Solution for Problem 11-1 Parts a-d

a. Description of debt from 10-K

Lowe's Debt Information from the January 2003 10-K

NOTE 5 - Short-term Borrowings and Lines of Credit:
The Company has an $800 million senior credit facility. The facility is split into a $400 million five-year tranche, expiring in August 2006 and a $400 million 364-day tranche, expiring in July 2003, which is renewable annually. The facility is used to support the Company's $800 million commercial paper program and for short-term 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 specific financial ratios, among others. The Company was in compliance with these covenants at January 31, 2003. Sixteen banking institutions are participating in the $800 million senior credit facility and, as of January 31, 2003, there were no outstanding loans under the facility.
The Company also has a $100 million revolving credit and security agreement, expiring in November 2003 and renewable annually, with a financial institution. Interest rates under this agreement are determined at the time of borrowing based on market conditions in accordance with the terms of the agreement. The Company had $50 million outstanding at January 31, 2003 under this agreement. At January 31, 2003, the Company had $136.3 million in accounts receivable pledged as collateral under this agreement.
Five banks have extended lines of credit aggregating $249.8 million for the purpose of issuing documentary letters of credit and standby letters of credit. These lines do not have termination dates but are reviewed periodically. Commitment fees ranging from .25% to .50% per annum are paid on the amounts of standby letters of credit. Outstanding letters of credit totaled $122.4 million as of January 31, 2003 and $162.2 million as of February 1, 2002.
The interest rate on short-term borrowings outstanding at January 31, 2003 was 1.4%. At February 1, 2002, the weighted average interest rate on short-term borrowings was 1.9%.
NOTE 6 - Long-Term Debt:

(In Millions) Debt Category	Interest Rates	Fiscal Year of Final Maturity	January 31, 2003	February 1, 2002
Secured Debt:[1]				
Mortgage Notes	7.00% to 9.25%	2028	$ 55	$ 65
Unsecured Debt:				
Debentures	6.50% to 6.88%	2029	692	692
Notes	7.50% to 8.25%	2010	995	994
Medium Term Notes - Series A	7.35% to 8.20%	2023	74	106
Medium Term Notes - Series B[2]	6.70% to 7.61%	2037	266	266

Senior Notes	6.38%	2005	100	100
Convertible Notes	0.9% to 2.5%	2021	1,119	1,103
Capital Leases	6.58% to 19.57%	2029	464	467
Total Long-Term Debt			**3.765**	**3.793**
Less Current Maturities			29	59
Long-Term Debt, Excluding Current Maturities			**$3,736**	**$3,734**

Notes:

1. Real properties with an aggregate book value of $132.3 million were pledged as collateral at January 31, 2003 for secured debt.
2. Approximately 37% of these Medium Term Notes may be put at the option of the holder on either the tenth or twentieth anniversary date of the issue at par value. None of these notes are currently putable.

Debt maturities, exclusive of capital leases, for the next five fiscal years are as follows: 2003, $8.2 million; 2004, $55.6 million; 2005, $608.9 million; 2006, $7.7 million; 2007, $60.9 million.

The Company's debentures, senior notes, medium term notes and convertible notes contain certain financial covenants, including the maintenance of specific financial ratios, among others. The Company was in compliance with all covenants in these agreements at January 31, 2003 and February 1, 2002.

In October 2001, the Company issued $580.7 million aggregate principal of senior convertible notes at an issue price of $861.03 per note. Interest on the notes, at the rate of 0.8610% per year on the principal amount at maturity, is payable semiannually in arrears until October 2006. After that date, the Company will not pay cash interest on the notes prior to maturity. Instead, in October 2021 when the notes mature, a holder will receive $1,000 per note, representing a yield to maturity of approximately 1%. Holders may convert their notes into 17.212 shares of the Company's common stock, subject to adjustment, only if: the sale price of the Company's common stock reaches specified thresholds, the credit rating of the notes is below a specified level, the notes are called for redemption, or specified corporate transactions have occurred. Holders may require the Company to purchase all or a portion of their note in October 2003 or October 2006, at a price of $861.03 per note plus accrued cash interest, if any, or in October 2011, at a price of $905.06 per note. The Company may choose to pay the purchase price of the notes in cash or common stock or a combination of cash and common stock. In addition, if a change in control of the Company occurs on or before October 2006, each holder may require the Company to purchase for cash all or a portion of such holder's notes. The Company may redeem for cash all or a portion of the notes at any time beginning October 2006, at a price equal to the sum of the issue price plus accrued original issue discount and accrued cash interest, if any, on the redemption date. The conditions that permit conversion were not satisfied at January 31, 2003.

