NAME________________________________

Financial Accounting Exam 2.1

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- The exam packet is comprised of :
  1. This 28-page document, which contains the questions you are to answer. Write all of your answers in this document, put your name on each page, and submit it for grading.
  2. The Exam Supplement, which contains the chart of accounts for **all** exam entries, BSE matrix for a fictitious company, and financial statements for the following real companies:
     - **Tim Hortons** is one of the largest publicly-traded quick service restaurant chains in North America and the largest in Canada. The company's menu includes premium coffee, ... and fresh baked goods, including their trademark donuts. (2011 annual report)
     - **Whirlpool Corporation** is the world's leading manufacturer and marketer of major home appliances. Its products are laundry appliances, refrigerators, cooking appliances, dishwashers, mixers and other small household appliances. ... primarily under the Whirlpool, Maytag, KitchenAid, Jenn-Air, Amana, ... brand names. (2012 annual report)
     - **For the purpose of this exam, assume all companies' policy is to report working-capital reconciliation adjustments that reflect the net effects of all operating entries during the period on the related accounts.**
  3. Scrap paper. Additional scrap paper is available at the front of the room.
- There are 20 possible points on the exam that can be applied to your course grade. Except for the essay portion of the exam, partial credit will not be awarded, so check your answers carefully.
- The exam is closed book and closed notes.
- You cannot use a laptop, tablet, cell phone, or other communication or mobile device.
- You may bring a calculator for your individual use (not to be shared with others), but your calculator must not contain course related information. We reserve the right to inspect your calculator and, in our sole judgment, deem it inappropriate for use during the exam. We will have basic calculators available for you to borrow.
- You may bring a hardcopy dictionary and/or a hardcopy grammar/style book for your individual use (not to be shared with others), but it must not contain course related information, either as handwritten notes or attached/inserted notes. No electronic dictionaries or grammar/style books allowed. We reserve the right to inspect your dictionary and grammar/style book before the exam and randomly during the exam. As a result, we may, in our sole judgment, deem it inappropriate for use during the exam.
- You are required to TURN IN ALL MATERIALS when you have finished the exam, including the exam document, the exam supplement, and all scrap paper (provided). Moreover, once the exam starts, you may not take any materials from the room, including the above and your dictionary or grammar/style book, if you brought them.
- If, in our sole judgment, we cannot read your responses to the essay question, you will not receive full credit. If it's determined we cannot read your responses, you will be contacted and given an opportunity to type up your responses EXACTLY as written in your exam by a given time. No content changes are allowed. In this case, you will be penalized 1 point for not writing clearly.
- Regardless of one's intent, staring at classmates' exams is inappropriate. If you wish to take a break from staring at your exam, stare directly ahead or to either side without looking down.

Question 1

For parts (a) - (d) you are to record journal entries for **Nick Carlstedt's High-Performance Auto Sales and Services Company.** (1) Write your journal entry in the space provided below each question. (2) Use the *most* appropriate accounts from the chart of accounts in the exam supplement (it contains some accounts that are not appropriate).
(1/2 point each, for a total of 2 points)

Part 1(a)

Record a journal entry for the following:

On December 1, 2012, the company recognized $250 of depreciation expense related to the office computer it used in the marketing department.

Note: Four rows have been provided, but you may not need them all.

	Debit	Credit

Part 1(b)

Record a journal entry for the following:

On December 31, 2012, the company received $40 thousand cash when it sold some auto-repair equipment it had used in its service department. The equipment had $100 thousand of historical cost and $50 thousand of accumulated depreciation. Consistent with U.S. GAAP, the company does not recognize unrealized gains associated with PP&E.

Note: Four rows have been provided, but you may not need them all.

	Debit	Credit

Carlstedt's High-Performance Auto Sales and Services Company
Valuation and Qualifying Accounts (Schedule II)

	For years ended December 31	
	2012	2011
Allowance for doubtful accounts		
Balance beginning of the period	$5,400	$5,500
Additions	4,400	4,600
Deductions	(4,500)	(4,700)
Balance, end of the period	$5,300	$5,400

Part 1(c)

Record a journal entry for the following:

Based on the company's Schedule II above, record the journal entry to recognize the write-offs of accounts receivables for the year ended December 31, 2012.

Note: Four rows have been provided, but you may not need them all.

	Debit	Credit

Part 1(d)

Record a journal entry for the following:

Based on the company's Schedule II above, record the journal entry to recognize its bad debts expense for accounts receivables for the year ended December 31, 2012.

Note: Four rows have been provided, but you may not need them all.

	Debit	Credit

Question 2

For parts (a) - (b) you are to create direct and indirect cash flow statements for **Fan's High Tech Products and Services. The company experienced the events or circumstances recorded in the BSE matrix included in the separate exam supplement.**
(1/2 point for each statement, for a total of 1 point)

Part 2(a)

Complete the following:

Fan's High Tech Products and Services	
2012 Direct Cash Flow Statement	
In Dollars, for year ended December 31, 2012	
Operating activities	
Customer collections	________
Resource provider payments	________
Tax payments	________
Net cash from operations	________
Investing activities	
Purchase property, plant, and equipment	________
Net cash from investing activities	________
Financing activities	
Issue common stock	________
Net cash from financing activities	________
Net change in cash during year	________
Beginning cash balance	________
Ending cash balance	________

Part 2(b)

Complete the following:

Fan's High Tech Products and Services	
2012 Indirect Cash Flow Statement	
In Dollars, for year ended December 31, 2012	
Operating activities	
Net income	________
Depreciation	________
Accounts receivable	________
Inventory	________
Prepaid expenses	________
Accounts payable	________
Accrued taxes	________
Other accrued liabilities	________
Deferred revenues	________
Net cash from operations	________
Investing activities	
Purchase property, plant, and equipment	________
Net cash from investing activities	________
Financing activities	
Issue common stock	________
Net cash from financing activities	________
Net change in cash during year	________
Beginning cash balance	________
Ending cash balance	________

Question 3

RELEVANT INFORMATION for QUESTION 3
The format for parts (i)-(ii) of question 3 is the same as the format for clicker questions discussed during class. **You MUST CIRCLE the letter associated with the best response to receive credit.** (1/2 point each for a total of 1 point)

Question 3(i)

CIRCLE the letter associated with the best response.
Based on the available information in **Tim Hortons'** financial statements in the exam supplement, it is reasonable to conclude:

(a) Tim Hortons' $115,869 thousand depreciation and amortization adjustment on the cash flow statement for the period ending January 1, 2012 represents depreciation and amortization that increased net cash from operations.

(b) Tim Hortons' ($32,057) thousand inventories and other adjustment on the statement of cash flows represents a $32,057 thousand net decrease in inventories and other due to operating activities during the period ending January 1, 2012.

