

LOWE'S COMPANIES, INC., ANNUAL REPORT TO STOCKHOLDERS

1963 A year of building



Highlights of the year...

	1963	1962	% of Increase
Net Sales	\$39,011,836	\$32,660,889	19.4
Net Earnings After Taxes	1,205,403	1,020,565	18.1
Per Common Share	1.22	1.02	19.6
Cash Dividends Paid	411,229	402,250	2.2
Per Common Share	.41¼	.40	
Net Working Capital	6,884,005	6,036,730	14.0
Total Assets	15,629,698	13,096,562	19.3
Shareholders' Equity	6,325,695	5,661,332	11.7
Common Shares Outstanding	987,950	1,000,000	
Shareholders	2,034	2,047	
Employees	555	491	13.0
Customers Served	882,593	703,350	25.5

ABOUT THE COVER

Back in 1946, Lowe's was a family run hardware store selling a limited selection of tools, equipment and building supplies. Today, we have 22 owned stores, seven associated stores and one lumber yard. The ingredients which have led to this phenomenal growth are symbolized on the cover: Lowe's plays a substantial part in the residential (1.) and commercial (2.) construction boom in the areas in which we operate. Our wholly-owned lumber company (3.) supplies Lowe's special lumber requirements. The blueprint (4.) represents the aggressive selling efforts by Lowe's salesmen through contractor and builder contact. The tractor-trailer (5.) is indicative of Lowe's fast supply delivery—both to our stores and to on-the-job sites. The experience and planning of the management team (6.) has been responsible for Lowe's rapid expansion. The typical three and one-half acre Lowe's store (7.) offers all the conveniences of modern, one-stop shopping for home builders and home owners. Lowe's catalogue (8.) is one example of our comprehensive advertising and merchandising program. Our IBM systems (9.) provide closer inventory control, improved billing and tight day-to-day control of the business.



REGISTRAR

The Northwestern Bank
North Wilkesboro, N. C.

TRANSFER AGENTS

Wachovia Bank & Trust Co.
Raleigh, N. C.

Morgan Guaranty Trust Company
of New York
140 Broadway • New York, N. Y.

GENERAL COUNSEL

McElwee & Hall
North Wilkesboro, N. C.

AUDITORS

Smith & Grisette, CPA's
Lenoir, N. C.

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A year of building...

TO OUR STOCKHOLDERS:

The results of the fiscal year ending July 31, 1963, were most satisfactory to the management of Lowe's as sales, earnings and market penetration reached the highest levels in the history of the company. Financial strength and increased capital position are reflected in our year-end statement.

Four new stores were opened during this year, and the company has absorbed the normal, heavy, non-recurring expenses incident to this expansion.

Our objective for the future is to continue the growth of Lowe's through the opening of new stores. We have the personnel in training in our organization to accomplish this program. We shall continue to search for the best products to offer to our customers, and to advertise and promote the products which will give our customers the greatest value. We therefore look to the future with confidence that Lowe's will continue to grow, and become a more important factor in merchandise distribution in the area we serve.

On May 20 the Board of Directors voted to increase the cash dividend from 40 cents to 45 cents per share, effective August 1. We hope that continued growth of our earnings will allow us to further liberalize dividends over a period of time.

We express our sincere appreciation to all of Lowe's employees, customers, suppliers and friends for their contribution in making 1963 a record year of building. We have enjoyed the support and confidence placed in Lowe's management by our stockholders.



