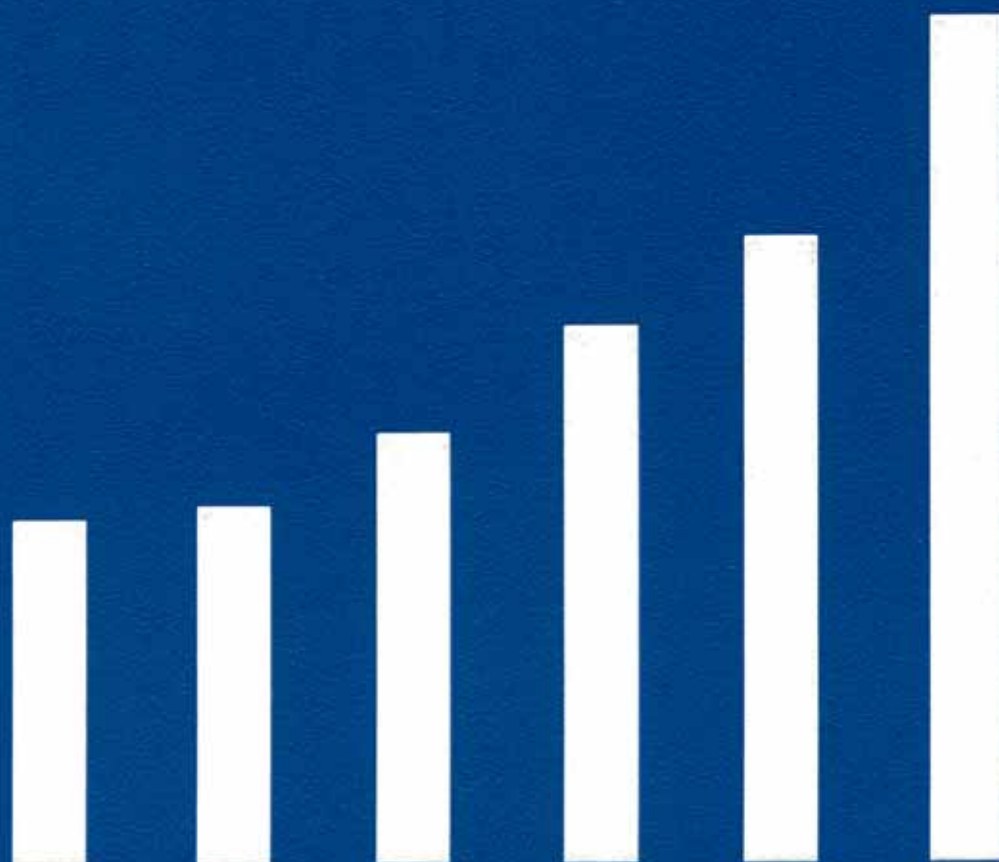


**LOWE'S**  
*Companies, Inc.*

**1966**  
ANNUAL REPORT



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## Transfer Agents:

Morgan Guaranty Trust Company of New York  
23 Wall Street, New York, N. Y. 10015  
Wachovia Bank & Trust Company  
Box 1951, Raleigh, N. C. 27602

## Registrars:

The Chase Manhattan Bank  
One Chase Manhattan Plaza,  
New York, N. Y. 10015  
The Northwestern Bank  
Box 311, North Wilkesboro, N. C. 28659

## General Counsel:

McElwee & Hall  
Box 1054, North Wilkesboro, N. C. 28659

## Auditors:

Grisette & Beach, Certified Public Accountants  
Box 759, Lenoir, N. C. 28645

## Annual Meeting:

Second Monday in November  
Lowe's General Office  
Highway 268 East, Box 1111,  
North Wilkesboro, N. C. 28659

# LOWE'S

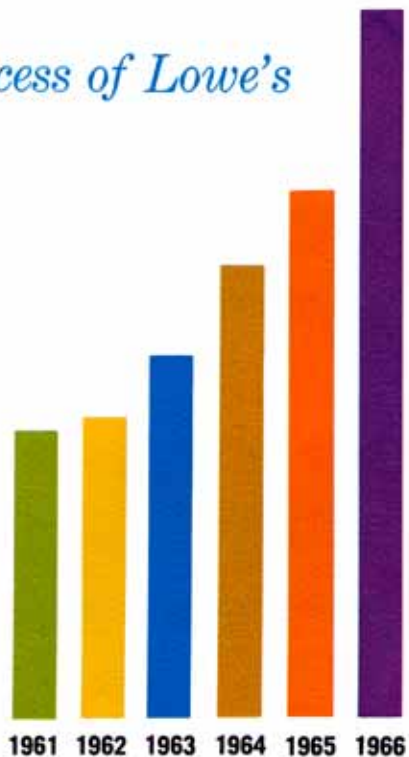
Companies, Inc.

## Highlights of the Year

	1966	1965*	Per Cent of Increase
Net Sales . . . . .	\$77,042,837	\$57,043,741	35.1
Net Earnings . . . . .	\$ 2,790,484	\$ 2,046,268	36.4
Per Common Share . . . . .	\$ 1.36	\$ 1.00	
Cash Dividends Paid . . . . .	\$ 615,726	\$ 518,648	18.7
Per Common Share . . . . .	\$ .30	\$ .25 <sup>3</sup> / <sub>4</sub>	
Net Working Capital . . . . .	\$ 9,765,957	\$ 7,973,696	22.5
Total Assets . . . . .	\$28,559,208	\$23,095,800	23.6
Shareholders' Equity . . . . .	\$11,793,757	\$ 9,490,301	24.3
Common Shares Outstanding . . . . .	2,052,652	2,030,416	
Shareholders of Record . . . . .	1,985	1,871	
Employees . . . . .	891	762	16.9
Customers Served . . . . .	1,635,702	1,283,729	27.4

\*Adjusted to reflect 100% stock dividend May 2, 1966.

### The Colorful Success of Lowe's



#### About the Cover

The bar graph portrays Lowe's sales growth for the past six years, up from \$31 million in fiscal 1961, to \$77 million in fiscal 1966. The bars here are color-keyed to the broad categories of merchandise which helped produce this sales growth, and the Lowe's merchandise story is further amplified in pages 4 through 15.

*Directors*

**EDWIN DUNCAN, SR.**  
President, Chairman of the Board.

**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

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

**JOE 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, Boston, Mass.



JOHN A. WALKER



JOE V. REINHARDT



EDWIN DUNCAN, SR.



WILLIAM H. McELWEE



LEONARD G. HERRING



GORDON E. CADWGAN



PETRO KULYNYCH



ROBERT L. STRICKLAND



## *To Our Stockholders:*

we's reached new heights in sales and earnings in fiscal 1966. The sales increase of \$20,000,000 doubled any previous year's growth and the earnings increase of \$744,000 exceeded the company's total earnings in 1960. As the ten year review on page 22 shows, the 3.62% return on sales is a record high, and the return on stockholders' equity of 26.22% is the highest since 1959.

On May 2, Lowe's paid a 100% stock dividend on the common stock outstanding, and also paid a cash dividend of 8¢ per share on each of the expanded number of shares — an indicated rate of 32¢ annually. This 14.2% dividend boost marks the fourth time in the past four years that cash dividends have been raised. Management's purpose in the stock dividend action was to attract new stockholders by increasing the available supply in a more favorable trading range.