(c) Tim Hortons' $2,099 thousand accounts receivable adjustment on the statement of cash flows for the period ending January 1, 2012 differs from $8,338 thousand change in accounts receivable, net on the balance sheet (from 2011 to 2012) because the cash flow adjustment does not include the net effects of an allowance for doubtful accounts.

(d) (a) and (b)

(e) none of the above

Question 3(ii)

CIRCLE the letter associated with the best response.
Based on the available information in **Tim Hortons'** financial statements in the exam supplement, it is reasonable to conclude:

(a) When Tim Hortons replenished its allowance for doubtful accounts during the period ending January 1, 2012, the accounts receivable adjustment on the statement of cash flows increased.

(b) When Tim Hortons replenished its allowance for doubtful accounts during the period ending January 1, 2012, the accounts receivable adjustment on the statement of cash flows decreased.

(c) When Tim Hortons used its allowance for doubtful accounts during the period ending January 1, 2012, net income on the statement of cash flows decreased.

(d) (a) and (b)

(e) (b) and (c)

Question 4

RELEVANT INFORMATION for QUESTION 4
Base your responses to parts (a)-(b) on Tim Hortons' financial statements in the exam supplement and the guidance and excerpt below from Tim Hortons' footnotes.

Guidance

- Accounting for allowances for inventory obsolescence is similar to accounting for allowances for bad debt. The allowance is used during the reporting period and replenished at the end of the period with an adjusting entry.
- Similarities aside, accounting for inventory obsolescence and bad debts differ in two ways:
  - On the income statement, the adjusting entry replenishing the allowance impacts the income statement differently: for inventory obsolescence it increases cost of sales versus selling, general, and administrative expenses for bad debts expenses.
  - On the balance sheet, the allowance is a contra asset to inventories versus a contra asset to accounts receivable for bad debts.
- For the purpose of this question, ignore non-controlling interests.
- **See Schedule II and the inventories footnote in the exam supplement.**

Part 4(a)

Record a single journal entry that summarizes the entries Tim Hortons recorded during fiscal 2011 (the period ending January 1, 2012) to replenish the inventory allowance for obsolescence.

NOTE: Tim Horton refers to the year ended January 1, 2012 as fiscal 2011.
(1 point)

Note: Four rows have been provided, but you may not need them all.

	Debit	Credit

Part 4(b)

Determine the direct effect(s) on the following Tim Hortons metrics for fiscal 2011, everything else equal, if Tim Hortons had recorded the journal entry in Part 4(a) to replenish the inventory allowance for obsolescence during fiscal 2011 (the period ending January 1, 2012).
Ignore taxes.
(1/4 point per ratio, for a total of 1 point.)

If an incorrect entry in part 4(a) leads to errors here, you won't receive credit here. Thus, check your part 4(a) entry carefully.

Guidance:
Include the <u>direct</u> affects, <u>including the effect(s) of closing entries</u> for events affecting income.

You must put an "X" in the appropriate box to receive credit. You will not receive credit if you put an X in more than one box per metric.

	Increases	Decreases	No Effect
Working capital (current assets - current liabilities)	☐	☐	☐
Financial leverage (liabilities / assets)	☐	☐	☐
Inventory turnover (cost of sales / average inventories)	☐	☐	☐
Return on equity (ROE) (net profit / average owners' equity)	☐	☐	☐

Question 5

Whirlpool's warranties footnote (in the exam supplement) indicates its product warranty and recall reserves (allowance) is included in "other current" and "other noncurrent liabilities" on the balance sheet. However, the footnote doesn't separately report the flows in and out of the current and non-current portion of the allowance. Thus, for the purpose of recording entries in questions 5(a) and 5(b) ONLY (NOT for the financial effects in 5 (c) you are to record the entry into a fictitious account that combines the current and non-current warranty liabilities into a single allowance for warranty account as indicated in the chart of accounts in the exam supplement.

For the purpose of this question, assume 90% of Whirlpool's total cost to meet customers' warranty and recall claims is related to inventoried replacement parts or products and 10% to wages for labor to be paid at a future date. Round amounts to one decimal place.

Part 5(a)

Record a single journal entry that summarizes the entries Whirlpool recorded during fiscal 2012 to meet customers' warranty and recall claims. That is, to repair or replace products under warranty and recall programs.
(1 point)

	Debit	Credit

Part 5(b)

Record a single journal entry that summarizes the entries Whirlpool recorded during fiscal 2012 to replenish the warranty allowance.
(1 point)

	Debit	Credit

Part 5(c)

Identify the Whirlpool financial statement line items that would have been directly affected (and the direction of the effects) if Whirlpool had recorded the journal entry in question 5(b) to replenish the warranty allowance during during fiscal 2012. HOWEVER, UNLIKE THE ENTRY IN 5(b), CONSIDER THE EFFECTS OF CURRENT AND NON-CURRENT SEPARATELY and assume both effects occur. The amounts are not disclosed, but you can determine the line items directly affected and the direction of the effects.
(1/2 point per statement, for a total of 2 points.)

If an incorrect entry in 5(b) leads to errors here, you won't receive credit here. Thus, check your entry carefully.

Guidance:

(1) Determine the appropriate line item(s) [not accounts] affected using Whirlpool's statements. For example, write "cash and cash equivalents" rather than "cash" because this is the description of the line item on Whirlpool's balance sheet.

(2) Include line item(s) directly affected, including the effect(s) of closing entries for events affecting income. Ignore taxes.

(3) **Identify the subtotal "Net cash provided by operating activities" if operating cash flows were affected by the entry. This subtotal is conceptually different from other subtotals.**

(4) **Don't include totals or sub-totals other than "Net cash provided by operating activities" indirectly affected by the entry. For example, don't report "Net earnings" on the income statement. However, "Net earnings" is NOT a total on the statement of cash flows, so you must include "Net earnings" if it's affected on the statement of cash flows.**

(5) Three lines were included below for each statement, but you may need none, more than one, or all lines. **Write "NONE" if no line item is effected on the statement.**

(6) Indicate if the effect(s) of the entries associated with the above event increased or decreased the line item. Put an X in the appropriate column if the above event increases or decreases that line item. For full credit, be sure to mark only one box in each statement's row. **NOTE: If a reported negative number changes from -2 to -3, it decreases; if it changes from - 2 to - 1, it increases.**

(7) You won't receive credit for a statement if you list line items not affected by the entry: don't guess!

Whirlpool Financial Statements, fiscal 2012

Balance Sheet

Line Items	Increases	Decreases
____________	☐	☐
____________	☐	☐
____________	☐	☐

Statement of Stockholders' Equity

Line Items	Increases	Decreases
____________	☐	☐
____________	☐	☐
____________	☐	☐

Income Statement

Line Items	Increases	Decreases
____________	☐	☐
____________	☐	☐
____________	☐	☐

Statement of Cash Flows

Line Items	Increases	Decreases
____________	☐	☐
____________	☐	☐
____________	☐	☐

Question 6

RELEVANT INFORMATION for QUESTION 6
The format for question 6 requiring analyses is similar to the group assignments.