Chairman of the Board and President



Lowe's

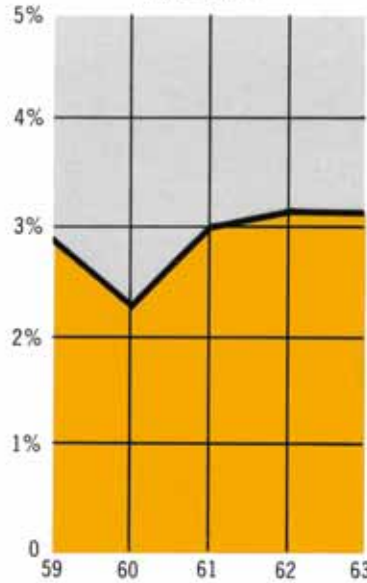




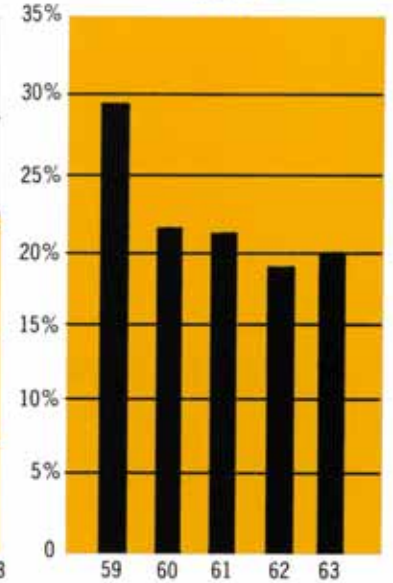
A year of building...



% NET INCOME — NET SALES
(After Taxes)



