1977 Annual Report

Lowe's Companies, Inc.

1977 Annual Report

Lowe Companies, Inc. and its subsidiaries, operate a total of 175 retail stores in 16 states, located principally in the South Atlantic and South Central regions of the United States. Each store combines the merchandise, service, and functions of a lumber yard, a building materials supplier, an air conditioning, heating, plumbing, and electrical supply center, a hardware store, an appliance and home electronics dealer, a hard goods discounter, and a professional marketing company. This retail-wholesale mix of services and approximately 10,000 merchandise items for sale are provided to two major customer groups—Professional Buyers and Retail Customers—within the same store facility.

LOWE'S Companies, Inc.

Explanatory Notes

(1) As adjusted to reflect a 100% stock dividend in May, 1966, a 2 for 1 stock split in November, 1969, a 50% stock dividend in December, 1971, a 33⅓% stock dividend as of July 31, 1972, and a 50% stock dividend in June, 1976.

(2) After deducting $2,250 dividends per year on preferred stock outstanding, for 1961 through 1972.

(3) Variation in the outstanding shares is the result of employee stock option transactions. No additional shares have been sold or issued for acquisitions.

	Base Year 1962	1963	1964	1965	1966	Base Year 1967	5 Year Compound Growth Rates 1962-1967	1968
1	18	22	28	35	39	44	19.6%	53
2	491	555	636	762	891	1,017	15.7%	1,223
3	703	883	1,141	1,284	1,636	1,755	20.0%	2,034
4	$ 46.52	$ 44.20	$ 42.66	$ 44.44	$ 47.10	$ 43.14		$ 47.70
5	$ 32,716	$ 39,012	$ 48,680	$ 57,044	$ 77,043	$ 75,695	18.3%	$ 97,031
6	$ 2,054	$ 2,438	$ 3,086	$ 3,942	$ 5,286	$ 5,151	20.1%	$ 7,202
7	$ 1,034	$ 1,233	$ 1,518	$ 1,896	$ 2,496	$ 2,381	18.2%	$ 3,609
8	$ 1,020	$ 1,205	$ 1,568	$ 2,046	$ 2,790	$ 2,770	22.1%	$ 3,593
9	$ 402	$ 411	$ 460	$ 519	$ 616	$ 661	10.5%	$ 756
10	$ 618	$ 794	$ 1,108	$ 1,527	$ 2,174	$ 2,109	27.8%	$ 2,837
11	$ 2.73	$ 3.29	$ 4.08	$ 4.68	$ 6.29	$ 6.13	17.6%	$ 7.77
12	$ .09	$ .10	$ .13	$ .17	$ .23	$ .23	20.6%	$ .29
13	$ .03	$ .03	$ .04	$ .04	$ .05	$ .05	10.8%	$ .06
14	$ .05	$ .07	$ .09	$ .13	$ .17	$ .17	27.7%	$ .23
15	$ .47	$ .53	$ .65	$ .78	$ .95	$ 1.13	19.2%	$ 1.35
16	$ 2.76	$ 2.98	$ 3.11	$ 3.20	$ 3.34	$ 2.65		$ 3.24
17	× 3.12%	× 3.09%	× 3.22%	× 3.59%	× 3.62%	× 3.66%		× 3.70%
18	= 8.62%	= 9.20%	= 10.03%	= 11.49%	= 12.09%	= 9.70%		= 11.98%
19	× 2.34	× 2.31	× 2.47	× 2.31	× 2.43	× 2.42		× 2.15
20	= 20.23%	= 21.28%	= 24.78%	= 26.55%	= 29.40%	= 23.49%		= 25.76%
21	$ 11,702	$ 13,976	$ 15,350	$ 19,187	$ 23,396	$ 24,164	15.6%	$ 28,617
22	$ 1,956	$ 2,735	$ 3,374	$ 3,801	$ 3,024	$ 4,814	19.8%	$ 4,129
23	$ 3,769	$ 4,968	$ 5,586	$ 7,165	$ 9,310	$ 9,675	20.6%	$ 11,880
24	$ 5,868	$ 6,214	$ 6,337	$ 8,156	$ 10,931	$ 9,532	10.2%	$ 12,475
25	$ 109	$ 59	$ 53	$ 65	$ 131	$ 143		$ 133
26	$ 1,261	$ 1,531	$ 2,381	$ 3,832	$ 5,058	$ 5,729	35.3%	$ 6,546
27	$ 134	$ 123	$ 73	$ 77	$ 105	$ 99		$ 205
28	$ 13,097	$ 15,630	$ 17,804	$ 23,096	$ 28,559	$ 29,992	18.0%	$ 35,368
29	$ 5,696	$ 7,123	$ 7,454	$ 11,213	$ 13,630	$ 12,503	17.0%	$ 14,911
30	$ 4,255	$ 5,036	$ 5,149	$ 7,913	$ 9,496	$ 8,425	14.7%	$ 9,703
31	$ 855	$ 1,073	$ 1,142	$ 1,671	$ 2,182	$ 2,177	20.5%	$ 2,706
32	$ 586	$ 1,014	$ 1,163	$ 1,629	$ 1,952	$ 1,901	26.5%	$ 2,502
33	$ 1,680	$ 2,139	$ 2,615	$ 2,377	$ 3,127	$ 3,527	16.0%	$ 3,434
34	$ 7,435	$ 9,304	$ 10,097	$ 13,606	$ 16,765	$ 16,033	16.6%	$ 18,346
35	$ 5,662	$ 6,326	$ 7,707	$ 9,490	$ 11,794	$ 13,959	19.8%	$ 17,022
36	3.37	2.95	2.95	3.99	3.77	3.95		4.95
37	2.31	2.47	2.31	2.43	2.42	2.15		2.08
38	2,047	2,034	1,967	1,871	1,985	2,154		1,976
39	12,000	11,856	11,919	12,183	12,317	12,375		12,609
40	$ 1.00-1.67	$ .67-1.00	$ 1.00-2.00	$ 1.67-2.67	$ 3.33-2.33	$ 4.00-2.00		$ 8.00-4.00

Performance Measurements*

Line 20, Return on Shareholder Equity, may be derived by dividing Net Earnings by Shareholder Equity. But this approach provides no understanding of why and how this return was attained. It is better to "take it from the top" and think through each major variable, to facilitate understanding of their interrelationships.