While there aren't correct responses to the question, some are definitely better than others. Generally, responses are better to the extent they are well organized, concise, use proper grammar, identify the most important arguments, counterarguments, and rebuttals, include appropriate qualifiers, and provide insights regarding the way you assessed the relative merits of the arguments, counterarguments and rebuttals.

Additionally, responses must cite sources and use quotation marks when copying word for word.

YOU MUST WRITE CLEARLY WITHIN THE GIVEN LINES TO RECEIVE CREDIT. YOU DO NOT NEED TO USE ALL THE SPACE TO RECEIVE FULL CREDIT. THE MARGINS ARE RESERVED FOR GRADING COMMENTS.
If, in our sole judgment, we can not read your response you will not receive full credit.
(total of 10 points)

Required

In this question, you will explore Home Depot's and Lowe's future ROEs, growth rates, and risks.

Based solely on concepts covered thus far in the course and the provided background information and tabular data, which company, Home Depot or Lowe's, appears to have the better future prospects at the most recent balance sheet dates, taking into consideration expected future ROEs, growth rates, and risks?

Note: If you conclude one company doesn't dominate the other on all three factors (ROEs, growth rates and risk): (1) In your opening remarks, identify the company that has the best prospects for each of the factors; and (2) incorporate the companies' relative strengths into your arguments, counterarguments, and the confidence you attribute to your claim

Background Information

Introduction

Home Depot and Lowe's are the world's first and second largest home improvement retailers, respectively. Both sell building materials, home improvement products, and lawn and garden products and provide a number of services. They describe their customers similarly. Here is Home Depot's description:

"Our Customers. The Home Depot stores serve three primary customer groups, and we have different customer service approaches to meet their particular needs:

- *Do-It-Yourself ("D-I-Y") Customers*. These customers are typically home owners who purchase products and complete their own projects and installations. Our associates assist these customers with specific product and installation questions both in our stores and through online resources and other media designed to provide product and project knowledge. …
- *Do-It-For-Me ("D-I-F-M") Customers.* These customers are typically home owners who purchase materials themselves and hire third parties to complete the project or installation. Our stores offer a variety of installation services targeted at D-I-F-M customers who select and purchase products and installation of those products from us in the store. …
- *Professional Customers.* These customers are primarily professional remodelers, general contractors, repairmen, small business owners and tradesmen. We offer a variety of special programs to these customers, including delivery and will-call services, dedicated staff, … "

Home Depot's 2012 10K, page 2

Excerpts from February 26, 2013 conference call Home Depot Executives had with analysts

Shortly after the end of fiscal 2012, Home Depot held an on-line conference call with financial analysts and others to discuss the company's fiscal 2012: performance for the fourth quarter; performance for the entire year; financial position at the end of the year; and future plans and strategies, including those not yet reflected in the company's financial statements. The following quotes are from a transcript of this conference call prepared by Morning Star. They include statements by Home Depot's executives followed by questions from analysts and related responses.

Frank Blake - Chairman and CEO

"Sales for the fourth quarter were $18.2 billion, up 13.9% from last year. Comp sales were positive 7% and our diluted earnings per share were $0.68. Our stores in the United States had a positive comp of 7.1%. Even though we were anniversarying strong sales from last year's warm weather and storm repair. All three of our U.S. division positively comped in the quarter and 38 of our top 40 markets had positive comps."

- **Note**: "**comp sales** were positive 7%" means sales in established stores (that have been operating for a couple of years) have increased by 7%. This information helps analysts distinguish sales growth due to established stores from that due to new stores.

…

"Operationally Marvin and his team continue to make progress on our customer service initiatives. We have a target of 60-40, where 60% of our store labor hours are dedicated to customer facing activity. We ended the year at 57%. Our customer satisfaction scores improved again during the quarter as well as for the year at the same time that we had the highest annual transactions in the Company history.

During the quarter, we began the rollout of Buy Online Ship-To-Store. We already have in place Buy Online Pick-up In Store and Buy Online Return In Store. These are foundational components of our interconnected retail experience."

…

"As you will hear from Craig, we saw strength in the core of our business in the quarter and our holiday assortment and expanded appliance offerings also performed well. We had what was for us a record sell-through of our holiday items and our dotcom business had a strong holiday selling season in the quarter with record sales online. We also completed the acquisition of BlackLocus, a retail analytics firm which will bring additional tools and capabilities to support our merchandising team."

…

"We continue to believe that the path to recovery will resemble a gradual thawing process. We think it is best to plan and structure our business on the assumption of a modest recovery and then adjust if and when the opportunities or challenges arise as we have previously. Today, our board announced a 34% increase in our quarterly dividend to $0.39 per share. The board has also authorized a new share repurchase program of $17 billion."

Craig Menear - EVP, Merchandising

"We are pleased with our performance in the fourth quarter as sales exceeded our expectations across the country and across all departments."

Carol B. Tome - EVP, Corporate Services and CFO

"For the year we experienced 10 basis points of gross margin expansion. In the quarter and for the year we experienced strong expense leverage due to positive sales growth and solid expense control."

Note: A **basis point** is .01% or 1/100 of 1 percent.

Note: When the CFO refers to "leverage," she doesn't mean financial leverage (liabilities divided by assets). Rather she is referring to **expense leverage**, which means generating more revenues for each dollar of expense. For example, getting more revenues for each dollar of advertising expense.

…

"So with that as we look to 2013 we are basing our sales growth assumptions primarily on GDP [Gross Domestic Product] forecast, which for the United States is approximately 2%. We are also projecting that the U.S. housing market namely turnover and improving home prices will contribute 100 basis points of comp growth in 2013. While recovering we do not believe the housing market will fully recover in 2013. Some may say this is a conservative view. We would agree, but we would rather plan conservatively and as we showed in the fourth quarter, if sales are stronger than we expect, we can react quickly to the demand.

For the year, we expect comp sales growth of approximately 3% and total sales growth of approximately 2%. … For 2013, we are projecting moderate gross margin expansion. This expansion will come from ongoing efforts in our merchandising transformation and in part from benefits associated with certain acquisitions made in 2012."

…

"As discussed we plan on using $4.5 billion in excess cash to repurchase shares in 2013. We are also contemplating raising external financing for additional share repurchases. Our adjusted debt to EBITDA ratio is 1.6 times and based on our targeted adjusted debt to EBITDA ratio of two times we have roughly $4 billion of financing capacity today. In the phase of a recovery housing market and attractive interest rate we believe 2013 may be an opportune time to issue incremental debt capital to repurchase shares."

Note: "**EBITDA** means earnings before interest, taxes, depreciation and amortization.

Questions and Answers

Question from analyst at UBS

"One quick follow-up question on the 60-40 breakdown in-service. Should we expect that, once you reach your targeted goal, the P&L is going to reflect some incremental investment in labor?