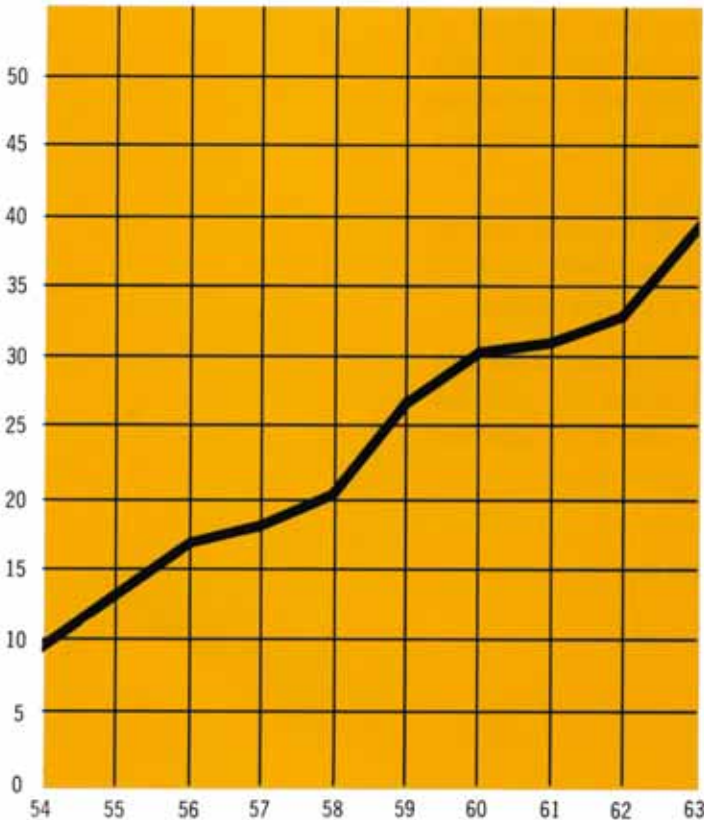
% RETURN ON STOCKHOLDERS' EQUITY



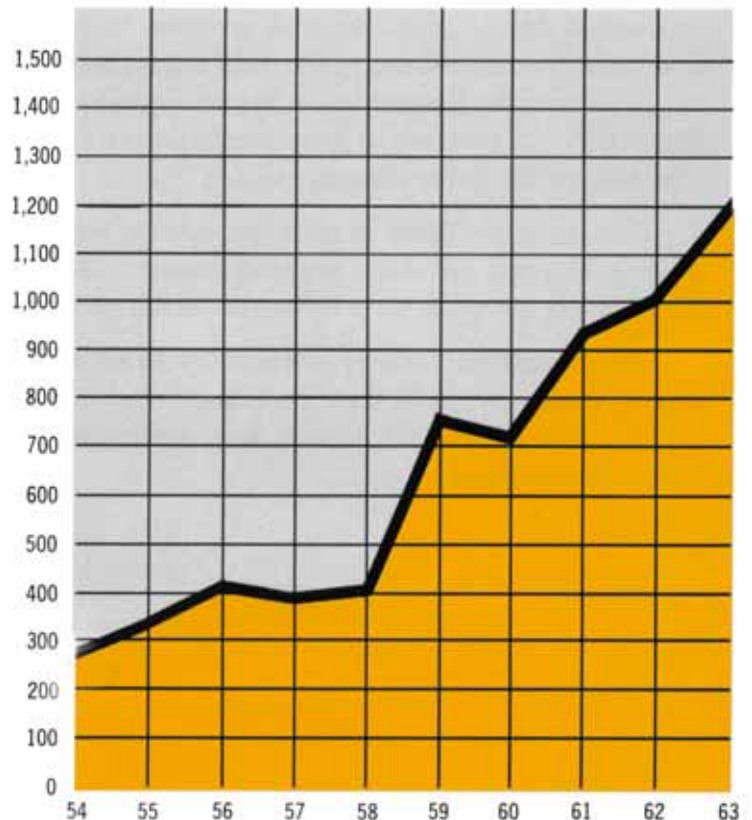
CAPSULE REVIEW

	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963
Sales	6,380,345	9,460,819	13,380,969	17,389,620	18,232,770	20,443,908	27,005,459	30,679,449	31,127,776	32,716,336	39,011,836
Net After Tax	169,027	274,551	343,855	407,039	392,434	404,285	756,079	718,211	934,426	1,020,565	1,205,403
% To Sales	2.64	2.90	2.57	2.34	2.14	1.97	2.80	2.34	3.00	3.12	3.09
Earnings Per Share17	.27	.34	.40	.39	.40	.75	.72	.93	1.02	1.22
Number of Stores	3	4	5	6	6	9	13	15	15	18	22

SALES
IN MILLIONS OF DOLLARS



EARNINGS AFTER TAXES
IN THOUSANDS OF DOLLARS





1963 – A year of building...

1963 was indeed a year of building for Lowe's. Sparked by increased activity in residential construction in our markets, and rising demand for consumer goods, our sales reached an all-time high. With new heights come new challenges, and we responded to the challenges of a year of building, with new stores, new promotions, new products, new organization, and new ideas.



A year of building – new stores

We believe that opportunities exist throughout America for profitable new Lowe's stores. In 1963, Chattanooga, Hickory, Huntington, and Princeton became part of Lowe's land.

Chattanooga became our fourth store in Tennessee on August 1, 1962. It is a large, modern, low-cost distribution center, and in addition to the Chattanooga market, it is strategically located to serve market areas in northern Alabama and Georgia.

Hickory is a furniture manufacturing center in North Carolina, and a Lowe's associate store opened there in 1957 and operated continuously. Arrangements were made to expand service to this growing area by converting to a Lowe's-owned store and offering customers our complete range of products and services. The opening of the expanded store was held in September, 1962.

For years customers have been driving to Lowe's in North Wilkesboro and Sparta for truckloads of building material, all the way from Huntington, West Virginia; Ashland, Kentucky; Portsmouth, Ohio, Gallipolis, Ohio, and other towns in the Ohio River Valley. Market surveys indicated that a Huntington location could serve this area best. Lowe's of Huntington opened in November and is proving to be an excellent store.

July 4, 1963, brought independence from high prices to Princeton, West Virginia, and brought the number of Lowe's company stores to 22. The many people in this market who were former customers of Lowe's of Roanoke, Sparta, and Oak Hill gave our grand opening a grand welcome.

As fiscal 1964 begins, Lowe's has three more store openings already in various stages of completion, and during 1964 we plan to open our 30th company-owned location.



Grand opening scenes like this were typical as four new Lowe's stores opened in 1963.



Extensive market studies are conducted to choose convenient locations for Lowe's stores. Inside the stores, emphasis is on clean and shiny display.





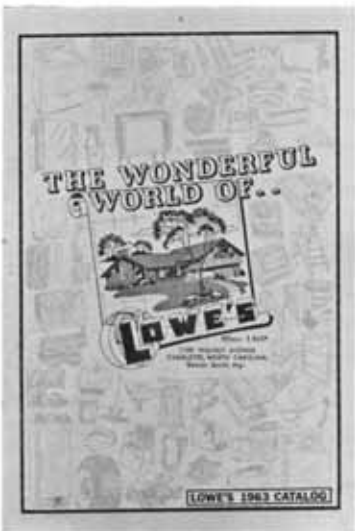
A year of building... New promotions

Promotion of all types is a way of life at Lowe's. Advertising, sales contests, incentives, door prizes, giveaways, direct mail, refreshments, and special values make a visit to Lowe's an adventure in retailing for customers and employees alike. Here are some current examples —