Asset Turnover is affected by sales volume, by the cash-credit marketing mix and by the composition and performance of left-side balance sheet factors. The amounts of assets allocated to inventory, accounts receivable, and fixed assets, and the turnover rates of inventory and receivables, all affect Asset Turnover. For every $1.00 in Assets at the beginning of fiscal 1977, Lowe's achieved $3.00 in sales.

1969	1970	1971		Base Year 1972	5 Year Compound Growth Rates 1967-1972	10 Year Compound Growth Rates 1962-1972	1973	1974	1975	1976
58	64	75	1	86	14.4%	17.0%	100	116	130	150
1,450	1,670	2,071	2	2,630	20.9%	18.3%	3,296	3,598	3,574	4,378
2,290	2,729	3,194	3	3,820	16.8%	18.4%	4,717	5,321	5,702	7,033
$ 51.98	$ 47.09	$ 53.13	4	$ 61.40			$ 69.29	$ 68.12	$ 59.78	$ 66.12
$ 119,053	$ 128,491	$ 169,723	5	$ 234,556	25.3%	21.8%	$ 326,846	$ 362,453	$ 340,882	$ 465,052
$ 9,514	$ 9,938	$ 13,027	6	$ 18,143	28.6%	24.3%	$ 25,393	$ 29,287	$ 20,811	$ 34,295
$ 4,906	$ 5,068	$ 6,479	7	$ 9,022	30.5%	24.2%	$ 12,665	$ 14,670	$ 10,319	$ 16,984
$ 4,608	$ 4,870	$ 6,548	8	$ 9,121	27.0%	24.5%	$ 12,728	$ 14,617	$ 10,492	$ 17,311
$ 780	$ 844	$ 907	9	$ 946	7.5%	8.9%	$ 1,017	$ 1,045	$ 1,171	$ 1,272
$ 3,828	$ 4,026	$ 5,641	10	$ 8,174	31.2%	29.5%	$ 11,711	$ 13,572	$ 9,321	$ 16,039
$ 9.43	$ 10.18	$ 13.44	11	$ 18.54	24.8%	21.1%	$ 25.71	$ 28.33	$ 26.19	$ 35.71
$ .37	$ .39	$ .52	12	$ .72	25.6%	23.1%	$ 1.00	$ 1.14	$ .81	$ 1.33
$ .06	$ .07	$ .07	13	$ .07	7.0%	8.8%	$ .08	$ .08	$ .09	$ .10
$ .31	$ .32	$ .45	14	$ .65	30.8%	29.2%	$ .92	$ 1.06	$ .71	$ 1.23
$ 1.65	$ 1.97	$ 2.43	15	$ 3.09	22.3%	20.7%	$ 4.07	$ 5.22	$ 6.01	$ 7.25
$ 3.37	$ 3.09	$ 3.43	16	$ 3.40			$ 3.65	$ 2.88	$ 2.26	$ 3.01
× 3.87%	× 3.79%	× 3.86%	17	× 3.89%			× 3.89%	× 4.03%	× 3.08%	× 3.72%
= 13.03%	= 11.72%	= 13.25%	18	= 13.20%			= 14.22%	= 11.63%	= 6.96%	= 11.22%
× 2.08	× 1.99	× 1.99	19	× 2.26			× 2.28	× 2.43	× 2.24	× 1.97
= 27.07%	= 23.34%	= 26.31%	20	= 29.81%			= 32.42%	= 28.23%	= 15.60%	= 22.13%
$ 33,433	$ 38,878	$ 54,911	21	$ 70,110	23.7%	19.6%	$ 96,391	$ 111,943	$ 108,784	$ 146,448
$ 4,640	$ 4,658	$ 6,304	22	$ 7,802	10.1%	14.8%	$ 7,859	$ 12,986	$ 11,574	$ 15,620
$ 14,559	$ 14,887	$ 20,944	23	$ 27,440	23.2%	21.9%	$ 37,603	$ 36,850	$ 38,533	$ 52,322
$ 14,183	$ 19,040	$ 27,332	24	$ 34,475	29.3%	19.4%	$ 50,639	$ 61,775	$ 58,223	$ 77,963
$ 51	$ 293	$ 331	25	$ 393			$ 290	$ 331	$ 454	$ 544
$ 7,918	$ 10,390	$ 14,087	26	$ 19,330	27.5%	20.0%	$ 29,238	$ 38,552	$ 45,127	$ 50,434
$ 209	$ 148	$ 88	27	$ 45			$ 85	$ 140	$ 452	$ 859
$ 41,560	$ 49,416	$ 69,086	28	$ 89,485	24.4%	21.2%	$ 125,714	$ 150,634	$ 154,363	$ 197,741
$ 18,505	$ 21,212	$ 31,198	29	$ 40,217	26.3%	21.5%	$ 55,694	$ 50,228	$ 42,964	$ 66,705
$ 10,997	$ 15,178	$ 21,999	30	$ 27,684	26.9%	20.6%	$ 36,101	$ 32,640	$ 29,727	$ 42,942
$ 3,380	$ 2,833	$ 4,293	31	$ 5,086	18.5%	19.5%	$ 5,073	$ 6,732	$ 3,126	$ 8,050
$ 4,128	$ 3,201	$ 4,906	32	$ 7,447	31.6%	28.9%	$ 14,520	$ 10,856	$ 10,110	$ 15,714
$ 2,192	$ 3,315	$ 7,296	33	$ 10,014	23.2%	19.6%	$ 18,238	$ 33,158	$ 33,156	$ 36,664
$ 20,697	$ 24,527	$ 38,494	34	$ 50,231	25.7%	21.1%	$ 73,932	$ 83,386	$ 76,120	$ 103,370
$ 20,863	$ 24,889	$ 30,592	35	$ 39,254	23.0%	21.4%	$ 51,782	$ 67,248	$ 78,243	$ 94,371
9.52	7.51	4.19	36	3.92			2.84	2.03	2.36	2.57
1.99	1.99	2.26	37	2.28			2.43	2.24	1.97	2.10
1,916	2,117	2,463	38	3,038			3,704	3,698	3,755	3,846
12,623	12,623	12,629	39	12,683			12,731	12,887	13,022	13,022
$ 12.00-7.67	$ 12.00-6.33	$ 23.00-9.67	40	$ 44.34-20.00			$ 48.00-32.67	$ 39.67-21.67 $ 39.67-34.67 $ 35.34-24.00 $ 34.67-28.67 $ 32.67-21.17	$ 30.33-12.67 $ 22.83-12.67 $ 20.83-14.83 $ 30.33-18.67 $ 30.33-25.50	$ 33.67-21.83 $ 27.50-21.83 $ 33.67-25.67 $ 33.00-28.33 $ 29.75-25.50