Lowe's expansion program brought the number of Lowe's Companies stores to 39, as grand openings were held in four new locations. In May, the Greensboro, North Carolina, store was relocated in Lowe's most modern store facility, in an area more convenient to the customers of this major Market which includes the furniture center of High point, North Carolina, as well as Greensboro.

In the past fiscal year, money has become progressively tighter with the effect of slowing down new construction. Yet it is with satisfaction that we invite your attention to the liquidity of our financial statement. The company anticipates no difficulty in financing a reasonable expansion program in the 1967 fiscal year. To combat the decline in sales of building materials due to fewer housing starts, Lowe's has added new consumer items for sale, inaugurated a major new remodeling program, and through advertising and salesmanship, extended the sales penetration of those items not directly connected with new housing construction. The results have been such that we at Lowe's look forward to a satisfactory year in fiscal 1967.

We express our appreciation to Lowe's employees for their dedicated work during this banner year. The loyalty of our customers, our suppliers, and our friends during the past twelve months has been very gratifying, as has the support of our stockholders.

EDWIN DUNCAN

*Chairman of the Board and President*



## Building Materials



Illustrated here are a few of the various Building Material items available at all Lowe's Stores.

1. Farm buildings
2. Doors
3. Wallboard
4. Lakeside cottages
5. Brick
6. Nails
7. Ceiling tile
8. Paint
9. Floor tile
10. Cement
11. Insulation
12. Wrought iron railing
13. Paint brushes and accessories

### *The Story of Lowe's 1966*

Lowe's is a sales company, and we believe the 1966 chapter of the story of Lowe's can best be understood by focusing sharply on the merchandise we sell. Our artist has attempted to portray the dramatic variety of this merchandise through original full-color sketches on pages 4 through 14.

In this narrative section, we will discuss the developments and Lowe's 1966 innovations in our merchandise, our markets, our departments, and our services; and finally our outlook for the future.

### *The Home Construction Market*

"Building Materials Are Our Business, And Our Low Prices Mean Business," goes one of Lowe's advertising campaigns. Since the early beginnings of the company as a mass marketer in 1946, building supplies have been the major portion of sales volume. Adapting the low-margin high-volume philosophy of the successful grocery supermarkets, Lowe's immediately attracted the business of the building trades—carpenters, contractors, developers, and home builders.

During 1966, the rate of housing starts has declined as the supply of money for long term mortgages has become progressively tighter. This decline in new residential construction comes at a time when demand for new homes is still high. Market surveys show that developers and speculative builders are reducing their inventory of unsold homes and apartments to the lowest levels in years. With demand high and supply low, the housing market should boom anew as soon as more long term mortgage money becomes available.

### *Remodeling*

Lowe's has announced the Big "M" — a remodeling and renovating program for retail customers. A huge demand for "turn-key" remodeling service exists throughout our marketing area. Lowe's has developed a new concept in this field, and we have recently initiated the plan in six of our Lowe's stores. The sales results are exciting and forecast a dramatic opportunity for increased sales and profits.

Essentially, Lowe's will merchandise home remodeling and renovating to our retail customers through direct mail and newspaper advertising. People desiring work performed will visit our stores, bring dimensions, select the materials, and qualify for financing. The customer will receive information from our sales coordinator who will quote them the "turn-key" job price.

Jobs vary in size from \$100 to \$26,000 and can be financed up to 120 months. Lowe's offers customers the opportunity to select quality name brand materials, and have the work performed by the most professional and ethical independent builder-contractors available in the area.

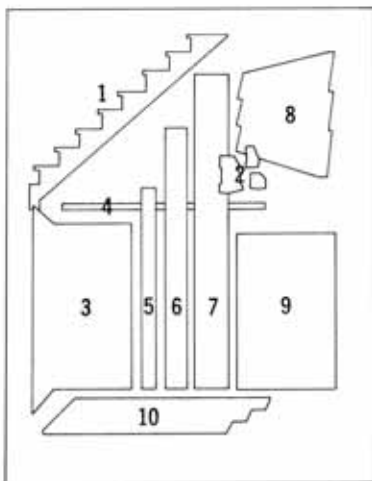
Lowe's Big "M" signifies Men, Money and Materials. A "golden key" for the front door is presented to each customer at job completion, establishing a personal and custom tone to Lowe's Big "M" Service — our plan for more spacious and gracious living.

The reception of Lowe's Big "M" by our customers has been gratifying, and indicates the possibility that this new service concept will make a significant contribution to future sales and profits of your company.





## Lumber



Illustrated here are a few of the various Lumber items available at all Lowe's Stores.

1. Stair stepping
2. Mouldings
3. Closet lining
4. Shelving
5. 2 x 4's
6. 2 x 8's
7. 2 x 12's
8. Siding
9. Paneling
10. Oak flooring

From the redwood forests of the Northwest, from the fir stands in Canada, from the great pine woodlands of the Southeast, and from local lumber yards in nine states, the best lumber finds a home at Lowe's.

Through ideas, one of the world's oldest construction materials has become one of the fastest-growing commodity groups we sell. We have taken "the mess and the guess" out of buying lumber. Each board, each two by four, and each moulding, has an IBM data control number, a clean, labelled storage bin, a market-oriented selling price, an air-conditioned display area, and a forecasted sales rate.

The Buchan Lumber Company is a wholly-owned subsidiary of Lowe's Companies, Inc., and is located in North Wilkesboro, North Carolina. It is a planing mill and dry kiln, and produces framing lumber, mouldings, and siding for the Lowe's stores in its market area.

The West Coast and Canada provide the greatest portion of our lumber requirements. Every day of the year, rail carloads of Western White Spruce, Douglas Fir, Hemlock, and Lodgepole Pine are rolling east towards Lowe's land – to be diverted to final destinations by the Purchasing Department based on sales needs. A major freight-saving innovation this year has been the scheduling of bulk West Coast lumber shipments to East Coast ports via ocean freight.

### Data Processing and Control

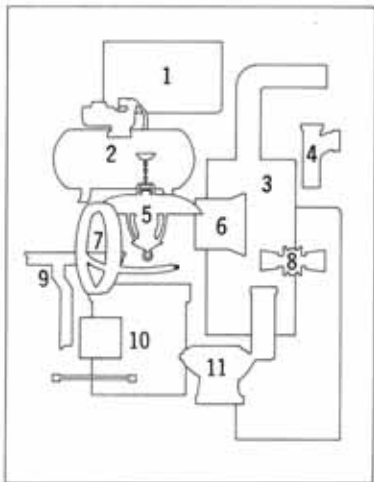
At Lowe's General Office an IBM computer system serves as the nerve center for management's control operation. Since 1956, Director of Operations Joe Reinhardt has continually expanded the application of electronic accounting into formerly prosaic areas of retailing. Every sales ticket is cost-audited, providing daily gross margins by store and by salesman, and weekly profit statements for each store. The perpetual inventory reports show which items are moving quickly or slowly, and which items turnover profitably.