- **Lowe's Record Club**—With every console phonograph bought, we gave a stereo album every week for fifty weeks **free**.
- **Trip to Rome**—Salesmen are competing to win a wonderful, expense-paid trip to Rome, Italy, by selling their quota of appliances.
- **Your Heart's Desire**—At store openings, customers are invited to choose their heart's desire from any of the thousands of items at Lowe's. When the drawing is held, the winner has already chosen his own prize.
- **Fourth of July**—Every customer received a free watermelon, along with free refreshments, door prizes, and balloons for the children. In Princeton, our grand opening was held on the fourth, and that evening everyone in the community was invited to the city park for a free fireworks display and watermelon supper. This drew the largest crowd ever assembled in the park.
- **Lowe's Catalogues**—Twice a year a catalogue is published and distributed showing our complete line, with emphasis on new items, seasonal merchandise, and Lowe's popular Low Prices.



Hard hitting newspaper ads stress quality merchandise at Lowe's low prices.



The Lowe's catalogue showing our complete line, results in a large volume of mail and telephone orders.

Trade show exhibits have proven to be an excellent method of reaching the builders' market.



Quarter page ads in the yellow pages of the telephone book help influence the consumer to shop at Lowe's.

These lovely hostesses attracted attention to the Lowe's kitchen exhibit at a typical trade show.





A year of building... new products

Lowe's line of merchandise includes some of the finest brand names in industry, as page six shows. We work continuously to improve and update our line, and in 1963 we acquired some notable additions.

The Sherwin-Williams paint line is probably America's best known. Its Super Kem Tone, SWP, and other products have set a high standard of performance over the years. The addition of this line to our paint departments has greatly increased sales and customer satisfaction.

Skill tools, particularly power saws, have the highest acceptance in our area among professional users, and we were pleased to add this line to our power tool departments in 1963.

In residential locksets, Schlage has long enjoyed a deserved reputation for quality. Now, Schlage locks at Lowe's low prices are proving very popular.

In addition to improving existing lines, we have augmented our product selection with tape recorders, stereo albums, binoculars, bedding, chord organs, and plastic housewares. We have plans for continued expansion in new products.



Customers have come to rely on Lowe's for nationally advertised products at the lowest possible prices.



Our paint departments offer a full range of decorator colors to please the most fastidious housewife.



All Lowe's stores carry a complete inventory of the most popular lumber grades and sizes.

New organization

1963 brought improvement to two important phases of Lowe's business: getting merchandise into the stores more efficiently, and then getting it into customers' hands more effectively.

A new 60,000 square foot central warehouse completed in January has greatly improved merchandise flow. Although many items are shipped direct to each store by rail or truck, the central warehouse provides a unique supply service by allowing full carload or truckload purchases of even small or slow-turnover merchandise. This inventory is available to all stores within a 24 hour period. The net result has been the reduction of out-of-stocks and the reduction of inventory investment in this merchandise.

Getting merchandise into customers' hands more effectively is a continuing challenge. Due to the increased tempo of modern retailing, customer service requirements, and our broadened product line, a reorganization of our sales force was necessary. Three product sales managers, with a total of 35 years experience at Lowe's, were given sales responsibility, and each is now in charge of a specialized sales force to give professional sales assistance to our customers. The results have been increased marketing effectiveness and sales penetration.

The color picture below will give you an idea of the wide range of products we sell. We have 3,500 items in building materials, hardware and appliances which we sell wholesale and retail. Our average sale is between \$40 and \$42, compared to \$5 for the average department store. Building supplies such as lumber, roofing, paint, heating equipment and tile account for about 75% of our business. Consumer goods — from refrigerators and television sets to lawnmowers and bicycles — account for the remaining 25% of our volume.