Response from Frank Blake, CEO

"Well the first thing Michael is our business model actually reflects adding hours as the sales increase as it is. Marvin is here and he will comment on 60-40. But the second thing I'd say within 60-40 is our intention is when we get there and obviously we are very, very close there is an enormous amount of effort that will then go into optimizing our productivity within each of those groups of customer facing and tasking."

Response from Marvin Ellison, EVP U.S. Stores

"We started this in roughly 2009 and within that timeframe we have generated roughly 500 payroll hours we have shifted to the selling floor and that is a reallocation of payroll, not an incremental add of payroll, which is very beneficial to our financial model."

Question from Goldman Sachs analyst

"My first question relates to the sales forecast and is, [you] talk about the relationship between your business and GDP and you think about the 7% comp that you just produced in a quarter where GDP wouldn't come close to explaining the increase. Are there any other reasons other than general conservatism to think about the sales forecast, where it is, and do you feel like, perhaps you're understating some of the intrinsic and more sustainable drivers of the business that you saw in 4Q."

Response from Carol Tome, CFO

"As we look out for 2013, we do look at GDP as the underlying basis for growth and look at housing metrics to determine what we think could happen to the home improvement market and that's the basis for the guidance that we gave for 2013 of 3%. Now I will say, if you look at our performance in the fourth quarter, we exceeded our expectation. We beat our plan by about 4.5%. We can easily explain 200 basis points of that, about 80 basis points as Craig said came from commodity inflation; about 70 basis points came from the impact of Hurricane Sandy. Then about 30 basis points came from appliances. The rest is strength across the core of the business. That could suggest that our view is conservative looking ahead, but we'd rather be conservative and react."

Question from ISI Group

"Could you help us sort of get some insight on that in terms of your own credit [card] penetration growth and things you're doing to help the consumer out in this environment?"

Response from Carole Tome, CFO

"So our private label penetration jumped in the fourth quarter at 93 basis points to a little over 23%. So we were pleased with that. If we look at what's happening inside the portfolio, our consumer approval rates have sort of flattened out, it's 68%, that's down from a few years ago. It's really the result of the [credit] card act, thinking it would be helpful to consumers, it's actually limiting credit. On the Pros side [professional customers], what we are seeing as the Pros come back, some of our lower quality Pros are applying and are not being approved. Our approval rates for Pros is 68% but that's down from a year ago which was north of 70%."

Excerpts from February 25, 2013 conference call Lowe's Executives had with analysts

Shortly after the end of fiscal 2012, Lowe's held an on-line conference call with financial analysts and others to discuss Lowe's fiscal 2012: performance for the fourth quarter; performance for the entire year; financial position at the end of the year; and future plans and strategies, including those not yet reflected in the company's financial statements. The following quotes are from a transcript of this conference call prepared by Seeking Alpha Transcripts. They include statements by Lowe's executives followed by questions from analysts and related responses.

Robert A. Niblock - Chairman, CEO, President and Chairman of Executive Committee

"We delivered solid results in the fourth quarter. Comparable store sales were positive 1.9%, driven by an increase in comp average ticket."

Note: Increase in **comp average ticket** means on average customers spent more each visit this year than last, which increased sales.

…

"Our solid fourth quarter results are a testament to several factors: first, the team's success in driving more balanced performance across the quarter; second, the team responded well to the demand created in the northeast as a result of recovery efforts in the wake of superstorm Sandy; and finally, the momentum we're creating with Value Improvement through better line designs, better in-stock positions and simplified deal structures, as well as the momentum from our product differentiation program. As we've discussed, think of Value Improvement as the inner circle, enhancing the core, and product differentiation as the outer circle, driving excitement and flexibility in our stores."

Note: Value Improvement reset refers to a Lowe's initiative to change the mix of products offered to customers and the way they are featured in stores [more details later].

…

"As we head into fiscal 2013, the team continues to focus on improving our core business through cross-functional collaboration and consistent execution. We'll complete the initial round of Value Improvement resets in 2013, and we'll add labor hours to our stores, as well as incremental inventory, all with a focus on improving our close rate."

Note: We suspect **close rate** refers to the percent of customers who purchase products after expressing an interest in them.

…

"From an economic perspective, lower GDP growth is forecasted for 2013. And while lower home improvement industry growth is also forecasted, it is expected to keep pace with GDP. Rebuilding in the wake of superstorm Sandy will contribute to 2013 home improvement industry growth, although the impact will fade during the year. Still, the fundamental's underlying drivers of industry growth, mainly job gains and stable growing housing, should support a strengthening growth trajectory for the industry. Yet, credit conditions remain tight for borrowers, and mortgage delinquencies remain elevated, which will restrain the speed in which housing and, therefore, the home improvement industry can grow."

Gregory M. Bridgeford – Chief Customer Officer

"While rebuilding from Sandy-benefited comps, our comp performance for the quarter was well balanced across the country. Performance was particularly strong in the Gulf regions, from Texas to Florida and in the northwest, as we responded well to increasing demand in those recovering markets.

We also benefited from our product differentiation resets, which were rolled to approximately 1,250 of our stores last year. Through product differentiation, we have revised our endcap locations to highlight innovative new products and significant values and to showcase particular private and national brands."

Note: **Endcap** refers to prominent displays at the end of aisles.

…

"While product differentiation is being operationalized, the Value Improvement program remains our most immediate priority. Through this initiative, we are improving our line designs, making them more relevant to each of the markets we serve, easier for consumers to shop and more efficient for our associates to maintain. This includes reducing duplication of features and functions within price points and reinvesting inventory in key high-velocity items customers expect us to have in stock, including job lot quantities needed to complete large projects.

We are also working to lower unit costs by negotiating lower first cost and reducing funds set aside by vendors for promotional and marketing support. We use line reviews and resets to achieve these goals. During line reviews, we use consumer insights to determine what products to carry and which vendors to buy from, and then we bring the new assortments and presentations to life in our stores through the reset process."

…

"We are making progress. At the end of the fiscal year, we had completed line reviews representing approximately 80% of our business and resets representing over 30% of our business. We expect to have finished the initial round of resets in 2013.

We continue to adjust the pace of these resets to ensure that customer's experience is not negatively impacted, that we continue to offer sufficient inventory by store and by set and that we minimize the margin impact of clearance and the friction experienced by store operators. The benefits we are seeing from these resets give us confidence that this is the right approach.

As I mentioned last quarter, the financial benefit of Value Improvement is greatest once we are past clearance and it begun selling only new assortments. For product lines in that stage, we recorded average mid-single-digits comps and over 100 basis point improvement in gross margin rate. And our customer surveys indicate that the perception of our product availability has improved over the fourth quarter of last year."