The computer has made the salesman's pencils almost obsolete at Lowe's. In most Lowe's stores, the salesman selects preprinted cards for the items of merchandise desired by the customer. The computer in the store extends and totals, adds sales tax, and prints the sales ticket. This ticket serves as an accurate load-out sheet for the warehousemen, and an itemized purchase record for the customer. When the sales ticket is printed, an inventory control card is also created, then forwarded to the Data Processing Center for updating inventory records.

On order for this fall is an IBM 360 computer system, which will provide the capacity for a Total Information System, and an expansion of up to 150 stores.



## Building Hardware



Illustrated here are a few of the various Building Hardware items available at all Lowe's Stores.

1. Sinks
2. Electric water pumps
3. Furnaces
4. Plumbing pipes and accessories
5. Lighting fixtures
6. Electrical supplies
7. Electric wire
8. Door hardware
9. Gutters and downspouts
10. Bathroom accessories and tile
11. Bathroom fixtures

The market area that needs innovation most and welcomes it least is represented by the various items of home "hardware"—electrical, heating, and plumbing. These essential products are merchandised through sub-contractors, mechanical tradesmen, and installers. Few home owners can tackle a plumbing or wiring project.

Complicating the matter are the widely differing building codes, building inspectors' interpretations, trade habits, ingrained practices, general inertia, and in some areas, lack of qualified mechanics.

Lowe's objective is to simplify the problem for the homeowner, and make it easier for him to own our merchandise. To this end, we have introduced new labor-saving ideas in 1966.

"Come Into A Warm Parlor," says Lowe's Spider. Lowe's Spider Heating Package is a completely pre-fabricated home heating system. It takes its name from its appearance. It includes a gas or oil fired furnace, and the Spider's legs are the pre-built galvanized ducts which carry the heat to each room. All registers, grills, and controls are included for a complete installation. Although the package was designed as a do-it-yourself system by homeowners, it is also proving popular with builders and even heating men because of its on-the-job time-saving ability.

Perhaps the most archaic and code-ridden segment of the building industry is plumbing. However, a significant advance is being made by the plastic pipe industry. Beginning with polyvinyl flexible pipe for water carrying installation, plastic is taking an increasing share of the market. Installation is faster and simpler. The latest technological development is a styrene blend pipe for residential waste disposal. DWV pipe (drain-waste-vent) is now for sale at Lowe's in a pre-packaged kit for any three piece bathroom installation. Fittings, joint cement, and directions are all included. This kit has received an enthusiastic welcome from do-it-yourselfers and professionals alike.

For the future, product research is investigating application of the Spider systems to central air conditioning, and the revolutionary new all-electric furnaces.

### Delivery and Customer Service

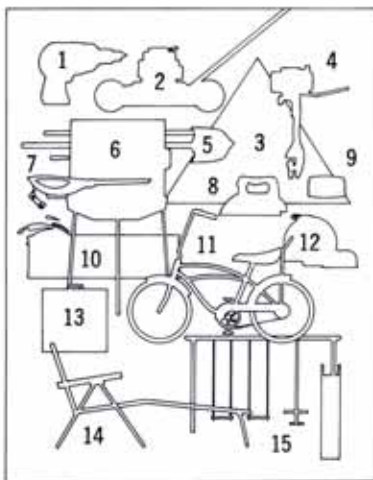
Our marketing concept requires us to think first of the needs and desires of our customers, rather than our own preferences. Our customers have required more and more delivery service over the years. We initially attempted to provide the service through contracts with outside delivery firms.

However, neither Lowe's or our customers were satisfied with the arrangement. Deliveries were often late, costs fluctuated from market to market, and the required consistency of customer service was lacking. During 1966, we decided to bring our delivery service up to the standards of other services and programs at Lowe's. The latest time and labor-saving equipment — dump trucks, hi-lifts, hydraulic arms, and appliance delivery trucks have been added to each store. (A hi-lift is shown on the inside back cover.)

Through analysis of material delivered, competitive purchasing of the right equipment, and efficient scheduling of deliveries, we have been able to reduce our delivery cost substantially, and improve customer service at the same time. Management believes this achievement will have long lasting benefit to the company's future.



## Household Goods



Illustrated here are a few of the various Household Goods items available at all Lowe's Stores.

1. Electric drills
2. Power lawn mowers
3. Camping equipment
4. Motors for boats
5. Garden tools
6. Outdoor barbecues
7. Electric knives
8. Electric steam irons
9. Garden hose
10. Children's swimming pools
11. Bicycles
12. Hair dryers
13. Electric fans
14. Lawn furniture
15. Gym sets

We use the phrase "household goods" to designate the variety of products pictured at left. We feel they are "goods" in the true economic sense of the word. Power lawn mowers, charcoal grilles, gym sets, swimming pools, small appliances, all contribute to the enjoyment of leisure and family activities.

Lowe's leads in lowering the cost of ownership of these products, both in established good sellers such as steam irons, and in new favorites like the electric knife and the salon-style hair dryer.

### *Innovations in Purchasing – 1966*

During 1966, we have instituted a system whereby Purchasing is notified at the end of each day by our closed circuit teletype, of every item that became "out of stock" at any store during that day. This allows the material to be bought, or shipped from our Central Warehouse at least two days sooner than if we waited to be notified by mail.

We have executed a program to locate and buy from more than one supplier on all commodities, in order not to be solely dependent on any one manufacturer. We also maintain a file and performance record on all suppliers to insure that they are financially sound and are capable of providing the services we need.