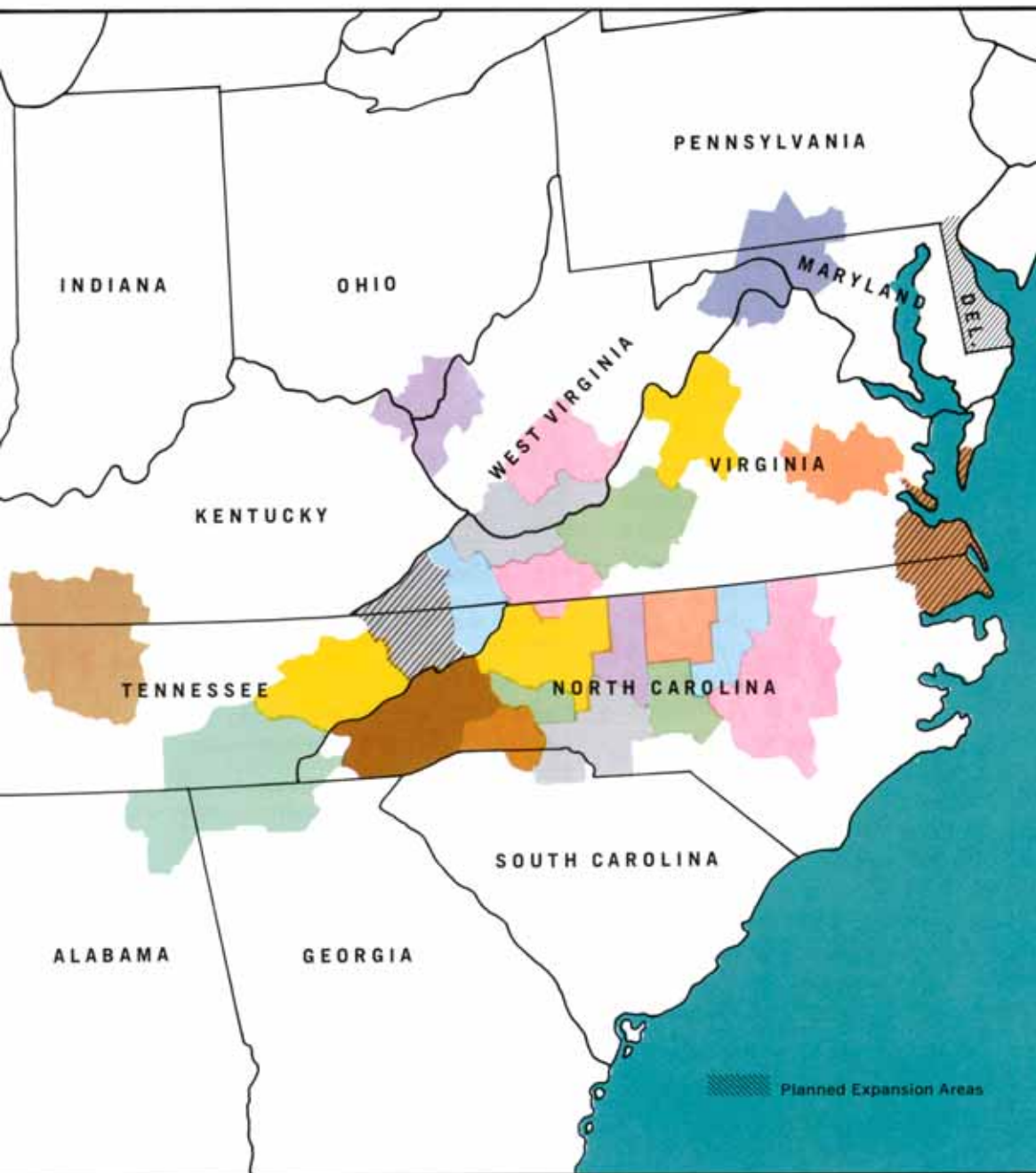
The products we sell...

LEVITON
 SEAWHILL PRODUCTS SERVICE
 3M COMPANY
 CROFT METAL PRODUCTS, INC.
 Gold Bond BUILDING PRODUCTS
 PHILCO
 MIAMI Carey
 SCHLAGE
 GOODYEAR
 GP
 MODERN MAID
 USS
 Sunbeam
 General
 Aluminum Company of America
 FLINTKOTE
 FAIRBANKS MORSE FAIRBANKS WHITNEY
 SKIL
 DIXIE CABINET COMPANY
 MURRAY COMPANY
 GE
 Hotpoint
 X-L BRASS
 BORG-WARNER

The wonderful v

Currently, Lowe's operates in five Middle Atlantic states. There are 22 company-owned retail stores, seven associated stores and one lumber yard. The map below pinpoints the Lowe's stores and indicates the marketing areas they serve. You can see that a single Lowe's store draws traffic from a wide geographic area.

The area we serve...