Return on Sales is the measurement of the efficiency of the sales organization. It is affected by sales volume, customer and product mix, and income statement factors—margin rates, fixed and variable expenses, and tax rates. Fiscal 1977's return on sales was 3.61%. This multiplied by Asset Turnover, gives Return on Assets of 10.83%. This is the same as dividing Net Earnings by Beginning Assets.

Leverage gets us into right-side balance sheet factors, and measures equity dollars versus total asset dollars. For every $1.00 of shareholders' equity at the beginning of 1977, Lowe's had $1.10 in other liabilities, thus financing $2.10 in assets. This $2.10 leverage factor times the 10.83% Return on Assets gives Return on Beginning Shareholder Equity of 22.74%. Totals vary due to rounding.

16 Year Review of Performance

1977	1 Year Growth Rates 1976-1977	5 Year Compound Growth Rates 1972-1977	10 Year Compound Growth Rates 1967-1977	15 Year Compound Growth Rates 1962-1977		Year Ended July 31
						Stores and People
175	16.7%	15.3%	14.8%	16.4%	1	Number of Stores
5,274	20.5%	14.9%	17.9%	17.1%	2	Number of Employees
8,224	16.9%	16.6%	16.7%	17.8%	3	Customers Served (Thousands)
$ 72.27					4	Average Customer Purchase
						Comparative Income Statement (Thousands)
$ 594,358	27.8%	20.4%	22.9%	21.3%	5	Total Sales
$ 42,487	23.9%	18.6%	23.5%	22.4%	6	Pre-Tax Earnings
$ 21,056	24.0%	18.5%	24.4%	22.3%	7	Taxes on Income
$ 21,431	23.8%	18.6%	22.7%	22.5%	8	Net Earnings
$ 2,735	115.0%	23.7%	15.3%	13.6%	9	Cash Dividends Paid
$ 18,696	16.6%	18.0%	24.4%	25.5%	10	Earnings Retained and Reinvested
						Dollars Per Share (Nearest Cent) (1)
$ 45.64	27.8%	19.7%	22.2%	20.7%	11	Sales
$ 1.65	23.8%	18.0%	21.8%	21.4%	12	Earnings (2)
$ .21	115.0%	24.6%	15.4%	13.9%	13	Cash Dividends
$ 1.44	16.6%	17.2%	23.8%	25.1%	14	Earnings Retained and Reinvested
$ 8.67	19.6%	22.9%	22.6%	21.4%	15	Shareholders' Equity
						Performance Measurements*
$ 3.00					16	Asset Turnover (Sales per Asset Dollar)
x 3.61%					17	Return on Sales (Earnings as % of Sales)
=10.83%					18	Return on Assets
x 2.10					19	Leverage Factor (Asset Dollars per Equity Dollar)
=22.74%					20	Return on Shareholders' Equity
						Comparative Balance Sheet (Thousands)
$ 186,198	27.1%	21.6%	22.7%	20.3%	21	Current Asset Totals
$ 13,324	– 14.7%	11.3%	10.7%	13.6%	22	Cash
$ 76,162	45.6%	22.7%	22.9%	22.2%	23	Accounts Receivable (Net of Reserve)
$ 96,164	23.4%	22.8%	26.0%	20.5%	24	Inventories (Lower of Cost or Market)
$ 548					25	Other Current Assets
$ 60,210	19.4%	25.5%	26.5%	29.4%	26	Fixed Assets
$ 401					27	Other Assets
$ 246,809	24.8%	22.5%	23.5%	21.6%	28	Total Assets
$ 87,709	31.5%	16.9%	21.5%	20.0%	29	Current Liabilities Totals
$ 60,324	40.5%	16.9%	21.8%	19.3%	30	Accounts Payable
$ 9,507	18.1%	13.3%	15.9%	17.4%	31	Income Tax Provisions
$ 17,878	13.8%	19.1%	25.1%	25.6%	32	Other Current Liabilities
$ 46,244	26.1%	35.8%	29.3%	24.7%	33	Long-Term Debt
$ 133,953	29.6%	21.7%	23.6%	21.3%	34	Total Liabilities
$ 112,857	19.6%	23.5%	23.2%	22.1%	35	Shareholders' Equity
2.44					36	Ratio: Equity ÷ Long Term Debt
2.19					37	Year End Leverage Factor: Assets ÷ Equity
						Shareholders and Shares
4,588					38	Shareholders of Record, Year End
13,022					39	Shares Outstanding, Year End (Thousands) (1) (3)
$32.25-21.00					40	Stock Price Range During Year (1)
$29.50-23.75						First Quarter
$32.25-24.25						Second Quarter
$26.75-23.00						Third Quarter
$24.75-21.00						Fourth Quarter