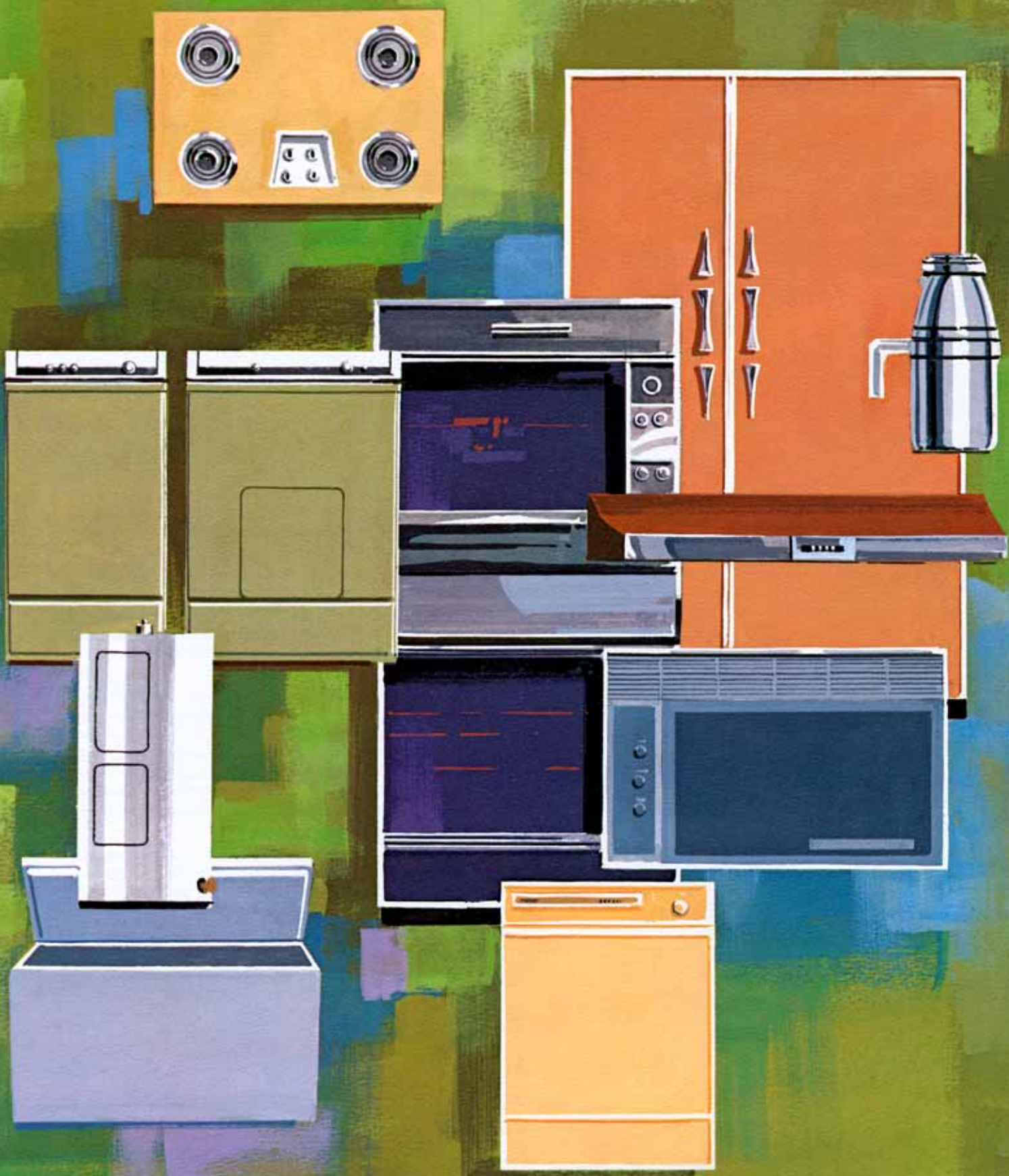
As a mutual benefit, we have provided many suppliers with pre-printed lists of Lowe's IBM data control numbers, model numbers, and descriptions of items we buy from them, which facilitates placing orders by phone, speeds shipment, and helps eliminate errors in handling merchandise. We've also established definite times during each week to contact regular suppliers with our orders, enabling them to provide quicker and better service.

Improved product identification has received attention this year. We have worked with all suppliers on this project. In many instances, we have printed our model number and IBM data control number on all cartons or on the products themselves.

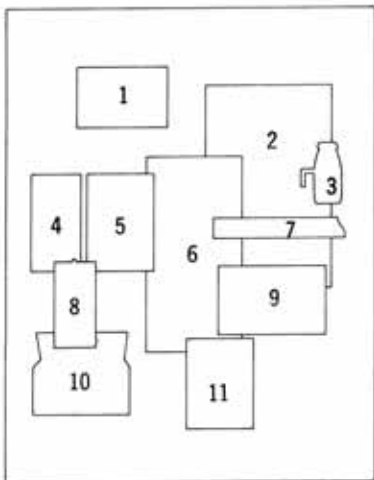
We have formulated methods to use strategically located public warehouses for storage and combined shipment of seasonal products. This has reduced handling costs and enabled us to give faster service to our stores in the peak of the selling seasons.

### *Awards and Recognition – 1966*

1. *Newspaper Advertising Executives Association – Carolinas* Best Retail Advertisement in Category . . . . . First Prize
2. *Financial World 1966 Annual Report Survey –* Retail & Wholesale Trade . . . . . Second Prize
3. *Standard & Poor's Outlook –* "Thirty-three Super Growth Stocks" . . . . . Listed
4. *Forbes – "Baby Blue Chips"* . . . . . Listed



## Home Appliances



Illustrated here are a few of the various Home Appliances items available at all Lowe's Stores.

1. Surface section ranges
2. Refrigerators
3. Garbage disposals
4. Clothes washers
5. Clothes dryers
6. Built-in ranges
7. Range hoods
8. Water heaters
9. Air conditioners
10. Food freezers
11. Dishwashers

Lowe's major appliance sales have doubled as a percentage of our total business in the last three years. These results stem from a major reorganization of sales direction in this category. Our building material business gives us a natural market for built-in kitchen appliances and water heaters, and a strong sales program has always been concentrated on these items.

However, since the homeowner, rather than the builder, is the customer for refrigerators, washers and dryers, and since different merchandising techniques are necessary, Lowe's has taken the steps to reach this market more effectively.

Under the direction of Emmett L. Dugger, we have established a major appliance sales department with its own sales responsibility, display areas, incentive compensation, and merchandising techniques.

The appliance manufacturers are introducing the most interesting new products in years. A good example is the split-door refrigerator-freezer. With its doors side by side, and the new thin wall insulation construction, they will fit in the space of the old refrigerator alone, and give fifteen cubic feet of storage instead of eight! Refrigerators on wheels, automatic ice makers, fifteen pound capacity automatic washers, eye-level ranges with rotisseries – these are the new appliances that are selling at Lowe's in record volume.