RETAIL STORES

- Asheboro, N. C.
- Asheville, N. C.
- Bristol, Tenn.
- Charlotte, N. C.
- Chattanooga, Tenn.
- Durham, N. C.
- Greensboro, N. C.
- Hagerstown, Md.
- Hickory, N. C.
- Huntington, Va.
- Knoxville, Tenn.
- Nashville, Tenn.
- North Wilkesboro, N. C.
- Oak Hill, W. Va.
- Princeton, W. Va.
- Raleigh, N. C.
- Richmond, Va.
- Roanoke, Va.
- Shelby, N. C.
- Sparta, N. C.
- Staunton, Va.
- Winston-Salem, N. C.

ASSOCIATES

- Brevard, N. C.
- Gibson Station, Va.
- Greeneville, Tenn.
- Lexington, N. C.
- Marion, N. C.
- Mayodan, N. C.
- Newport, Tenn.

LUMBER YARD

- N. Wilkesboro, N. C.
- Lumber Yard & Planing Mill

world of Lowe's...



A year of building – new ideas

A new idea has created new business for Lowe's oldest store. North Wilkesboro is in the center of North Carolina's growing poultry processing industry. This industry's vertical integration program "farms out" hundreds of thousands of chickens to grow to the desired body weight. Proper insulation in the chicken house does three things for the grower: it conserves fuel, reduces the amount of feed required, and reduces the mortality rate of the birds. However, most of the large houses have been built with no insulation, because conventional materials and installation methods are costly and unsuited to this specific application.

Sales Vice-President John Walker began an intensive study of this problem and working with university agricultural research people and Lowe's insulation suppliers, developed a new roof insulation package for chicken houses. The package plan includes furnishing the materials, installation in the house, and a five-year warranty, all at an attractive price. Over 100 large installations, averaging about 10,000 square feet each, have already been made in the area, and based on preliminary results, the purchaser will get a two-year payback of his outlay!

New ideas to improve customer service are always welcome at Lowe's. Director of Operations Joe Reinhardt introduced automation to Lowe's sales



The photograph at top shows Lowe's workmen installing our new type of roof insulation for chicken houses. The farmer will get his money back in two years through conserved fuel, reduced feed required and lower mortality rate of the chickens.

Special Lowe's crews are trained to install the new chicken house insulation package.



After each sale, Lowe's salesmen select preprinted IBM cards for the merchandise purchased.



The IBM card is fed into this computer, which extends the quantities and prices, adds sales tax, totals and prints the sales ticket.

floors in 1963 with the installation of an IBM computer at the Winston-Salem, North Carolina, store.

For each sale, the salesman writes in the customer's name and address, then selects preprinted cards for the items of merchandise desired. The computer then extends the quantities and prices, adds sales tax, totals, and prints the sales ticket. Both the customer and the company are protected against over or undercharges, and the sales ticket provides an accurate load-out sheet for the warehouseman and an itemized purchase record for the customer. Our customers like it, and it is much faster and more accurate than the old handwritten method.

When the sales ticket is printed, an inventory control card is also created and forwarded to Lowe's Data Processing Center for immediate updating of our inventory.



Consolidated statement of earnings and retained earnings



	Year Ended July 31	
	1963	1962
Earnings:		
Net Sales	\$39,011,836	\$32,660,899
Other Income	34,515	55,437
Total	<u>\$39,046,351</u>	<u>\$32,716,336</u>
Cost and Expenses		
Cost of Merchandise Sold, Including Buying, Operating, Selling and Administrative Expenses Other Than Itemized Herein	\$35,853,777	\$29,973,862
Rents	215,144	181,337
Depreciation and Amortization	150,950	124,570
Contributions to Employees' Profit Sharing Plan	270,629	254,122
Interest and Loan Expense	117,559	128,274
Total Cost and Expenses	<u>\$36,608,059</u>	<u>\$30,662,165</u>
Earnings Before Income Taxes	\$ 2,438,292	\$ 2,054,171
Provision for Income Taxes	1,232,889	1,033,606
Net Earnings	<u>\$ 1,205,403</u>	<u>\$ 1,020,565</u>
<hr/>		
Retained Earnings:		
Balance at Beginning of Year	\$ 4,616,332	\$ 3,998,017
Net Earnings	1,205,403	1,020,565
Totals	<u>\$ 5,821,735</u>	<u>\$ 5,018,582</u>
Less: Dividends Paid	411,229	402,250
Balance at End of Year	<u>\$ 5,410,506</u>	<u>\$ 4,616,332</u>

Explanatory notes on page 12 are an integral part of the financial statements.