Lowe's Annual Meeting

Monday, November 28, 1977, 2:00 P.M.
Auditorium, Wilkes Community College
Highway 268 East, Wilkesboro, NC

Form 10-K

This Annual Report incorporates virtually all information required on Form 10-K filed annually by Lowe's with the Securities and Exchange Commission. A cross-reference to 10-K items is provided in the Index on the Inside Back Cover. Only those sections of the Annual Report referenced in the index are considered to be part of Form 10-K.

President's Letter To Shareholders

Lowe's Office of the President.
From left: Leonard Herring, John Walker, Petro Kulynych, Robert Strickland.

To Our Shareholders: Fiscal 1977 was a year of milestones in the life of Lowe's. We celebrated our fifteenth anniversary as a public company and began our second fifteen years of growth and progress. We passed the half billion dollar mark in sales and $100,000,000 in shareholders' equity. We opened our 175th Lowe's store and achieved sales volume per average 175 stores of $3,396,000. Lowe's was named "1977 Retailer of the Year" by Building Supply News, on behalf of the building supply industry. Our Quarterly Reports for fiscal 1977, for the second consecutive year, were awarded Financial World's "Silver Oscar of Industry" for the best quarterly reports in the nation. And, in keeping with our commitment to better disclosure, we are presenting to all of you for the first time since fiscal 1973, a comprehensive Lowe's Fiscal 1977 Annual Report. This report presents our perspective viewpoint: a look back at Lowe's beginnings, growth, and the accomplishments of the recent past; a look around at Lowe's today, our capabilities and position in the markets we serve; and a look forward, at our future as we envision it, where Lowe's is going and how we plan to get there.

Fiscal 1977 Highlights: This truly was a superlative year, one in which previous performance records in sales and earnings were surpassed. The economic climate was excellent for new housing, and fairly good for retailing, despite one of the worst winters in the nation's history which virtually halted building activity and restricted consumer spending for several months. And, although the winter freeze may have served to augment the energy crisis, it has also produced marketing opportunities for Lowe's product sales and we have moved to maximize these opportunities.

Sales Momentum: As shown on page one, Lowe's sales in fiscal 1977 set a new company record for the second year in a row, totaling $594,358,000. This was a 27.8% increase over the $465,052,000 achieved in fiscal 1976, and the $129,306,000 growth in one year exceeded our total sales volume in fiscal 1970. Lowe's sales have grown at average annual compound rates of 21.3% for the last 15 years, 22.9% for the last 10, and 20.4% for the last 5.

Earnings Growth: Net earnings after taxes also set a new record, increasing 23.8% to $21,431,000. Since net earnings increased less than sales, our net return on sales, 3.61%, was slightly lower than fiscal 1976's return of 3.72%. This mainly reflects a lower gross profit return on sales caused by shifts in customer and product mix. These changes are described in greater detail in the President's Report, pages 6 and 7, and in the Management Analysis of fiscal 1977 results on pages 31 through 34. Lowe's net earnings have grown at average annual compound growth rates of 22.5% for the last 15 years, 22.7% for the last 10, and 18.6% for the last 5. Earnings per 13,022,126 common shares increased 23.8% to $1.65 in fiscal 1977.

Cash Dividends: During this fiscal year, Lowe's cash dividends paid quarterly to shareholders totaled $2,735,000, more than double the $1,272,000 paid in fiscal 1976. The July 29, 1977 dividend was Lowe's 65th consecutive quarterly cash payment, and management feels justifiably proud of this 16 year unbroken stream of cash dividend payments. And, we have recently accelerated our dividend payment rates. In fact, the dividend rate has been increased in five out of the last six quarters, and currently stands at 7¢ per share, an indicated annual dividend payment of $3,646,000. Average annual compound growth in dividends is 13.6% for the last 15 years, 15.3% for the last 10 years, and 23.7% for the last 5.

Expansion: Lowe's opened more new stores in fiscal 1977 than in any previous year. Twenty-five new stores, bringing our total to 175 in 16 states, were opened in the following locations: Albemarle, Chapel Hill, Kinston, and Troy, North Carolina; Thomasville, Columbus, Marietta, Warner Robins, Gainesville, and Brunswick, Georgia; Greenwood and West Columbia, South Carolina; Jackson (a second store) and Greenwood, Mississippi; Mobile (a second store) and Prattville, Alabama; Inverness and Maitland, Florida; Murfreesboro, Tennessee; Paducah, Kentucky; Cincinnati, Ohio; Matewan, West Virginia; Leesville, Louisiana; South Boston, Virginia; and Easton, Maryland. Two of these stores were opened in the first quarter, 2 in the second, 5 in the third, and 16 in the fourth. These 25 new stores contributed $10,743,000 to fiscal 1977 sales volume (see page 4), and all opening expenses have been charged against the fiscal 1977 Income Statement. By type of store, 8 of these new stores were what we describe as standard Lowe's stores which means we built them to a standard design, and 17 were "take-overs," pre-used facilities which we have acquired and turned into Lowe's stores. Two of our new stores were further designated Lowe's Home Improvement Centers which will cater primarily to retail customers. For a discussion of the evolution of our store expansion policy and its implications for store size, store sales, and square footage, we turn your attention to the President's Report, pages 4 and 5. We also enlarged three of our existing stores in fiscal 1977, Chattanooga, Tennessee; Hickory, North Carolina; and Richmond, Virginia; continuing our program of enlarging, refurbishing, and replacing older Lowe's stores as market conditions and construction schedules permit.