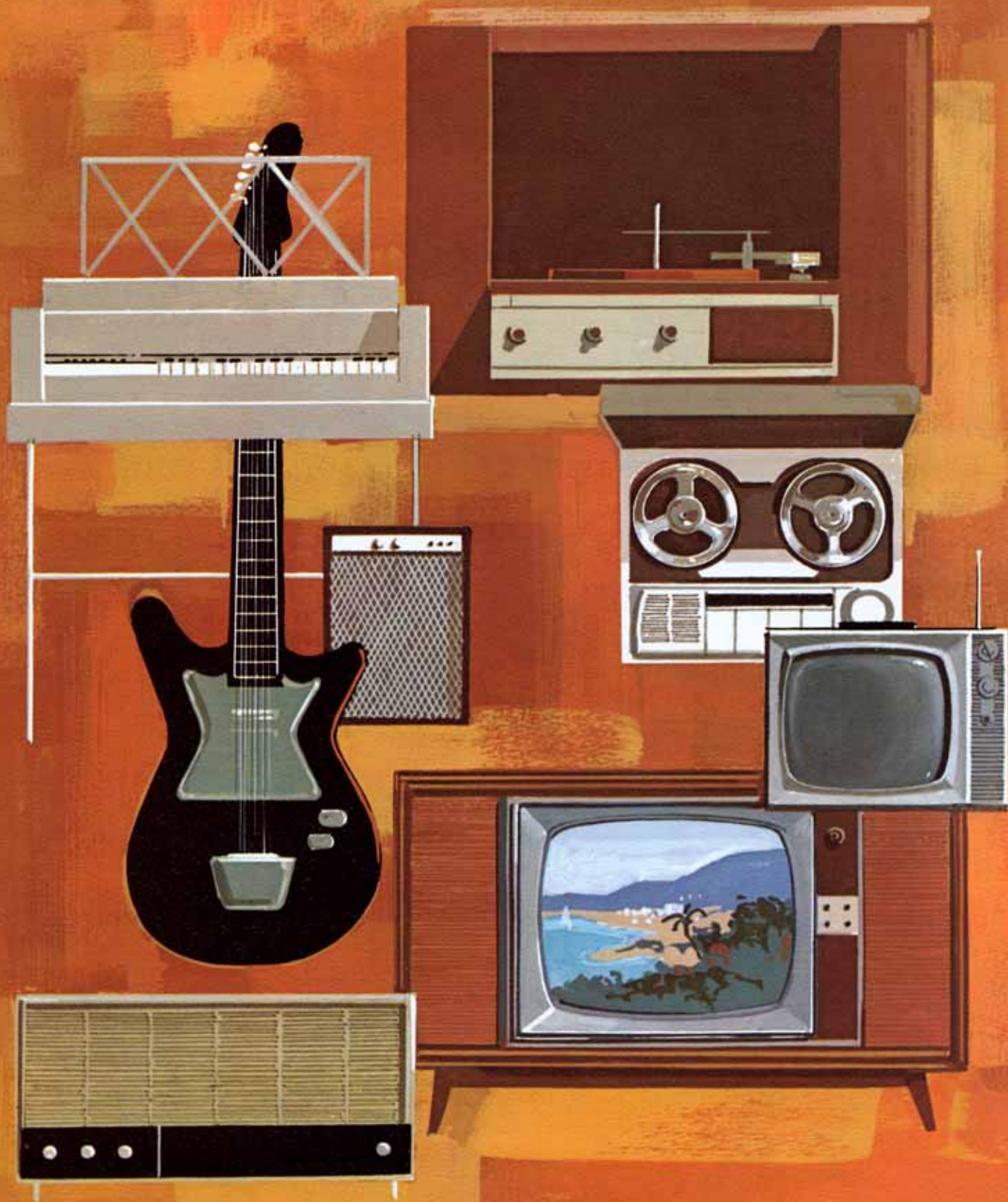
### Advertising – 1966

Lowe's tried to "TAP" additional customers in 1966 with a Total Advertising Program. This new approach began with a corporate identification project. A fresh new design for the company name was created. (It appears on the cover of this report.) All graphic applications of the company logo have been modified accordingly. Outdoor signs, stationery, calling cards, newspaper ad signatures, yellow page advertising, credit cards, and brochures have all been redesigned. The objective is to present a consistent and unified appearance to the public at every opportunity, thus making our advertising dollars work more efficiently.

The 1966 edition of Lowe's Buyer's Guide, our annual full-line merchandise catalog, was increased in size by 50% this year to allow for full presentation of our expanded product line. Full color illustrations were used in this volume for the first time.

Daily newspapers remain Lowe's most important advertising medium, and during this year an interesting new production process was evolved for newspaper advertisements. We have replaced the use of lead type in composition, with photographic film type, and offset printing techniques. This process enables us to produce ads of varying size by photography quickly and easily, and the ads reproduce more sharply in the newspaper.

Other innovations and recent developments include a distinctive new layout style for the newspaper ads, an institutional ad series in national magazines thematically coordinated to in-store merchandising, and a bright new advertising agency relationship. In advertising, these are some of the contributing factors to Lowe's growing reputation as a living legend.





## Home Entertainment

The growth of the leisure market, the fantastic new achievements of electronics' modern miracles, the renewed emphasis on the home as the family fun center – all these have helped create dramatic new sales opportunities for Lowe's in home entertainment products.

Color television is the star of the show. After languishing along for years at an annual sales rate of a few hundred thousand, demand has skyrocketed in the last two years. 5,000,000 sets could probably be sold this year if the industry could produce them. Some industry executives say that it could take three years to satisfy consumer demand. Low priced black and white portables have also increased the sales pace of the market. Lowe's merchandises RCA, Zenith and General Electric Television.

The switched-on sound of the '60's is that of an amplified electric guitar. Guitars now sell one for one to all other musical instruments, compared to one out of six a few years ago. In 1966, Lowe's added a complete line of acoustic and electric guitars, and amplifiers, to augment our already successful sales of electric chord organs.

In its first year at Lowe's, the guitar line became the third largest category of home entertainment merchandise, surpassed only by television and radios.

Tape recorders, stereophonic record players, walkie-talkies, and a complete line of radios, foreign and domestic, all help our customers to "Swing Along With Lowe's."

### Policies and Outlook

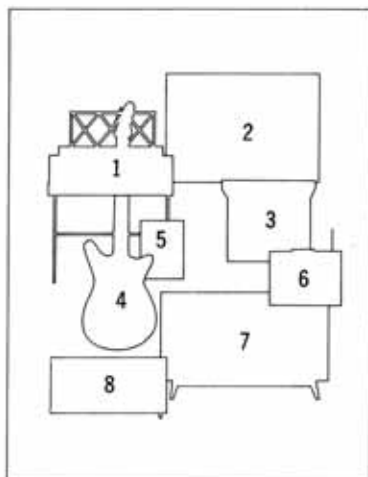
At Lowe's, salesmen make sales, but management makes money. Our Executive Committee provides the company's day-to-day management decisions and is guided by its "Assignment of Accountability," which is:

- (1) To maintain Lowe's competitive position in the market place,
- (2) To enhance the value of stockholders' equity through increased sales and earnings,
- (3) To provide job security with satisfactory working conditions, establish a climate for future growth and personal development of company employees, and
- (4) To maintain sound financial management and the fiscal integrity of the company.

Our short-range "Assignment of Accountability" is to achieve company sales budgets, earn 20% net after tax on stockholders' equity, earn 3% net after tax on sales, and to continue the balanced growth and expansion of the company.

Lowe's will open six to eight stores in fiscal 1967. Until the money market stabilizes, our expansion plans call for even more selective market research, to the point of taking options on desirable locations, and timing our openings to coincide with improved housing market conditions.

However, the present uncertainty in the market is providing Lowe's with new opportunities. Many of the local lumber yards and hardware stores have been just trying to "hold on." In general, their costs are higher than Lowe's and their product lines limited. Many of these "father-and-son" lumber yards are going the way of the corner grocery store. The current mortgage money shortage should speed this process along, and lay a firmer foundation for Lowe's future growth and development.



Illustrated here are a few of the various Home Entertainment items available at all Lowe's Stores.

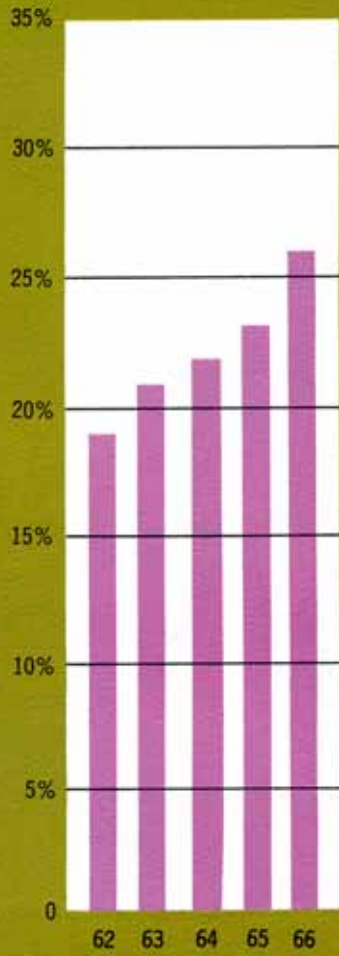
1. Portable organs
2. Stereos
3. Tape recorders
4. Electric guitars
5. Amplifiers
6. Portable televisions
7. Color televisions
8. Radios