Consolidated balance sheet...



ASSETS

	July 31	
	1963	1962
Current Assets:		
Cash	\$ 2,734,572	\$ 1,955,691
Accounts Receivable—Less Allowance for Doubtful Accounts	4,967,831	3,802,560
Marketable Securities—At Cost	31,339	31,339
Inventories—At the Lower of Cost or Market	6,213,839	5,867,733
Prepaid Expenses	59,546	75,512
Total Current Assets	<u>\$14,007,127</u>	<u>\$11,732,835</u>
 Property, Improvements and Equipment:		
At Cost Less Accumulated Depreciation (1963—\$599,270; 1962—\$508,951)	1,530,769	1,261,329
 Other Assets and Deferred Charges:		
Unamortized Loan Expense	40,701	51,297
Cash Value of Life Insurance	51,101	51,101
 Total Assets	<u>\$15,629,698</u>	<u>\$13,096,562</u>

Explanatory notes on page 12 are an integral part of the financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY

	July 31	
	1963	1962
Current Liabilities:		
Accounts Payable and Accrued Expenses	\$ 5,594,943	\$ 4,561,646
Long-Term Debt Due Within One Year	240,913	90,046
Provisions for Employees' Profit Sharing Plan	214,323	189,639
Provisions for Income Taxes	1,072,943	854,774
	<u>\$ 7,123,122</u>	<u>\$ 5,696,105</u>
Long-term Debt:		
Notes Payable and Debenture Bonds	2,138,877	1,679,864
Deferred Credits:		
Unamortized Premium on Debenture Bonds	42,004	59,261
Total Liabilities	<u>\$ 9,304,003</u>	<u>\$ 7,435,230</u>
Shareholders' Equity:		
5% Preferred Stock of \$100 Par Value Authorized, 500 Shares; Issued and Outstanding, 450 Shares ..	\$ 45,000	\$ 45,000
Common Stock of \$1 Par Value Authorized, 1,150,000 Shares; Issued and Outstanding, 1,000,000 Shares ..	1,000,000	1,000,000
Retained Earnings	5,410,506	4,616,332
Less Common Stock Held in the Treasury (At Cost) —12,050 Shares	\$ 6,455,506 129,811	\$ 5,661,332
Total Shareholders' Equity	<u>\$ 6,325,695</u>	<u>\$ 5,661,332</u>
Total Liabilities and Shareholders' Equity	<u>\$15,629,698</u>	<u>\$13,096,562</u>



Notes to financial statements...



Note 1 — Data on Subsidiaries:

The consolidated financial statements include the accounts of all subsidiaries, all of which are wholly-owned. During the year the Company began operations of four newly organized store subsidiaries located in Chattanooga, Tennessee; Hickory, North Carolina; Huntington, West Virginia; and Princeton, West Virginia. The Company also organized a new store subsidiary located in Kingsport, Tennessee, which was scheduled to begin operations in August 1963. During the current year a new real estate subsidiary was organized and began operations.

Note 2 — Cash Value of Life Insurance:

The \$51,101 shown on the balance sheet as cash value of life insurance represents premiums paid on policies covering the life of Mr. H. C. Buchan, Jr., former president. The policies had been in effect for less than two years prior to the death of Mr. Buchan on October 22, 1960, and the insurance companies have withheld payment. Action has been instituted by Lowe's for recovery of \$1,617,202, the face amount of the policies.

Note 3 — Long-term Debt:

The Company's long-term debt is summarized as follows:

Unsecured 6% notes payable to a life insurance company in the amount of \$1,170,000 representing the balance due under an agreement entered into on October 13, 1960 when a loan of \$1,500,000 was effected. The loan is payable in annual installments of \$150,000 beginning September 1, 1963. Unsecured 5¾% notes payable to the same life insurance company in the amount of \$700,000 representing the amount due under an agreement entered into on June 28, 1962. The note in the amount of \$700,000 was executed July 29, 1963. This loan is payable in annual installments of \$70,000 beginning June 1, 1968. Among other conditions the loan agreements place certain requirements on net current assets to be maintained, limits borrowing and places certain restrictions on payment of cash dividends. At July 31, 1963 the Company has complied with the restrictive clauses of the agreements.