"...a superlative year,
175 Lowe's stores,
$594,358,000 in sales, and
$1.65 in earnings per share."

Financial Comments: We invite your attention to Lowe's continuing strong financial position during a time of rapid growth. The Current Ratio for July 31, 1977 stood at 2.1 to 1, and long-term debt, including obligations under capital leases, was 29% of total capital. Shareholders' Equity reached $113,000,000 at July 31, 1977, representing annual compound growth of 22.1% over the last 15 years, 23.2% for the last 10, and 23.5% for the last 5. We are proud of this record, particularly since Lowe's continues to generate funds internally for the expansion of working capital, while augmenting retained earnings with long-term debt for expansion of our store base.

Outlook: We are now commencing the third year of recovery from the recession of 1975 and, therefore, the very high growth rates for sales and earnings achieved in fiscal 1976 (+36%, +65%) and fiscal 1977 (+28%, +24%) are becoming more difficult to attain. However, this recovery in the housing industry has been characterized by stability, without the excesses and speculative building of past housing cycles, and we believe this more stable growth environment will continue. Therefore, we are committing ourselves to a year of hard, smart work, with the continued improvement of our market penetration efforts to the home building industry and increased emphasis on retail marketing. And we are committing ourselves to maintaining this year and in future years, the growth record shown over the past 15 years. Certainly basic demand for Lowe's goods and services remains strong, and the economic growth of our geographic area (see pages 37 to 45) still has unparalleled long-range growth attributes, and potential for Lowe's future.

Other: We close this letter, as always, with a sincere expression of appreciation to all the Lowe's team—our shareholders, our employees, our customers, our suppliers, our associates and friends, for your confidence, your achievements, and your dedication to Lowe's progress.

Office of the President
Lowe's Companies, Inc.
North Wilkesboro, N.C.

President's Report

The Stores

The Moment of Profitability: Lowe's moment of profit generation occurs when a customer buys a product from a Lowe's salesperson at a Lowe's store. Retail sales of building materials and hard goods is Lowe's business and our stores make the sales. Each one of our 175 stores is a complete and distinct business entity, and each Lowe's store is a profit center. Lowe's of Huntington, West Virginia is different from Lowe's of Montgomery, Alabama. They have to be different because Huntington and Montgomery are different markets. For example, builders in Huntington use West Coast lumber for framing, but builders in Montgomery want Southern Yellow Pine. But our stores have a lot in common too. First of all, they're all Lowe's stores. And they all rely on the critically important support services supplied by central marketing, advertising, purchasing, distribution, and data processing.

Basic Growth Policy: A performance-minded management must invest its resources of time, talent, and funds by allocation to the most attractive opportunities in priority order. Do we continue to add stores? Do we diversify into new businesses, or new products? There has been no lack of opportunities for Lowe's to diversify, horizontally integrate, or to merge, and time and study have been devoted to some of the more promising ones. Some of the businesses we tried prior to becoming a public company were discontinued, not because of lack of profitability, but because their rate of return compared unfavorably with that of our stores. And this is the yardstick by which we continue to evaluate the opportunities for new ventures, and the performance of each of our stores.

Store Performance: Almost every single one of our stores increased sales (all but six) and market penetration in fiscal 1977. We regularly describe total sales gains (and declines when they occur), but many observers of Lowe's want to know how stores are doing which have been open for several years; say, the stores opened prior to fiscal 1976, or fiscal 1974. The point is well taken that new stores tend to have a very high

Dublin, Va., typical of Lowe's new, more cost-efficient, standard design store.

Lowe's Store Sales [A]

		Total Sales*	Average Sales Per Store*
Fiscal 1974			
100 ESTABLISHED	STORES	$346,269	$3,463
16 NEW	STORES	16,184	
116 TOTAL	STORES	$362,453	$3,125
Fiscal 1975			
100 1973	STORES	$288,684	$2,887
16 1974	STORES	34,779	$2,174
116 ESTABLISHED	STORES	$323,463	$2,788
14 NEW	STORES	17,419	
130 TOTAL	STORES	$340,882	$2,622
Fiscal 1976			
100 1973	STORES	$362,623	$3,626
16 1974	STORES	46,841	$2,928
14 1975	STORES	38,498	$2,750
130 ESTABLISHED	STORES	$447,962	$3,446
20 NEW	STORES	17,090	
150 TOTAL	STORES	$465,052	$3,100
Fiscal 1977			
100 1973	STORES	$431,445	$4,314
16 1974	STORES	59,782	$3,736
14 1975	STORES	48,795	$3,485
20 1976	STORES	43,593	$2,180
150 ESTABLISHED	STORES	$583,615	$3,891
25 NEW	STORES	10,743	
175 TOTAL	STORES	$594,358	$3,396

*Thousands of dollars, rounded totals.

growth curve in the early years of their life cycle. And, when a company is expanding rapidly (as we are), these new store sales can obscure the sales progress of the more established stores. The truth is, our established stores are increasing sales, and at a pace which represents more than just inflationary gains, through a combination of new and more effective marketing and advertising programs, market growth (more customers and more disposable income), new products and improved product availability, and the renovation and enlargement of stores, to name a few.