# Performance Graphs

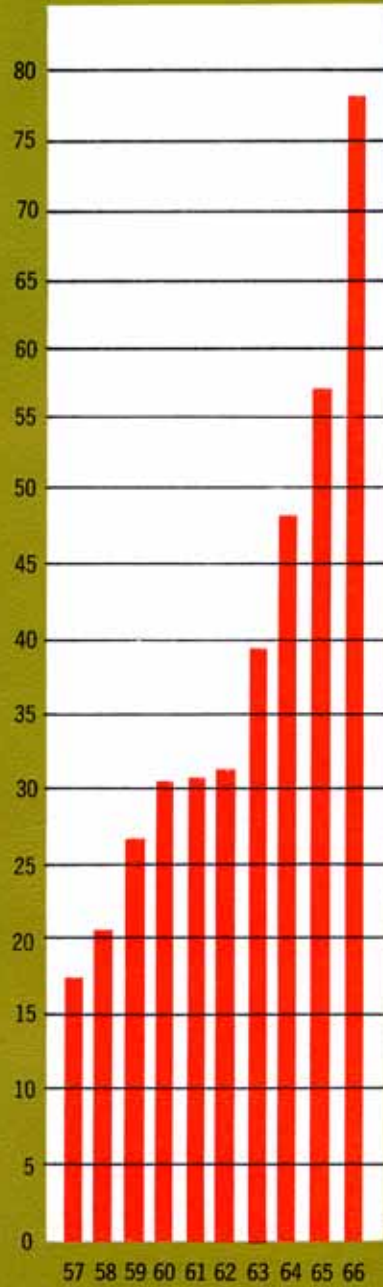
*% Net Income—  
Net Sales  
(After Taxes)*



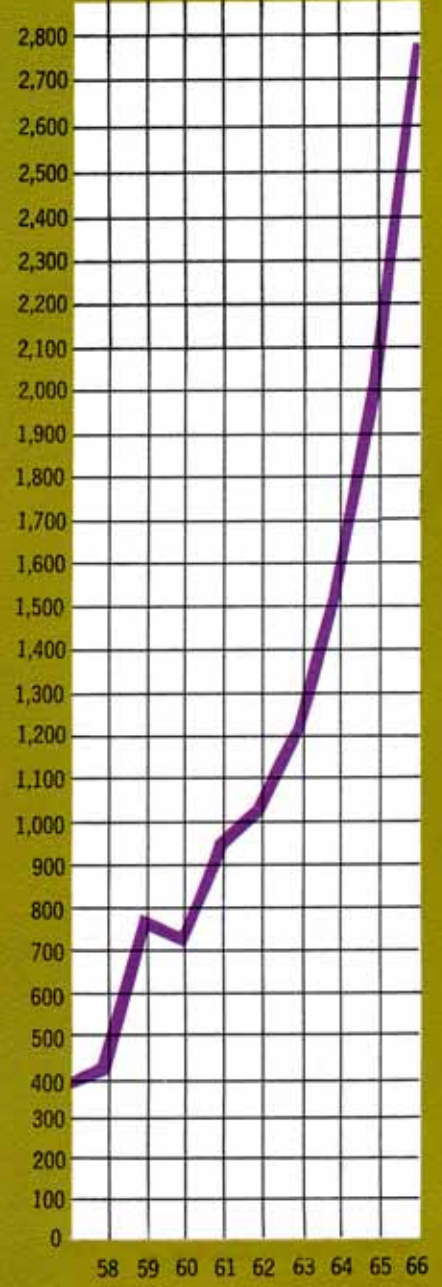
*% Return on  
Stockholders'  
Equity (After Taxes)*



*Sales (In Millions of Dollars)*



*Earnings  
After Taxes  
(In Thousands of Dollars)*



# Consolidated Statement of Earnings and Retained Earnings

Year Ended July 31

	1966	1965
<i>Earnings:</i>		
Net Sales . . . . .	\$77,042,837	\$57,043,741
Other Income . . . . .	13,213	37,630
Totals . . . . .	<u>\$77,056,050</u>	<u>\$57,081,371</u>
<i>Cost and Expenses:</i>		
Cost of Sales, Selling, Administrative and General Expenses . . . . .	\$70,171,759	\$51,979,354
Rents . . . . .	310,162	274,509
Depreciation and Amortization . . . . .	548,520	304,701
Contribution to Employees' Profit Sharing Plan . . . . .	538,245	414,981
Interest and Loan Expenses . . . . .	201,037	165,919
Total Cost and Expenses . . . . .	<u>\$71,769,723</u>	<u>\$53,139,464</u>
Pre-tax Earnings . . . . .	\$ 5,286,327	\$ 3,941,907
Provision for Income Taxes . . . . .	2,495,843	1,895,639
Net Earnings . . . . .	<u>\$ 2,790,484</u>	<u>\$ 2,046,268</u>
<i>Retained Earnings:</i>		
Balance at Beginning of Year . . . . .	\$ 8,258,186	\$ 6,730,566
Net Earnings . . . . .	2,790,484	2,046,268
Totals . . . . .	\$11,048,670	\$ 8,776,834
Less: Cash Dividends . . . . .	615,726	518,648
100 Per Cent Stock Dividend . . . . .	1,025,634	
Balance at End of Year . . . . .	<u>\$ 9,407,310</u>	<u>\$ 8,258,186</u>
<i>Explanatory notes on page 20 are an integral part of the financial statements.</i>		

**LOWE'S**  
Companies, Inc.

# Consolidated Balance Sheet

## Assets July 31

	1966	1965
<i>Current Assets:</i>		
Cash . . . . .	\$ 3,024,175	\$ 3,801,418
Accounts Receivable Less Allowance for Doubtful Accounts – 1966, \$522,044; 1965, \$348,828 . . . . .	9,309,439	7,164,877
Inventories at the Lower of Cost or Market . . . . .	10,931,386	8,155,561
Prepaid Expenses . . . . .	131,040	64,693
Total Current Assets . . . . .	<u>\$23,396,040</u>	<u>\$19,186,549</u>
<i>Property, Improvements and Equipment:</i>		
At Cost Less Accumulated Depreciation – 1966, \$1,427,428; 1965, \$963,278 . . . . .	5,058,446	3,832,066
<i>Other Assets and Deferred Charges:</i>		
Unamortized Loan Expense . . . . .	19,626	26,200
Other Assets at Cost . . . . .	<u>85,096</u>	<u>50,985</u>
Total Assets . . . . .	<u><u>\$28,559,208</u></u>	<u><u>\$23,095,800</u></u>

Explanatory notes on page 20 are an integral part of the financial statements.



