an insignificant number of conversions in the third quarter of 2006, and \$107 million in principal amounts were converted in the nine months ended November 3, 2006.

Holders of the senior convertible notes, issued in October 2001, may convert their notes into 34.424 shares of the company's common stock only if: the sale price of the company's common stock reaches specified thresholds, or the credit rating of the notes is below a specified level, or the notes are called for redemption, or specified corporate transactions representing a change in control have occurred. There is no indication that we will not be able to maintain the minimum investment grade rating. During the second quarter of 2006, our closing share prices did not reach the specified threshold, and therefore, the senior convertible notes were not convertible at the option of each holder during the third quarter of 2006. From their issuance through the end of the third quarter of 2006, less than 0.2% of the senior convertible notes had converted from debt to equity. During the third quarter of 2006, our closing share prices reached the specified threshold such that the senior convertible notes will become convertible at the option of each holder into shares of common stock in the fourth quarter of 2006. Interest on the senior convertible notes ceased in October 2006. We may redeem for cash all or a portion of the notes at any time, at a price equal to the sum of the issue price plus accrued original issue discount on the redemption date.

Our debt ratings at November 3, 2006, were as follows:

| <b>Current Debt Ratings</b> | <b>S&amp;P</b> | <b>Moody's</b> | <b>Fitch</b> |
|-----------------------------|----------------|----------------|--------------|
| Commercial paper            | A1             | P1             | F1+          |
| Senior debt                 | A+             | A1             | A+           |
| Outlook                     | Stable         | Stable         | Stable       |

We believe that net cash provided by operating activities and financing activities will be adequate for our expansion plans and other operating requirements over the next 12 months. However, the availability of funds through the issuance of commercial paper and new debt could be adversely affected due to a debt rating downgrade or a

deterioration of certain financial ratios. There are no provisions in any agreement 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.

During the first nine months of 2006, we repurchased 56.8 million common shares under the share repurchase program at a total cost of \$1.7 billion. As of November 3, 2006, we had remaining authorization under the share repurchase program of \$1.5 billion.

**OFF-BALANCE SHEET ARRANGEMENTS**

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

**CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS**

There has been no material change in our contractual obligations and commercial commitments other than in the ordinary course of business since the end of fiscal 2005. Though considered to be in the ordinary course of business, in October 2006, we issued \$1 billion in senior notes, which are included in the table below and further described in Note 6 to the consolidated financial statements (unaudited) herein. Refer to the Annual Report for additional information regarding our contractual obligations and commercial commitments.

| Contractual Obligations<br>(In Millions)                            | Total    | Payments Due by Period |              |              |                  |
|---|----------|------------------------|--------------|--------------|------------------|
|   |          | Less<br>than<br>1 year | 1-3<br>years | 4-5<br>years | After 5<br>years |
| Long-term debt (principal and interest amounts, excluding discount) | \$ 7,900 | \$ 279                 | \$ 437       | \$ 891       | \$ 6,293         |

**COMPANY OUTLOOK**

Our 2005 fiscal year contained 53 weeks. Fiscal 2006 annual and fourth quarter comparisons will be negatively impacted by a 52- versus 53-week and 13- versus 14-week comparison, respectively. In addition, our 2006 quarterly comparisons will be impacted by a shift in comparable weeks to 2005. This week shift positively impacted the first quarter, negatively impacted the second quarter and is expected to negatively impact the fourth quarter. The week shift does not impact comparable store sales results. Our 2006 guidance contemplates these factors.

**Fourth Quarter**

As of November 20, 2006, the date of our third quarter 2006 earnings release, we expected to open 58 stores during the fourth quarter of fiscal 2006, which ends on February 2, 2007, reflecting square footage growth of approximately 12%. Total sales were expected to decrease approximately 4%. Comparable store sales were expected to decrease 4% to 6%. We expected diluted earnings per share of \$0.36 to \$0.38. Unless otherwise noted, all comparisons are with the fourth quarter of fiscal 2005.

**Fiscal 2006**

As of November 20, 2006, the date of our third quarter 2006 earnings release, we expected to open 155 stores during fiscal 2006, which ends on February 2, 2007, reflecting total square footage growth of approximately 12%. Total sales were expected to increase 9% for the year, while comparable store sales were expected to be approximately flat. We expected diluted earnings per share of \$1.95 to \$1.97. Unless otherwise noted, all comparisons are with fiscal 2005, a 53-week year.

## **FORWARD-LOOKING STATEMENTS**

This Form 10-Q contains “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995 (the “Act”). All statements other than those reciting historic fact are statements that could be “forward-looking statements” under the Act. Such forward-looking statements are found in, among other places, “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” Statements containing words such as “expects,” “plans,” “strategy,” “projects,” “believes,” “opportunity,” “anticipates,” “desires,” and similar expressions are intended to highlight or indicate “forward-looking statements.” Although we believe that the expectations, opinions, projections, and comments reflected in our forward-looking statements are reasonable, we can give no assurance that such statements will prove to be correct. A wide variety of potential risks, uncertainties, and other factors could materially affect our ability to achieve the results expressed or implied by our forward-looking statements including, but not limited to, changes in domestic economic conditions, such as interest rate and currency fluctuations, fuel and other energy costs, slower growth in personal income, declining housing turnover, inflation of commodity prices and other factors which can negatively affect our customers, as well as our ability to: (i) respond to a greater than expected downturn in the housing industry and the level of repairs, remodeling, and additions to existing homes, as well as general reduction in commercial building activity; (ii) secure, develop, and otherwise implement new technologies and processes designed to enhance our efficiency and competitiveness; (iii) attract, train, and retain highly-qualified associates; (iv) locate, secure, and successfully develop new sites for store development particularly in major metropolitan markets; (v) respond to fluctuations in the prices and availability of services, supplies, and products; (vi) respond to the growth and impact of competition; (vii) address legal and regulatory developments; and (viii) respond to unanticipated weather conditions that could adversely affect sales. For more information about these and other risks and uncertainties that we are exposed to, you should read the “Risk Factors” included in our Annual Report on Form 10-K to the United States Securities and Exchange Commission and the description of material changes, if any, in those “Risk Factors” included in our Quarterly Reports on Form 10-Q.