4½% debenture bonds in the aggregate amount of \$193,621 maturing annually to 1967 at the rate of \$34,773 with a final payment in 1968 of \$19,756.

Various notes in the aggregate amount of \$316,168 incurred in the purchase of and secured by real estate. All of these notes mature in monthly installments. The final payments are due in 1969.

Note 4 — Commitments and Contingent Liabilities:

On June 16, 1961 the Company purchased from the estate of H. C. Buchan, Jr., 50,000 shares of its common stock and issued in payment for this stock a non-interest bearing note in the amount of \$700,000. This note was not recorded in the accounts of the Company since it is payable only out of the proceeds of certain life insurance policies referred to in Note 2 on the life of Mr. Buchan. The balance due on this note at July 31, 1963 and payable only upon the collection of such insurance policies is \$378,082.

Lowe's Companies, Inc. and its subsidiary companies have eleven rental leases expiring more than three years after July 31, 1963, with aggregate minimum annual rentals of approximately \$88,000. None of the leases extend beyond 1973 except by option of the Company.

The Company and subsidiaries have sundry claims and litigations pending against them. In the opinion of counsel and management these items will not result in consequences materially adverse to the Company.

The tax returns of the Company and its subsidiaries for the past three years are currently being examined by agents of the Internal Revenue

Service. It is the opinion of the Company officers and counsel that there will be no material changes in the returns as filed.

Note 5 — Employees' Stock Option Plan:

Under the stock option plan approved by the stockholders in July 1961, 65,000 shares of the Company's common stock are reserved for the granting of options at 95% of market value at the date of grant.

The following table sets forth the number of shares for which options were outstanding to officers and key employees at July 31, 1963:

Date Granted	Beginning Exercisable Date	Option Price Per Share	Persons Involved	Number of Shares
10- 9-61	1-1-63	\$11.64	21	59,250
5-20-63	6-1-65	11.00	10	5,257
			<u>31</u>	<u>64,507</u>

The options are exercisable at the rate of 20% per year beginning at the exercisable date shown above. In accordance with the resolution adopted by the stockholders on September 24, 1962 the Company purchased during the year 12,050 shares of its common stock for \$129,810.63 to be used for the stock option plan.

Note 6 — Employees' Profit Sharing Plan:

There is in effect a qualified non-contributory profit sharing plan established in June 1957. The Company and subsidiaries generally contribute to the plan the maximum amount allowed under the Internal Revenue Code, that is, 15% of the aggregate annual compensation paid to participating employees. The trust created by the plan is the Company's largest stockholder.

The Board of Directors
Lowe's Companies, Inc.

We have examined the consolidated balance sheet of Lowe's Companies, Inc., and subsidiary companies at July 31, 1963 and the related statements of consolidated earnings and retained earnings for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion the accompanying balance sheet and statement of earnings and retained earnings present fairly the consolidated financial position of Lowe's Companies, Inc., and subsidiary companies at July 31, 1963 and the consolidated results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

SMITH & GRISETTE
Certified Public Accountants

Lenoir, North Carolina
September 3, 1963

Officers and Directors...

EDWIN DUNCAN, SR. • President • Chairman of the Board •
President, NORTHWESTERN BANK • North Wilkesboro, N. C.

PETRO KULYNYCH • Executive Vice President • Chairman, Executive Committee • Director

JOHN A. WALKER • Vice President, Sales • Member, Executive Committee • Director

WILLIAM H. McELWEE • Vice President • General Counsel • Director •
President FOREST FURNITURE CO. • North Wilkesboro, N. C.

LEONARD G. HERRING • Secretary-Treasurer • Member, Executive Committee • Director

J. V. REINHARDT • Director of Operations • Member, Executive Committee • Director

ROBERT L. STRICKLAND • Director of Marketing • Member, Executive Committee • Director

GORDON E. CADWGAN • Director • Partner, G. H. WALKER & COMPANY • Providence, R. I.



EDWIN DUNCAN, SR.



PETRO KULYNCH



JOHN A. WALKER



WILLIAM H. McELWEE



LEONARD G. HERRING



J. V. REINHARDT



ROBERT L. STRICKLAND



GORDON E. CADWGAN



LOWE'S COMPANIES, INC., BOX 1111, NORTH WILKESBORO, NORTH CAROLINA