*Liabilities and Shareholders' Equity*

July 31

	1966	1965
<i>Current Liabilities:</i>		
Accounts Payable and Accrued Expenses . . . . .	\$10,718,088	\$ 8,927,742
Long Term Debt Due Within One Year . . . . .	320,933	282,174
Provisions for Employees' Profit Sharing Plan . . . . .	408,558	332,188
Provisions for Income Taxes . . . . .	2,182,504	1,670,749
Total Current Liabilities . . . . .	\$13,630,083	\$11,212,853
 <i>Long Term Debt:</i>		
Notes Payable and Debenture Bonds . . . . .	3,127,364	2,376,672
 <i>Deferred Credits:</i>		
Unamortized Premium on Debenture Bonds . . . . .	8,004	15,974
Total Liabilities . . . . .	\$16,765,451	\$13,605,499
 <i>Shareholders' Equity:</i>		
5% Preferred Stock – \$100.00 Par Value Authorized 500 Shares; Issued and Outstanding 450 Shares . . . . .	\$ 45,000	\$ 45,000
Common Stock – \$1.00 Par Value, Authorized 5,000,000 Shares; Issued and Outstanding— 1966, 2,052,652 Shares; 1965, 1,015,208 Shares . . . . .	2,052,652	1,015,208
Capital Surplus . . . . .	288,795	171,907
Retained Earnings . . . . .	9,407,310	8,258,186
Total Shareholders' Equity . . . . .	\$11,793,757	\$ 9,490,301
Total Liabilities and Shareholders' Equity . . . . .	\$28,559,208	\$23,095,800

# Notes to Financial Statements

## Note 1 – Principles of Consolidation:

The consolidated financial statements include the accounts of all subsidiaries, all of which are wholly-owned. Four subsidiaries were organized during the current year.

## Note 2 – Long Term Debt:

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

(a) Four loans from a life insurance company – two unsecured notes in the amount of \$1,420,000 and two notes secured by Deeds of Trust on certain real estate in the amount of \$1,770,200. Interest rates on the notes range from 5% to 6%. Maturities during the next three years will be \$235,687, \$310,649, and \$315,897. Final payment on the loans will be in 1981. Among other conditions these loan agreements place certain requirements on net current assets to be maintained, limit borrowing, and place certain restrictions on payment of cash dividends. The company has complied with the restrictive clauses of the agreements.

(b) 4½% debenture bonds in the aggregate amount of \$89,302 maturing annually to 1967 at the rate of \$34,773 with a final payment in 1968 of \$19,756.

(c) Various notes in the aggregate amount of \$168,795 incurred in the purchase of and secured by real estate. All these notes mature in monthly or semi-annual installments with the final payments due in 1978.

## Note 3 – Commitments and Contingent Liabilities:

Lowe's Companies, Inc. and its subsidiaries have eighteen rental leases expiring more than three years after July 31, 1966, with aggregate minimum annual rentals of approximately \$208,975. None of these leases extend beyond 1976 except by option of the Company.

The tax returns of the Company and its subsidiaries have been examined by agents of the Internal Revenue Service for the fiscal years ending on and prior to October 31, 1964. The Company has re-

ceived the report of their examinations proposing additional income taxes of approximately \$490,000 for the fiscal years which ended from June 30, 1960 to October 31, 1964. On advice of counsel, the Company considers some of the proposals to be justified and provisions have been made for the possible liability. The majority of the proposed adjustments are considered by counsel to be without justification and provision has not been made to cover a possible liability. Protests to the agent's reports are currently being prepared for submission to the Appellate Division of the Regional Commissioner's Office.

## Note 4 – Employees' Stock Option Plan:

Under the stock option plan approved by the stockholders in July 1961, 130,000 shares (65,000 adjusted for 100% stock dividend on May 2, 1966) of the Company's common stock were reserved for the granting of options at 95% of market value at the date of grant. The following table sets forth the transactions that have taken place under the plan (all figures give effect to the 100% stock dividend).

The options are exercisable at the rate of 20% per year beginning at the exercisable dates shown below and may be accumulated for one year except for the fifth year. Of the original 130,000 shares, options for 986 have not been granted and the time for granting has expired. The

market value of the shares exercised during the year varied from \$15.25 to \$18.50 per share.

## Note 5 – Employees' Profit Sharing Plan:

There is in effect a qualified non-contributory employee 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.

## Note 6 – Cost and Expenses:

The Company's cost and expenses are classified as follows in its annual report to the Securities and Exchange Commission:

Cost of sales, buying, warehousing and occupancy expense	\$64,844,723
Selling, administrative and general expenses	6,240,
Provisions for bad debts	483,843
Interest and loan expenses	201,037
Total costs and expenses	<u>\$71,769,723</u>

## Note 7 – Capital Surplus:

This represents the proceeds in excess of par or cost from the shares issued to the employees in their acquisition of stock under the stock option plan.

	Granted 10-9-61	Granted 5-20-63	Total
Beginning exercisable date	1-1-63	5-20-64	
Option price per share	\$ 5.82	\$ 5.50	
Persons involved in original grantings	21	10	31
Number of shares granted	118,500	10,514	129,014
Shares forfeited	1,200		1,200
Exercised prior to 8-1-65	53,400	1,116	54,516
Exercised year ended 7-31-66	20,000	2,236	22,236
Outstanding 7-31-66	<u>43,900</u>	<u>7,162</u>	<u>51,062</u>

# LOWE'S Companies, Inc.

## Statement of Source and Application of Funds

	Year Ended	
	7-31-66	7-31-65
<i>Source of Funds:</i>		
Net Earnings for the Year . . . . .	\$2,790,484	\$2,046,268
Depreciation and Amortization of Fixed Properties . . . . .	548,520	304,701
Total Funds from Operations . . . . .	\$3,339,004	\$2,350,969
Proceeds from Sale of Stock Under Employees' Stock Options . . . . .	128,699	255,234
Increase in Long Term Debt – Net . . . . .	750,692	
Total Funds Available . . . . .	<u>\$4,218,395</u>	<u>\$2,606,203</u>
<i>Funds Applied:</i>		
Fixed Assets Acquired – Net . . . . .	\$1,774,901	\$1,755,721
Dividends Paid . . . . .	615,726	518,648
Reduction of Long Term Debt – Net . . . . .		238,825
Other Funds Applied . . . . .	35,507	15,783
Total Funds Applied . . . . .	<u>\$2,426,134</u>	<u>\$2,528,977</u>
Balance Added to Working Capital . . . . .	<u>\$1,792,261</u>	<u>\$ 77,226</u>

### Report of Certified Public Accountants

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, 1966, 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, 1966, 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.