…

"Value Improvement will remain the primary focus of the organization in 2013. Even as we are working through our first round of product line reviews and resets, the Value Improvement process changes are being operationalized. We believe we will continue to find ways to improve product lines and, likewise, close rate by making them more relevant for each store location and offering better features, quality and style relative to price, by putting more inventory behind the highest volume SKUs and, ultimately, increasing in-store service level targets across entire product lines as they are reset.

We've also had the opportunity to improve close rate through additional labor hours. In 2013, we will add approximately 150 hours per week to the staffing model for nearly 2/3 of our stores. Previously, weekday labor hours were heavily skewed towards tasking, and we've identified an opportunity to better serve customers and close more sales during the peak weekday hours by increasing the assistance available in the aisles."

Robert F. Hull - CFO and Executive VP

"Gross margin for the fourth quarter was 34.27% of sales, an increase of 5 basis points over last year's fourth quarter. Value Improvement helped gross margin by approximately 30 basis points in the quarter. As we begin the sell-through of new product lines post reset, we will continue to see benefit in gross margin."

…

"Looking ahead, I'd like to address several of the items detailed in Lowe's business outlook. In 2013, we expect a total sales increase of approximately 4%, driven by a comp sales increase of 3.5% and the opening of approximately 10 stores."

Questions and Answers

Question from analyst at Cleveland Research Company

"On gross margin, can you talk a little bit about -- it seems like you've got a pretty bullish expectation for gross margin progress in '13. Curious in terms of what's driving that. And then also gross margin was, I think, a bit of a source of upside in 3Q that didn't continue in 4Q. Can you give us a little bit more color within that, please?"

Response from Robert Hull CFO

"So we did experience good progress in Q4 in gross margin relative to Value Improvement, as I said in my comments. It helped by 30 basis points. As we talked about the progress in the resets, Greg mentioned just over 30% done through end of 2012, which means we've got the other 70-or-so percent to take place in 2013. That's really gives us some confidence in gross margin expansion to 2013 is the benefit associated with the remaining resets from the Value Improvement program."

Question from analyst at Barclays Capital

"Just to follow up on the line review and resets. So for the group of stores and for the merchandise categories that have undergone both the reviews and the resets, would you maybe be able to comment on the comp performance in that category, relative to the 100 basis point overall comp that you saw from the implementation of the Value Improvement program?"

Response from Robert Hull CFO

"I indicated that we had mid-single-digit comp performance in those categories that have been reset to date, and that is what we're experiencing on the sales side. And then the margin basis point impact was approximately 100 basis points."

Question from analyst at Zelman & Associates

"I was just curious if you could maybe walk through, as you set the plan for '13, how you built up to the 3.5% comp, and then maybe talk about where you see upside, downside risk both macro, as well as company specific."

Response from Robert Hull, CFO

"So a couple of perspectives on the 3.5% comp. First, ticket and traffic, we think it's going to be relatively balanced. Ticket and traffic growth, we think the items that Greg describe relating to investments in inventory and payroll, will help with close rates, which will help drive transactions. Also, as it relates to ticket growth, as you mentioned, housing is improving so that just stimulate more demand, hopefully more discretionary spending, as well as some continued benefit from lumber inflation should drive ticket. The other perspective I'll give you is regarding our initiative. So they helped Q4 comps by 100 basis points as we described. More resets occurring in 2013 relative to 2012. As Greg said, another 160 stores get the product differentiation treatment. We're seeing sequential progress and sales from those endcap programs."

Comparing Balance Sheets and Select Financial Position Ratios

Numbers below are either disclosed on the company's balance sheets with similar captions or they combine numbers with related captions.

	Home Depot				Lowe's			
	year end				year end			
	fiscal 2012	fiscal 2011	fiscal 2010	fiscal 2009	fiscal 2012	fiscal 2011	fiscal 2010	fiscal 2009
	2-Feb-13	29-Jan-12	30-Jan-11	31-Jan-10	1-Feb-13	3-Feb-12	28-Jan-11	29-Jan-10
Assets	USD Millions $				USD Millions $			
Current assets								
Cash and cash equivalents	2,494	1,987	545	1,421	541	1,014	652	632
Receivables	1,395	1,245	1,085	964	-	-	-	-
Inventories	10,710	10,325	10,625	10,188	8,600	8,355	8,321	8,249
Other current assets	773	963	1,224	1,327	643	703	994	851
Total current assets	**15,372**	**14,520**	**13,479**	**13,900**	**9,784**	**10,072**	**9,967**	**9,732**
Property, plant and equipment net	24,069	24,448	25,060	25,550	21,477	21,970	22,089	22,499
Other non-current assets	1,643	1,550	1,586	1,427	1,405	1,517	1,643	774
Total assets	**41,084**	**40,518**	**40,125**	**40,877**	**32,666**	**33,559**	**33,699**	**33,005**
Liabilities								
Current liabilities								
Accounts payable	5,376	4,856	4,717	4,863	4,657	4,352	4,351	4,287
Deferred revenue	1,270	1,147	1,177	1,158	824	801	707	683
Other current liabilities	4,816	3,373	4,228	4,342	2,227	2,738	2,061	2,385
Total current liabilities	**11,462**	**9,376**	**10,122**	**10,363**	**7,708**	**7,891**	**7,119**	**7,355**
Long-term debt (less current maturities)	9,475	10,758	8,707	8,662	9,030	7,035	6,537	4,528
Other noncurrent liabilities	2,370	2,486	2,407	2,459	2,071	2,100	1,931	2,053
Total liabilities	**23,307**	**22,620**	**21,236**	**21,484**	**18,809**	**17,026**	**15,587**	**13,936**
Stockholders' equity								
Common stock (paid-in capital less treasury stock)	(2,658)	359	3,449	5,805	581	635	688	735
Retained Earnings	20,038	17,246	14,995	13,226	13,224	15,852	17,371	18,307
Accumulated other comprehensive income (loss)	397	293	445	362	52	46	53	27
Noncontrolling interests								
Total stockholders' equity	**17,777**	**17,898**	**18,889**	**19,393**	**13,857**	**16,533**	**18,112**	**19,069**
Total liabilities and shareholders' equity	**41,084**	**40,518**	**40,125**	**40,877**	**32,666**	**33,559**	**33,699**	**33,005**
RATIOS								
Level 1								
Financial leverage (year-end)								
Liabilities/assets	57%	56%	53%	53%	58%	51%	46%	42%
Level 2								
Working capital	3,910	5,144	3,357	3,537	2,076	2,181	2,848	2,377
Current assets - current liabilities								
Current ratio	1.34	1.55	1.33	1.34	1.27	1.28	1.40	1.32
Current assets/ current liabilities								
Level 3								
Common Size Balance Sheet								
Line item/total assets								
Assets								
Cash and cash equivalents	6%	5%	1%	3%	2%	3%	2%	2%
Receivables	3%	3%	3%	2%	0%	0%	0%	0%
Inventories	26%	25%	26%	25%	26%	25%	25%	25%
Other current assets	2%	2%	3%	3%	2%	2%	3%	3%
Total current assets	37%	36%	34%	34%	30%	30%	30%	29%
Property, plant and equipment net	59%	60%	62%	63%	66%	65%	66%	68%
Other non-current assets	4%	4%	4%	3%	4%	5%	5%	2%
Total assets	100%	100%	100%	100%	100%	100%	100%	100%
Liabilities								
Accounts payable	13%	12%	12%	12%	14%	13%	13%	13%
Other current liabilities	12%	8%	11%	11%	7%	8%	6%	7%
Total current liabilities	28%	23%	25%	25%	24%	24%	21%	22%
Long-term debt (less current maturities)	23%	27%	22%	21%	28%	21%	19%	14%
Other noncurrent liabilities	6%	6%	6%	6%	6%	6%	6%	6%
Total liabilities	57%	56%	53%	53%	58%	51%	46%	42%
Stockholders' equity								
Common stock (paid-in capital less treasury stock)	-6%	1%	9%	14%	2%	2%	2%	2%
Retained Earnings	49%	43%	37%	32%	40%	47%	52%	55%
Accumulated other comprehensive income (loss)	1%	1%	1%	1%	0%	0%	0%	0%
Noncontrolling interests	0%	0%	0%	0%	0%	0%	0%	0%
Total stockholders' equity	43%	44%	47%	47%	42%	49%	54%	58%
Total liabilities and shareholders' equity	100%	100%	100%	100%	100%	100%	100%	100%
Market's perception of missed or incorrectly measured BS items								
Market-to-book ratio								
Shares outstanding (issued - treasury)	1,484.0	1,537.0	1,623.0	1,698.0	1,110	1,241	1,354	1,459
Fiscal year-end price per share (historical quote)	$ 67.20	$ 44.80	$ 37.20	$ 28.45	$ 38.00	$ 27.00	$ 24.55	$ 22.00
Market value of stockholders' equity	99,725	68,858	60,376	48,308	42,180	33,507	33,241	32,098
Book value of stockholders' equity	17,777	17,898	18,889	19,393	13,857	16,533	18,112	19,069
Market-to-book ratio	5.61	3.85	3.20	2.49	3.04	2.03	1.84	1.68