The forward-looking statements contained in this Form 10-Q are based upon data available as of the date of this report or other specified date and speak only as of such date. We expressly disclaim any obligation to update or revise any forward-looking statement, whether as a result of new information, change in circumstances, future events, or otherwise.

### **Item 3. - Quantitative and Qualitative Disclosures about Market Risk**

The Company's market risk has not changed materially since February 3, 2006.

### **Item 4. - Controls and Procedures**

The Company's management, with the participation of the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company’s “disclosure controls and procedures”, (as such term is defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended, (the “Exchange Act”). Based upon their evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of November 3, 2006, 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 fiscal quarter ended November 3, 2006 that has materially affected, or is reasonably likely to materially affect, the Company’s



internal control over financial reporting.

23

---

**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, as amended.

**Item 2. - Unregistered Sales of Equity Securities and Use of Proceeds****Issuer Purchases of Equity Securities**

| (In Millions, Except Average Price Paid Per Share) | Total Number of Shares Purchased <sup>(1)</sup> | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs <sup>(2)</sup> | Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs <sup>(2)</sup> |
|--|---|------------------------------|---|---|
| August 5, 2006 - September 1, 2006                 | 10.6  | \$ 27.08                     | 10.6  | \$ 1,712  |
| September 2, 2006 - October 6, 2006                | 8.2   | 27.45                        | 8.2   | 1,489   |
| October 7, 2006 - November 3, 2006                 | -   | -                            | -   | 1,489   |
| <b>As of November 3, 2006</b>                      | <b>18.8</b>                                     | <b>\$ 27.24</b>              | <b>18.8</b>   | <b>\$ 1,489</b>   |

<sup>(1)</sup> During the third quarter of fiscal 2006, the Company repurchased an aggregate of 18,762,000 shares of its common stock pursuant to the share repurchase program (the "Program"). The total number of shares purchased also includes a nominal amount of shares repurchased from employees to satisfy the exercise price of certain stock option exercises.

<sup>(2)</sup> In August 2006, the Board of Directors authorized the Company to repurchase up to an additional \$2 billion of common shares through fiscal 2008. The Company expects to implement the balance of the Program through purchases made from time to time either in the open market or through private transactions, in accordance with regulations of the SEC.

**Item 6. - Exhibits**

Exhibit 1.2 - Underwriting Agreement, dated as of October 3, 2006, by and among Lowe's Companies, Inc., Merrill Lynch & Co., Merrill Lynch, Pierce, Fenner & Smith Incorporated, Banc of America Securities LLC and Wachovia Capital Markets, LLC (filed as Exhibit 1.2 to the Company's Registration Statement on Form S-3 (No. 333-137750) and incorporated by reference herein).

Exhibit 4.5 - Fourth Supplemental Indenture, dated as of October 10, 2006, between Lowe's Companies, Inc. and The Bank of New York Trust Company, N.A., as trustee (filed as Exhibit 4.5 to the Company's Registration Statement on Form S-3 (No. 333-137750) and incorporated by reference herein).

Exhibit 4.6 - Form of 5.40% Note due October 15, 2016 (filed as Exhibit 4.6 to the Company's Registration Statement on Form S-3 (No. 333-137750) and incorporated by reference herein).

Exhibit 4.7 - Form of 5.80% Note due October 15, 2036 (filed as Exhibit 4.7 to the Company's Registration Statement on Form S-3 (No. 333-137750) and incorporated by reference herein).

Exhibit 15.1 - Deloitte & Touche LLP Letter re unaudited interim financial information

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

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

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

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

**SIGNATURE**

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

LOWE'S COMPANIES, INC.

December 6, 2006  
Date

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

**EXHIBIT INDEX**

| Exhibit No. | Description   |
|-------------|---|
| 1.2         | Underwriting Agreement, dated as of October 3, 2006, by and among Lowe's Companies, Inc., Merrill Lynch & Co., Merrill Lynch, Pierce, Fenner & Smith Incorporated, Banc of America Securities LLC and Wachovia Capital Markets, LLC (filed as Exhibit 1.2 to the Company's Registration Statement on Form S-3 (No. 333-137750) and incorporated by reference herein). |
| 4.5         | Fourth Supplemental Indenture, dated as of October 10, 2006, between Lowe's Companies, Inc. and The Bank of New York Trust Company, N.A., as trustee (filed as Exhibit 4.5 to the Company's Registration Statement on Form S-3 (No. 333-137750) and incorporated by reference herein).  |
| 4.6         | Form of 5.40% Note due October 15, 2016 (filed as Exhibit 4.6 to the Company's Registration Statement on Form S-3 (No. 333-137750) and incorporated by reference herein).   |
| 4.7         | Form of 5.80% Note due October 15, 2036 (filed as Exhibit 4.7 to the Company's Registration Statement on Form S-3 (No. 333-137750) and incorporated by reference herein).   |
| 15.1        | Deloitte & Touche LLP Letter re unaudited interim financial information   |
| 31.1        | Certification Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as amended   |
| 31.2        | Certification Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as amended   |
| 32.1        | Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002  |
| 32.2        | Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002  |