Table A presents a layering of our store sales beginning with fiscal 1974: 100 Lowe's stores were in operation at the end of fiscal 1973 and 16 new stores were opened during fiscal 1974. We show the sales achieved by those 100 "established" stores in fiscal 1974 and the average volume per store, and the sales contributed by the 16 new stores. We then track the sales volume and progress of those 100 "1973" stores, and the 16 "1974" stores, in fiscal 1975, 1976, and 1977. Since we also opened new stores in each of these fiscal years, we separate the sales volume of the 1975, 1976, and 1977 new store generations as well. What are the results? Keep in mind that our total sales increased 28% in fiscal 1977 over fiscal 1976, and that sales per store for our 175 stores averaged $3,396,000 for fiscal 1977. As indicated in Table A, the 100 1973 stores achieved average sales volume per store of $3,463,000 in fiscal 1974, a good year for sales and the fourth year of recovery from the 1970 credit crunch. After surviving the 1975 recession, and in the second year of recovery therefrom, the same 100 1973 stores achieved an average volume of $4,314,000, up 19% over their average sales per store in fiscal 1976. Our newer stores are doing well too. Those 16 1974 stores were in their fourth year of operation in fiscal 1977, and they averaged $3,736,000 in sales, up 28% from their average volume in fiscal 1976. Interestingly, the 14 1974 stores, only in their third year of life in fiscal 1977, were already achieving an average of $3,485,000 in sales per store. In general, new stores will average about $1.5 million in their first year (although store size will cause this average to vary), $2-2.5 million in their second year, $3-3.5 million in their third year, and then sales should increase between 5% and 10%, annually, thereafter. In fact, we believe that in markets of reasonable size, our larger stores can achieve in excess of $6,000,000 per store, as many of our stores do now. Store profits? Most of our established stores (open a year or more) achieved increased net profit in fiscal 1977.

Our Conclusion: Lowe's resources of time, energy, and growth investment funds can probably still be best invested in expanding our company with additional retail stores.

Growth and Expansion

Sales Floor Growth: At the end of fiscal 1970, there were 64 Lowe's stores in operation, with a total selling area of 366,000 square feet. About half of these stores were leased, representing the take-over by Lowe's of an existing facility, and half were owned, built by Lowe's in varying size and design. In 1975, our total selling space passed the 1.2 million square foot mark, more than three times 1970's total square footage. This was a significant five-year period for growth and expansion at Lowe's because of a policy decision made in 1970 regarding future store expansion. Beginning late in 1970, with our 65th store, all of the stores opened through our 129th store, in 1975, were built following a standard prototype design. All 65 of those new stores were built in more accessible retail locations instead of industrial parks, with 4 to 6 acres of land instead of 2 to 3, with more parking, better service facilities, and 11,500 square foot sales floors instead of an average of 6,000.

The year 1975 brought not only a recession, but another change in store expansion policy at Lowe's. Two external changes caused us to sit down and re-think our expansion policy: First, construction costs for that 1970 prototype had doubled in five years; and second, recession had made available for take-over at attractive rentals, a number of existing store facilities in desirable locations. We acquired and opened Forest City, North Carolina, in January, 1975, and it was "in the black" in its first month of operation! In the next two fiscal years, 1976 and 1977, 34 out of the 45 new stores we opened were "take-overs," of varying size and shape, but averaging about 7,000 square feet of selling area. Meanwhile, we re-designed our prototype with the objective of reducing total construction costs. The result was a store like Dublin, Virginia, pictured on page 4, which looks very much like those 65 1970-1975 stores to our customers, but costs about 20% less to build. The remaining 11 new stores opened in 1976 and 1977 were built according to this new design, most them with 10,000 square foot sales floors.

Sales Per Square Foot: A measure of the sales results of these policy changes may be seen in Table B. The yearly increase

Lowe's Sales Floor Growth B

Fiscal Year End	Number of Stores	Total Area Sales Floors*	Average Sales Floor Size*	Total Sales (000)	Average Total Sales Per Square Foot**	Average Retail Sales Per Square Foot**
1972	86	635,000	7,400	$234,556	$417	$166
1973	100	832,000	8,320	$326,846	$446	$179
1974	116	1,046,000	9,017	$326,453	$386	$174
1975	130	1,209,000	9,300	$340,882	$302	$145
1976	150	1,330,000	8,867	$465,052	$366	$156
1977	175	1,570,000	8,971	$594,358	$410	$159

* Square Footage
**Total sales for year, divided by average total area sales floors during the year.

in average sales floor size to a peak of 9,300 square feet in fiscal 1975 reflects the 1970 change to larger selling areas in our new stores. Conversely, the subsequent slight decline and leveling off of average sales floor size in fiscal 1976 and 1977 is the result of changing to a program of opening primarily take-overs which tend to have smaller selling areas. These changes are also reflected in sales per square foot trends, particularly retail sales per square foot. This measure reached a peak of $179 in fiscal 1973 and remained at close to this high level in fiscal 1974 as our new, larger, standard design stores attracted retail customers in a fairly short period of time during perhaps two of the best years for retail sales of our products. Since the recession year, which put a damper on retail sales in fiscal 1975 (see Table A on the next page), retail sales per square foot have been slow to recover to pre-1975 heights. We think this is in part due to a generally lackluster recovery in retail sales of big ticket durable goods (about 6% growth per year for these products nationally, since 1973), and in part due to our 1975 change in expansion policy. You see, take-over stores have the advantage of enabling Lowe's to increase market penetration quickly and profitably. However, take-overs can take longer to build retail customer sales because they are older facilities and they tend to have smaller display areas.

The National Market: Where do we go from here? There are about 74,000,000 households in the nation, and the average Lowe's store serves 54,000. Thus, between 1,300 and 1,400 Lowe's stores are needed to serve the United States. The 16 states in the map on page 45, plus Arkansas, Missouri, and Illinois, contain about 33,000,000 households, enough to support 600 Lowe's stores. So almost half the national market is fairly close to our present operating area, and geographically contiguous.