Source: Companies' websites
See accompanying notes in annual reports.

Comparing Income Statements and Select Performance Ratios

Numbers below are either disclosed on the company's statements with similar captions or they combine numbers with related captions.

	Home Depot				Lowe's			
	year ended				year ended			
	fiscal 2012	fiscal 2011	fiscal 2010	fiscal 2009	fiscal 2012	fiscal 2011	fiscal 2010	fiscal 2009
	2-Feb-13	29-Jan-12	30-Jan-11	31-Jan-10	1-Feb-13	3-Feb-12	28-Jan-11	29-Jan-10
INCOME STATEMENTS	USD Millions $				USD Millions $			
Net revenues	**74,754**	**70,395**	**67,997**	**66,176**	**50,521**	**50,208**	**48,815**	**47,220**
Cost of goods or services sold	48,912	46,133	44,693	43,764	33,194	32,858	31,663	30,757
Gross profit	**25,842**	**24,262**	**23,304**	**22,412**	**17,327**	**17,350**	**17,152**	**16,463**
Other operating income and expenses	18,076	17,601	17,465	17,609	13,767	14,073	13,592	13,351
Operating profit	**7,766**	**6,661**	**5,839**	**4,803**	**3,560**	**3,277**	**3,560**	**3,112**
Other income and (expenses)	(545)	(593)	(566)	(821)	(423)	(371)	(332)	(287)
Profit before taxes	**7,221**	**6,068**	**5,273**	**3,982**	**3,137**	**2,906**	**3,228**	**2,825**
Income tax expense (refund)	2,686	2,185	1,935	1,362	1,178	1,067	1,218	1,042
Net profit (loss) from continuing operations	**4,535**	**3,883**	**3,338**	**2,620**	**1,959**	**1,839**	**2,010**	**1,783**
Net profit (loss) from discontinued operations				41				
Net profit (loss)	**4,535**	**3,883**	**3,338**	**2,661**	**1,959**	**1,839**	**2,010**	**1,783**
SELECTED FINANCIAL DATA								
(controlling and non-controlling)								
Comprehensive Income	**4,639**	**3,731**	**3,421**	**3,100**	**1,965**	**1,832**	**2,036**	**1,816**
Beginning total assets	40,518	40,125	40,877		33,559	33,699	33,005	
Ending total assets	41,084	40,518	40,125	40,877	32,666	33,559	33,699	33,005
Average total assets	**40,801**	**40,322**	**40,501**		**33,113**	**33,629**	**33,352**	
(beginning + ending total assets)/2								
Beginning owner's equity	17,898	18,889	19,393		16,533	18,112	19,069	
Ending owner's equity	17,777	17,898	18,889	19,393	13,857	16,533	18,112	19,069
Average owners' equity	**17,838**	**18,394**	**19,141**		**15,195**	**17,323**	**18,591**	
(beginning + ending owner's equity)/2								
RATIOS								
Level 1: Comprehensive income								
Return-on-equity-Comprehensive Income (ROE-CI)	26.01%	20.28%	17.87%		12.93%	10.58%	10.95%	
CI/average owners' equity								
Level 2: Major categories								
Return-on-equity (ROE)	25.42%	21.11%	17.44%		12.89%	10.62%	10.81%	
net profit/average owner's equity								
Level 3: Significant Subcategories--DuPont Model								
Profit margin ratio	9.66%	8.62%	7.75%	6.02%	6.21%	5.79%	6.61%	5.98%
profit before taxes/revenue								
Asset turnover	1.83	1.75	1.68		1.53	1.49	1.46	
revenue/average total assets								
Financial leverage	2.29	2.19	2.12		2.18	1.94	1.79	
average total assets/average owners' equity								
Income tax factor	0.63	0.64	0.63	0.66	0.62	0.63	0.62	0.63
1- (tax expense/pretax income)								
Level 4: Line items								
Common size income statements:	Percent of revenues				Percent of revenues			
Net revenues	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Cost of goods or services sold	65.43%	65.53%	65.73%	66.13%	65.70%	65.44%	64.86%	65.14%
Gross profit margin	34.57%	34.47%	34.27%	33.87%	34.30%	34.56%	35.14%	34.86%
Other operating income and expenses	24.18%	25.00%	25.68%	26.61%	27.25%	28.03%	27.84%	28.27%
Operating profit margin	10.39%	9.46%	8.59%	7.26%	7.05%	6.53%	7.29%	6.59%
Other income and (expenses)	-0.73%	-0.84%	-0.83%	-1.24%	-0.84%	-0.74%	-0.68%	-0.61%
Profit margin before taxes	9.66%	8.62%	7.75%	6.02%	6.21%	5.79%	6.61%	5.98%
Income tax expense	3.59%	3.10%	2.85%	2.06%	2.33%	2.13%	2.50%	2.21%
Net profit margin (loss) from continuing operations	6.07%	5.52%	4.91%	3.96%	3.88%	3.66%	4.12%	3.78%
Inventories turnover								
cost of sales/average inventories	4.65	4.40	4.29		3.92	3.94	3.82	
Revenue growth	6.19%	3.53%	2.75%		0.62%	2.85%	3.38%	
(current year-prior year)/prior year								

Source: Companies' websites

See accompanying notes in the annual reports.