Lenoir, North Carolina  
October 4, 1966

**GRISSETTE & BEACH**  
Certified Public Accountants

## Historical Review: Ten Year Comparison

Year Ending July 31	1966	1965	1964
Net Sales . . . . .	\$77,042,837	\$57,043,741	\$48,680,295
Earnings Before Taxes . . . . .	\$ 5,286,327	\$ 3,941,907	\$ 3,085,530
Taxes on Income . . . . .	\$ 2,495,843	\$ 1,895,639	\$ 1,517,761
Net Earnings . . . . .	\$ 2,790,484	\$ 2,046,268	\$ 1,567,769
Earnings per Common Share (1) . . . . .	\$ 1.36	\$ 1.00	\$ .79
Earnings as Per Cent of Sales . . . . .	3.62%	3.59%	3.22%
Earned on Stockholders' Equity (2) . . . . .	26.22%	23.80%	22.34%
Cash Dividends Declared . . . . .	\$ 615,726	\$ 518,648	\$ 459,880
Cash Dividends per Common Share . . . . .	30¢	25 <sup>3</sup> / <sub>4</sub> ¢	23 <sup>1</sup> / <sub>8</sub> ¢
Shares Outstanding . . . . .	2,052,652	2,030,416	1,986,500
Stockholder Equity . . . . .	\$11,793,757	\$ 9,490,301	\$ 7,736,653
Stockholder Equity per Common Share . . . . .	\$ 5.72	\$ 4.65	\$ 81,046
Cash . . . . .	\$ 3,024,175	\$ 3,801,418	\$ 3,374,168
Accounts Receivable (Net of Reserve) . . . . .	\$ 9,309,439	\$ 7,164,877	\$ 5,586,293
Inventories (Lower of Cost or Market) . . . . .	\$10,931,386	\$ 8,155,561	\$ 6,336,653
Depreciation and Amortization . . . . .	\$ 548,520	\$ 304,701	\$ 197,102
Net Fixed Assets . . . . .	\$ 5,058,446	\$ 3,832,066	\$ 2,381,046
Net Working Capital . . . . .	\$ 9,765,957	\$ 7,973,696	\$ 7,896,470
Total Assets . . . . .	\$28,559,208	\$23,095,800	\$17,804,577
Long Term Debt . . . . .	\$ 3,127,364	\$ 2,376,672	\$ 2,615,497
Number of Employees . . . . .	891	762	636
Customers Served . . . . .	1,635,702	1,283,729	1,141,168
Shareholders of Record (3) . . . . .	1,985	1,871	1,967
Number of Stores . . . . .	39	35	28

(1) After deducting \$2,250 dividends per year on preferred stock. For the years 1957 through 1961 the earnings are based on 2,000,000 shares, the outstanding shares at 10-10-61. All per share figures have been adjusted to give effect to the 100% stock dividend at 5-2-60.

(2) Average of beginning and ending balance of stockholders' equity.

(3) Public offering of stock 10-10-61.



1963                      1962                      1961                      1960                      1959                      1958                      1957

\$39,011,836	\$32,716,336	\$31,127,776	\$30,679,449	\$27,005,459	\$20,443,908	\$18,232,770
\$ 2,438,292	\$ 2,054,177	\$ 1,890,426	\$ 1,359,248	\$ 1,515,781	\$ 832,878	\$ 810,696
\$ 1,232,889	\$ 1,033,606	\$ 956,000	\$ 641,037	\$ 759,702	\$ 428,593	\$ 418,262
\$ 1,205,403	\$ 1,020,565	\$ 934,426	\$ 718,211	\$ 756,079	\$ 404,285	\$ 392,434
\$ .61	\$ .51	\$ .46	\$ .36	\$ .37	\$ .20	\$ .19
3.09%	3.12%	3.00%	2.34%	2.80%	1.98%	2.15%
20.11%	19.07%	21.51%	21.84%	29.67%	20.77%	25.78%
\$ 411,229	\$ 402,250	\$ 102,250				
20 <sup>5</sup> / <sub>8</sub> ¢	20¢	5¢				
1,975,900	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000
\$15,629,695	\$ 5,661,332	\$ 5,043,017	\$ 3,646,393	\$ 2,931,431	\$ 2,164,762	\$ 1,729,082
3.18	\$ 2.81	\$ 2.50	\$ 1.80	\$ 1.45	\$ 1.06	\$ .84
\$ 2,734,572	\$ 1,955,691	\$ 1,299,603	\$ 441,833	\$ 365,145	\$ 583,004	\$ 467,982
\$ 4,967,831	\$ 3,768,654	\$ 3,107,550	\$ 2,858,041	\$ 2,112,343	\$ 1,323,913	\$ 679,911
\$ 6,213,839	\$ 5,867,733	\$ 4,800,834	\$ 4,755,421	\$ 3,163,800	\$ 2,655,214	\$ 2,071,648
\$ 150,950	\$ 124,570	\$ 133,219	\$ 136,712	\$ 105,560	\$ 72,945	\$ 40,963
\$ 1,530,769	\$ 1,261,329	\$ 1,228,542	\$ 1,252,919	\$ 1,280,932	\$ 629,874	\$ 549,788
\$ 6,852,667	\$ 6,036,730	\$ 4,383,599	\$ 3,197,540	\$ 2,606,613	\$ 2,104,914	\$ 1,465,317
\$15,629,698	\$13,096,562	\$11,834,941	\$ 9,382,368	\$ 7,047,730	\$ 5,266,787	\$ 3,798,733
\$ 2,138,877	\$ 1,679,864	\$ 1,791,652	\$ 862,076	\$ 985,895	\$ 589,063	\$ 292,167
555	491	399	360	334	273	215
882,593	703,350	650,506	581,084	N/A	N/A	N/A
2,034	2,047					
22	18	15	15	13	9	6

## The Year In Photos

1.



1. *Lowe's Greensboro Grand Opening draws record crowds.*

2. *A typical truckload of Lowe's building materials.*

3. *Lowe's second annual sales training school.*

4. *Fred Walters, manager of Lowe's of Raleigh, awards a contest prize to a Lowe's customer.*

5. *Lowe's salesmen inspect a sawmill producing dimension lumber.*

6. *Lowe's Swashbuckling Hootenanny—400 salesmen, managers, and suppliers at Lowe's annual fall sales promotion meeting.*

7. *A crew from Lowe's poultry house insulation division.*

8. *Lowe's modern delivery equipment—not only door to door, but floor to floor.*





9.  
*Lowe's Hootenanny girls join Sales V.P. John Walker in a sales presentation.*

10.  
*Incentives breed hustle at Lowe's—three men who charged to victory in Lowe's "Charge for Sales" contest.*



## *Store Locations*

North Wilkesboro, N.C.  
Sparta, N.C.  
Asheville, N.C.  
Asheboro, N.C.  
Charlotte, N.C.  
Durham, N.C.  
Winston-Salem, N.C.  
Roanoke, Va.  
Greensboro, N.C.  
Raleigh, N.C.  
Knoxville, Tenn.  
Marion, N.C.\*  
Oak Hill, W. Va.  
Richmond, Va.  
Staunton, Va.  
Bristol, Tenn.  
Mayodan, N.C.\*  
Greeneville, Tenn.\*  
Newport, Tenn.\*  
Brevard, N.C.\*  
Middlesboro, Ky.\*  
Shelby, N.C.  
Hagerstown, Md.  
Nashville, Tenn.  
Chattanooga, Tenn.  
Hickory, N.C.  
Huntington, W. Va.  
Princeton, W. Va.  
Kingsport, Tenn.  
Norfolk, Va.  
Charleston, S.C.  
Dover, Del.  
Vienna, Va.  
Wilmington, N.C.  
Boone, N.C.  
Hendersonville, N.C.  
Belpre, Ohio  
Rockingham, N.C.  
Waynesville, N.C.  
Wilson, N.C.  
Wilmington, Del.  
New Castle, Penn.  
Woodbridge, Va.  
Newport News, Va.  
Suffolk, Va.

\*Associate Stores

# LOWE'S

*Companies, Inc.* North Wilkesboro, North Carolina