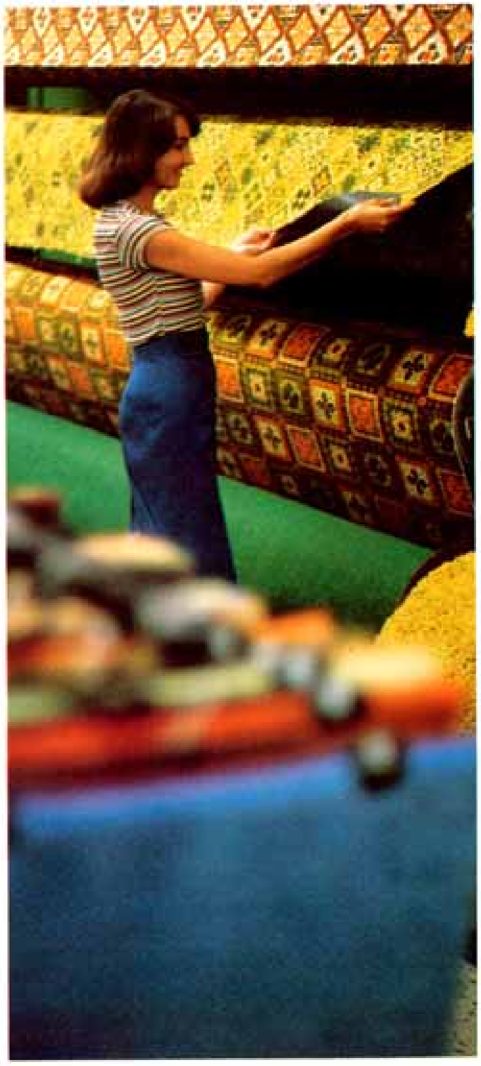
Choosing Locations: Growing concentrically has been our basic growth pattern, and expanding merchandising influence in gradually larger circles has much to recommend it. One reason is that efficiency in logistics is likely to be maintained. Another is that Lowe's job of getting acquainted with the public may be easier because of spill-over of advertising and other promotional efforts from adjacent areas. However, these same benefits apply even more strongly to new locations within Lowe's present perimeter, or sphere of influence. And as our product line has expanded, and as the economic activity of our market areas has increased, we find that towns that previously were passed over in favor of higher-priority areas are prime prospects in today's business climate for new Lowe's stores.

Store Types: As we explained, we have returned to our pre-1970 policy of acquiring existing buildings for Lowe's stores in addition to constructing new buildings. The mix will vary depending on the availability of suitable existing facilities. For fiscal 1978, current expansion plans call for 25 new Lowe's stores, about half of which are likely to be take-overs and half new facilities.

Expansion Plans: We want to reach an objective of 300 stores by 1981.

Customer Analysis

The Marketing Basic: To a marketing company, serving customers is the name of the game. Therefore, we give primary and continuing attention to preferences of our customers and their changing needs for the goods and services which we supply. We serve a wide cross section of people with varying shopping habits and individual interests, but there are certain attributes shared by all. They appreciate prompt and courteous attention, they expect value at the time of their purchase, and efficient service both during and after the sale.
Customers Served: Growth in the number of customers served reflects greater acceptance of our products and services, and Lowe's customer transactions increased 17% to over 8 million in 1977. Our average customer purchase increased 9% to $72.27 in fiscal 1977, the highest level in our history. Who are these customers? We classify them into two basic categories—Professional Buyers and Retail Customers.
Professional Buyers: We define professional buyers as those customers who purchase the products we sell in the course of their business, for nonpersonal use. This group includes home builders, developers, contractors, carpenters, electricians, painters, plumbers, and industrial and institutional purchasing agents. Within the basic marketing areas served by 175 Lowe's stores, these professional buyers number about 120,000. About one-third of this number are Lowe's customers for at least a portion of their professional buying needs.



Retail Customers: Our retail customers are primarily home owners or "householders," buying for personal or family use. Since our merchandise line is composed basically of products for home building, remodeling, home furnishing, and entertainment, then the number of households in each Lowe's market provides the best census of marketing opportunity. The present 175 store marketing areas serve just under 9,460,000 households, an average of 54,000 for each store market area.
Lowe's Customer Sales: Table A is a six-year recap of Lowe's sales to these two major customer groups. Although sales to professionals were depressed by the housing market decline during 1975, 52% of our sales volume in 1975 came from that source. However, during fiscal 1976 and 1977, housing rebounded strongly with "Pro" sales growing to 61% of our total this year. Comparing compound growth rates over the years shown, retail volume has increased only slightly less than Pro, but its growth has been more consistent.

A comparison of these percentages with those from trade publications indicates that Lowe's has a broader retail customer base than the typical dealer in our volume category. The primary reasons for this are our specialized sales force, wider line of retail products, better retail locations and product display, and an experienced and aggressive merchandising effort. Our objective is to continue to maximize sales to both customer groups.

Lowe's Customer Purchase Trends

A

	1972		1973		1974		1975		1976		1977		
Category	Sales	% of Total	Sales	% of Total	Sales	% of Total	Sales	% of Total	Sales	% of Total	Sales	% of Total	C.G.R.**
Professional Buyers:	$141,202	60%	$195,781	60%	$198,987	55%	$176,917	52%	$266,940	57%	$364,029	61%	20.9%
Change *			+ 39%		+ 2%		— 11%		+ 51%		+ 36%		
Retail Customers:	$ 93,354	40%	$131,065	40%	$163,466	45%	$163,965	48%	$198,112	43%	$230,329	39%	19.8%
Change *			+ 40%		+ 25%		—		+ 21%		+ 16%		
Totals	$234,556	100%	$326,846	100%	$362,453	100%	$340,882	100%	$465,052	100%	$594,358	100%	20.4%
Change *			+ 39%		+ 11%		— 6%		+ 36%		+ 28%		