Comparing Cash Flow Statements

Numbers below are either disclosed on the company's statements with similar captions or they combine numbers with related captions.

	Home Depot				Lowe's			
	year ended				year ended			
	fiscal 2012	fiscal 2011	fiscal 2010	fiscal 2009	fiscal 2012	fiscal 2011	fiscal 2010	fiscal 2009
	2-Feb-13	29-Jan-12	30-Jan-11	31-Jan-10	1-Feb-13	3-Feb-12	28-Jan-11	29-Jan-10
CASH FLOW STATEMENTS	USD Millions $				USD Millions $			
Cash flows from operating activities:								
Net profit	4,535	3,883	3,338	2,661	1,959	1,839	2,010	1,783
Adjustments to reconcile net profit to net cash from operations								
(Gains) losses on sales of assets and entities								
Depreciation and amortization	1,684	1,682	1,718	1,806	1,623	1,579	1,684	1,733
Other	315	215	214	364	91	629	89	172
Changes in Net Working Capital								
Receivables	(143)	(170)	(102)	(23)				
Inventories	(350)	256	(355)	625	(244)	(33)	(64)	(28)
Accounts payable and other current liabilities	698	422	(133)	59	303	(5)	60	175
Deferred revenue	121	(29)	10	(21)				
Other	115	392	(105)	(346)	30	340	73	219
Net cash provided by (used for) operations	**6,975**	**6,651**	**4,585**	**5,125**	**3,762**	**4,349**	**3,852**	**4,054**
Cash flows from investing activities:								
Payments for property, plant, and equipment (capital expenditures)	(1,312)	(1,221)	(1,096)	(966)	(1,211)	(1,829)	(1,329)	(1,799)
Proceeds from disposals of property, plant, and equipment	50	56	84	178	130	52	25	18
Acquisition of businesses, net of acquired cash	(170)	(65)	0					
Other	0	101	0	33	178	340	(880)	(105)
Net cash provided by (used for) investing activities	**(1,432)**	**(1,129)**	**(1,012)**	**(755)**	**(903)**	**(1,437)**	**(2,184)**	**(1,886)**
Cash flows from financing activities:								
Proceeds from issuance of share capital	784	306	104	73	349	100	104	128
Share capital repurchases	(3,984)	(3,470)	(2,608)	(213)	(4,393)	(2,937)	(2,618)	(504)
Additions to long-term debt		1,994	998		1,984	993	1,985	10
Reductions of long-term debt	(32)	(1,028)	(1,029)	(1,774)	(591)	(37)	(552)	(37)
Net short term borrowings (repayments)								(1,007)
Dividends	(1,743)	(1,632)	(1,569)	(1,525)	(704)	(647)	(571)	(391)
Other	(59)	(218)	(347)	(64)	22	(21)	1	
Net cash provided by (used for) financing activities	**(5,034)**	**(4,048)**	**(4,451)**	**(3,503)**	**(3,333)**	**(2,549)**	**(1,651)**	**(1,801)**
Other	(2)	(32)	2	35	1	(1)	3	20
Net increase (decrease) in cash during year	507	1,442	(876)	902	(473)	362	20	387
Cash and cash equivalents at start of year	1,987	545	1,421	519	1,014	652	632	245
Cash and cash equivalents at end of year	**2,494**	**1,987**	**545**	**1,421**	**541**	**1,014**	**652**	**632**

Source: Companies' websites
See accompanying notes in the annual reports.

Estimating Customer Collections and Free Cash Flow

Numbers below are either disclosed on the company's statements with similar captions or they combine numbers with related captions.

	Home Depot				Lowe's			
	year ended				year ended			
	fiscal 2012	fiscal 2011	fiscal 2010	fiscal 2009	fiscal 2012	fiscal 2011	fiscal 2010	fiscal 2009
	2-Feb-13	29-Jan-12	30-Jan-11	31-Jan-10	1-Feb-13	3-Feb-12	28-Jan-11	29-Jan-10
ESTIMATE OF CUSTOMER COLLECTIONS	USD Millions $				USD Millions $			
Revenue	74,754	70,395	67,997	66,176	50,521	50,208	48,815	47,220
Accounts Receivable, net adjustment	-143	-170	-102	-23	0	0	0	0
Deferred Revenue adjustment	121	-29	10	-21	0	0	0	0
Estimated Cash Collections from Customers	74,732	70,196	67,905	66,132	50,521	50,208	48,815	47,220
ESTIMATE OF FREE CASH FLOW								
Net cash provided by (used for) operations	6,975	6,651	4,585	5,125	3,762	4,349	3,852	4,054
Payments for property, plant, and equipment	-1,312	-1,221	-1,096	-966	-1,211	-1,829	-1,329	-1,799
Estimated Free Cash Flow (FCF)	5,663	5,430	3,489	4,159	2,551	2,520	2,523	2,255
FCF as a percentage of estimated customer collections	*7.58%*	*7.74%*	*5.14%*	*6.29%*	*5.05%*	*5.02%*	*5.17%*	*4.78%*

Source: Companies' websites
See accompanying notes in the annual reports.