In February 2001, the Company issued $1.005 billion aggregate principal of convertible notes at an issue price of $608.41 per note. Interest will not be paid on the notes prior to maturity in February 2021, at which time the holders will receive $1,000 per note, representing a yield to maturity of 2.5%. Holders may convert their notes at any time on or before the maturity date, unless the notes have been previously purchased or redeemed, into 16.448 shares of the Company's common stock per note. Holders of the notes may require the Company to purchase all or a portion of their notes in February 2004 at a price of $655.49 per note or in February 2011 at a price of $780.01 per note. On either of these dates, the Company may choose to pay the purchase price of the notes in cash or common stock, or a combination of cash and common stock. In addition, if a change in control of the Company occurs on or before February 2004, each holder may require the Company to purchase, for cash, all or a portion of the holder's notes.

NOTE 7 - Financial Instruments:

Cash and cash equivalents, accounts receivable, short-term borrowings, trade accounts payable and accrued liabilities are reflected in the financial statements at cost which approximates fair value. Short and long-term investments, classified as available-for-sale securities, are reflected in the financial statements at fair value. Estimated fair values for long-term debt have been determined using available market information and appropriate valuation methodologies. However, considerable judgment is required in interpreting market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that the Company could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts. The fair value of the Company's long-term debt excluding capital leases is as follows:

	January 31, 2003		February 1, 2002	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
(In Millions)				
Liabilities:				
Long-Term Debt (Excluding Capital Leases)	$3,302	$3,747	$3,327	$3,814

Interest rates that are currently available to the Company for issuance of debt with similar terms and remaining maturities are used to estimate fair value for debt issues that are not quoted on an exchange.

b.1. Lowe’s Price Chart (from MultexInvestor)

Prob 2-2: Maggie Mountain Software

Fill in the formulas in the cells shaded in yellow. For the Income Statement and Balance sheet, start with year 2001. Then copy formulas into adjacent columns for years 2002 and 2003. Cells that have a little red triangle in the upper right hand corner have hints you can view. Let the cursor hover over the cell and the comment will appear. The objective is to have completed financial statements for 2001, 2002, and 2003, and to calculate FCF for 2003 (part a) and intrinsic share value (part b).

Income Statement ($ Thousands)

	2001	2002	2003
Sales	1,880.0	2,000.0	2,120.0
Costs	1,705.0	1,800.0	1,908.0
Operating Profit	175.0	200.0	212.0
Interest Expense	22.0	26.0	27.0
Earnings Before Taxes	153.0	174.0	185.0
Taxes (see below for tax rate)	76.5	87.0	92.5
Net Income	76.5	87.0	92.5
Dividends	33.0	37.0	40.5
Additions to retained earnings	43.5	50.0	52.0

Balance Sheets ($ Thousands)

Assets	2001	2002	2003
Operating current assets	790.0	775.0	818.0
Total current assets	790.0	775.0	818.0
Net PPE	475.0	550.0	584.0
Total assets	1,265.00	1,325.0	1,402.0
Liabilities and Shareholders' Equity			
Operating current liabilities	250.0	187.0	205.0
Total current liabilities	250.0	187.0	205.0
Long-term debt	365.0	438.0	445.0
Total liabilities	615.0	625.0	650.0
Total common equity	650.0	700.0	752.0
Total liabilities and equity	1,265.0	1,325.0	1,402.0

Other Data

Tax rate	50%
Expected growth rate	6.00%
Weighted average cost of capital (WACC)	9.00%
Number of shares of stock (millions)	100

FCF Valuation	2001	2002	2003
NOPAT	87.5	100.0	106.0
Operating CA	790.0	775.0	818.0
Operating CL	250.0	187.0	205.0
NOWC	540.0	588.0	613.0
Net PPE	475.0	550.0	584.0
Total net operating capital	1,015.0	1,138.0	1,197.0
Investment in capital		123.0	59.0
ROIC (beginning capital)		9.85%	9.31%
FCF		-23.0	47.0

	2003	
FCF	47.0	
		This is a
		horizor
Value of operations	1,661	calcul
Plus the value of non-operating assets	0	
Total value of the corporation	1,661	
Minus value of debt	445.0	
Value of equity	1,216	
Price per share	$12.16	
EVA	3.58	
EVA based on ROIC	3.58	

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