Comparing Common-Size Cash Flow Statements

	Home Depot				Lowe's			
	year ended				year ended			
	fiscal 2012	fiscal 2011	fiscal 2010	fiscal 2009	fiscal 2012	fiscal 2011	fiscal 2010	fiscal 2009
	2-Feb-13	29-Jan-12	30-Jan-11	31-Jan-10	1-Feb-13	3-Feb-12	28-Jan-11	29-Jan-10
COMMON SIZED CASH FLOW STATEMENTS								
% of estimated customer collections								
Cash flows from operating activities:								
Net profit	6.1%	5.5%	4.9%	4.0%	3.9%	3.7%	4.1%	3.8%
Adjustments to reconcile net profit to net cash from operations								
(Gains) losses on sales of assets and entities	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Depreciation and amortization	2.3%	2.4%	2.5%	2.7%	3.2%	3.1%	3.4%	3.7%
Other	0.4%	0.3%	0.3%	0.6%	0.2%	1.3%	0.2%	0.4%
Changes in Net Working Capital	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Receivables	-0.2%	-0.2%	-0.2%	0.0%	0.0%	0.0%	0.0%	0.0%
Inventories	-0.5%	0.4%	-0.5%	0.9%	-0.5%	-0.1%	-0.1%	-0.1%
Accounts payable and accrued liabilities	0.9%	0.6%	-0.2%	0.1%	0.6%	0.0%	0.1%	0.4%
Deferred revenue	0.2%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Other	0.2%	0.6%	-0.2%	-0.5%	0.1%	0.7%	0.1%	0.5%
Net cash provided by (used for) operations	9.3%	9.5%	6.8%	7.7%	7.4%	8.7%	7.9%	8.6%
Cash flows from investing activities:								
Payments for property, plant, and equipment (capital expenditures)	-1.8%	-1.7%	-1.6%	-1.5%	-2.4%	-3.6%	-2.7%	-3.8%
Proceeds from disposals of property, plant, and equipment	0.1%	0.1%	0.1%	0.3%	0.3%	0.1%	0.1%	0.0%
Acquisition of businesses, net of acquired cash	-0.2%	-0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Other	0.0%	0.1%	0.0%	0.0%	0.4%	0.7%	-1.8%	-0.2%
Net cash provided by (used for) investing activities	-1.9%	-1.6%	-1.5%	-1.1%	-1.8%	-2.9%	-4.5%	-4.0%
Cash flows from financing activities:								
Proceeds from issuance of share capital	1.0%	0.4%	0.2%	0.1%	0.7%	0.2%	0.2%	0.3%
Share capital (repurchases) sales	-5.3%	-4.9%	-3.8%	-0.3%	-8.7%	-5.8%	-5.4%	-1.1%
Proceeds from long-term borrowings	0.0%	2.8%	1.5%	0.0%	3.9%	2.0%	4.1%	0.0%
Payments for long-term borrowings and capital leases	0.0%	-1.5%	-1.5%	-2.7%	-1.2%	-0.1%	-1.1%	-0.1%
Net short term borrowings (repayments)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	-2.1%
Dividends	-2.3%	-2.3%	-2.3%	-2.3%	-1.4%	-1.3%	-1.2%	-0.8%
Other	-0.1%	-0.3%	-0.5%	-0.1%	0.0%	0.0%	0.0%	0.0%
Net cash provided by (used for) financing activities	-6.7%	-5.8%	-6.6%	-5.3%	-6.6%	-5.1%	-3.4%	-3.8%
Other								
Net increase (decrease) in cash during year	0.7%	2.1%	-1.3%	1.4%	-0.9%	0.7%	0.0%	0.8%
Cash and cash equivalents at start of year	2.7%	0.8%	2.1%	0.8%	2.0%	1.3%	1.3%	0.5%
Cash and cash equivalents at end of year	3.3%	2.8%	0.8%	2.1%	1.1%	2.0%	1.3%	1.3%

Source: Companies' websites
See accompanying notes in the annual reports.

Comparing Select Store and Operational Data

Numbers below are disclosed in the company's footnotes.

	Home Depot				Lowe's			
	year ended				year ended			
	fiscal 2012	fiscal 2011	fiscal 2010	fiscal 2009	fiscal 2012	fiscal 2011	fiscal 2010	fiscal 2009
	2-Feb-13	29-Jan-12	30-Jan-11	31-Jan-10	1-Feb-13	3-Feb-12	28-Jan-11	29-Jan-10
Number of stores	2,256	2,252	2,248	2,244	1,754	1,745	1,749	1,710
Store size in square feet (millions)	235	235	235	235	197	197	197	197
Comparable store sales increase (decrease) %	4.6%	3.4%	2.9%	-6.6%	1.4%	0.0%	1.3%	-6.7%
Number of customer transactions (millions)	1,364	1,318	1,306	1,274	804	810	786	766
Average ticket ($)	$54.89	$53.28	$51.93	$51.76	$62.82	$62.00	$62.07	$61.66

Source: Companies' websites
See accompanying notes in the annual reports.

Part I: Your qualified claim and opening remarks

Claim:

Fill in the blank with either Home Depot or Lowe's:

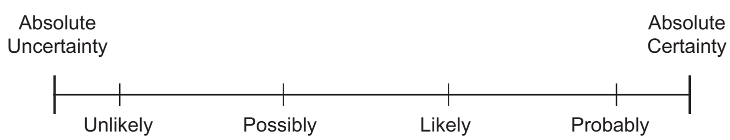
______________________________ appears to have the better future prospects at the most recent balance sheet dates, taking into consideration expected future ROEs, growth rates, and risks.

Qualifiers:

Put an X at the spot on the scale below that indicates the likelihood your claim is correct, given the available information and concepts covered thus far.

After completing Parts II and III, put an X at the spot on the scale below that indicates the likelihood your claim is correct, given the available information and concepts covered thus far. Your response should depend on the strength of your arguments, counterarguments, and rebuttals to counterarguments. For example, when you conclude your arguments and counterarguments are equally strong, your X will be near the middle of the scale. By contrast, when you conclude your arguments are very strong and there are no viable counterarguments, your X will be near the right end of the scale.

Given these directions, your response should ignore the possibility that other relevant information exists that could change your arguments, counterarguments, or rebuttals, and thus the confidence you have in your claim.



The Toulmin Method of Argumentation: The Second Triad, Keith Green
http://www.youtube.com/watch?v=-gRaC_vZiD8

Opening remarks:

Assume you are presenting your analysis to an audience and you have decided that your opening remarks will present your qualified claim and briefly preview the way you assess the relative strengths of your arguments, counterarguments, and rebuttals without explicitly stating them.

For example, you might state "Based on my analysis of available information, I have concluded that XX Company likely had the better future prospects at the most recent balance sheet dates, taking into consideration expected future ROEs, growth rates, and risks. I will present three supporting arguments for this claim, two of which are very compelling. I will also present two counterarguments. I will thoroughly refute one of these but I can't provide a reasonable rebuttal for the other, which has sufficient merit for me to qualify my claim as likely rather than probable."

Write your opening remarks below:

Part II: Your arguments

Provide no more than three arguments in support of your claim in the space provided below, numbered and arranged according to your assessment of their strength (from strongest to weakest).

Consistent with The Toulmin Model, each argument should provide evidence, a warrant, and possibly backing for the warrant. You need not identify the components. For example, you needn't state here is my evidence and here is its warrant. However, both must be present for each argument and while the warrant can be implied, the evidence and backing must be explicit. Keep in mind that the quality of your response depends more on the strength of the arguments you present rather than the number of arguments. For example, one exceptional argument may be all you need.

Arguments:

Write your arguments below, conditional on concepts covered thus far and the provided information:

NAME____________________________________

NAME________________________________

Part III: Your counterarguments and rebuttals

Provide no more than three counterarguments to your claim, numbered and arranged according to your assessment of their challenge to the claim (from strongest to weakest). If possible provide rebuttals immediately below each counterargument.

Counterarguments and rebuttals:

Write your counterarguments and rebuttals below, conditional on concepts covered thus far and the provided information:

NAME________________________________