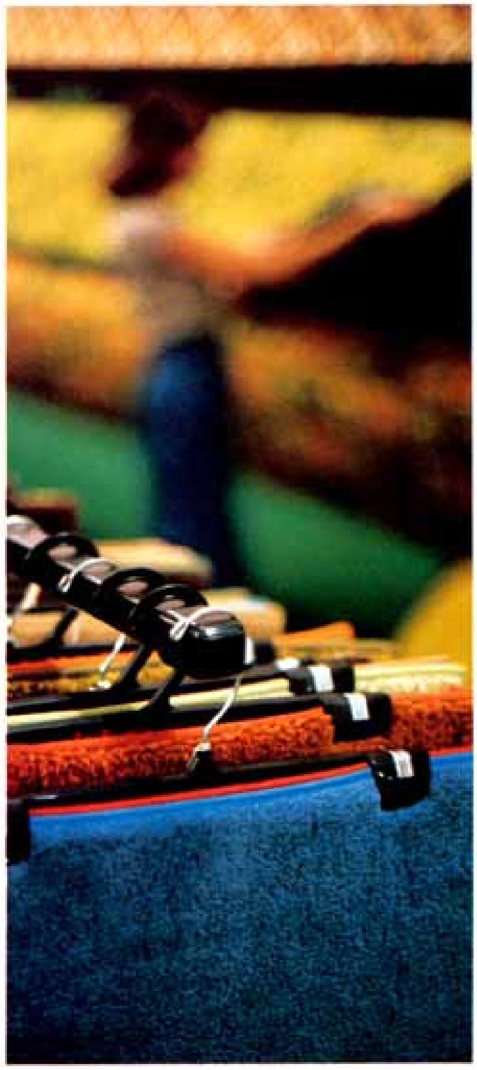
Rounded Figures, Thousands of Dollars.
Percentages Rounded to Nearest Whole Percent.

*Change from Previous Year.
**C.G.R. Five Year Compound Growth Rates.

Product Analysis

Lowe's Merchandise Sales: Listed here is the merchandise we sell, grouped in eight major categories. Table B below shows the sales results in each category for 1972 through 1977. We do not list "net product profit," because our stores are our true profit centers.

1. Structural Lumber: Dimensional lumber, framing, studs, joists, posts, boards, and treated wood.
2. Building Materials and Hardware: Plywood, gypsum board, roofing, paneling, doors, windows, insulation, siding, floor covering, carpeting, ceilings, nails, locks, and hardware.
3. Plumbing, Electrical, Heating and Cooling: Bath tubs, shower stalls, pumps, plumbing fixtures, fittings, pipe, and supplies, light fixtures, cable, and electrical accessories, furnaces, fireplaces, heating equipment, ventilators, central and room air conditioning.
4. Kitchens and Home Laundry: Refrigerators, freezers, ranges, dishwashers, disposals, microwave ovens, cabinets, counter tops, washers, and dryers.
5. House, Yard, and Farm Supplies: Power lawn mowers, riding mowers, garden tillers, power tools, hand tools, storage buildings, bicycles, go-carts, housewares, giftwares, farm roofing, fencing, and barbed wire.
6. Home Entertainment: Color and black and white television, stereo components and consoles, radios, CB equipment, and tape recorders.
7. Mobile Homes: Factory-built housing.



8. Special Order Sales: All merchandise sold by Lowe's which is not regularly stocked at a Lowe's store, but which is ordered for customers from manufacturers or local distributors.

Trend Analysis: A study of these product sales trends and growth rates can best be made with a simultaneous review of the changing trends in Lowe's customer mix, shown in Table A.

This year all product categories posted sales increases, except for Mobile Homes, a business we are phasing out since it does not provide as high a return on investment as our other merchandise lines. Lumber achieved the largest sales increase, up 35% in fiscal 1977, due in part, however, to price increases. Building materials and hardware grew 29%, for its fourth consecutive increase in percent of total. Partly, this is due to new product additions, but mainly it is due to strong demand for new housing units and refurbishing-related products such as insulation. Plumbing, Electrical, Heating, and Cooling grew 27% in 1977, with sales of air conditioners, fireplaces, and energy-efficient heating coming on strong. Kitchens and Home Laundry increased 23%, with appliance demand picking up in the second half of the year, and Home Entertainment increased only 16%, a sign of that business still in the doldrums. House, Yard, and Farm, always a steady growth area, increased a strong 29%; and Special Order Sales maintained a solid, profitable 10% of our total.

Lowe's Merchandise Sales Trends

B

	1972		1973		1974		1975		1976		1977			
Category	Sales	% of Total	Sales	% of Total	Sales	% of Total	Sales	% of Total	Sales	% of Total	Sales	Change*	% of Total	C.G.R.**
1	$ 44,777	19.1%	$ 66,650	20.4%	$ 65,513	18.1%	$ 52,491	15.4%	$ 85,803	18.4%	$116,016	+ 35%	19.5%	21.0%
2	103,253	44.0%	142,833	43.7%	161,410	44.5%	155,817	45.7%	214,440	46.1%	276,839	+ 29%	46.6%	21.8%
3	23,413	10.0%	30,226	9.2%	34,594	9.5%	33,547	9.8%	43,409	9.3%	55,258	+ 27%	9.3%	18.7%
4	13,420	5.7%	19,124	5.9%	22,352	6.2%	23,036	6.8%	24,245	5.2%	29,860	+ 23%	5.0%	17.3%
5	14,982	6.4%	22,422	6.9%	23,721	6.5%	25,259	7.4%	33,768	7.3%	39,316	+ 16%	6.6%	21.3%
6	8,830	3.8%	11,900	3.6%	14,078	3.9%	10,960	3.2%	11,565	2.5%	14,929	+ 29%	2.5%	11.1%
7	1,710	.7%	2,900	.9%	5,312	1.5%	2,599	.8%	3,624	.8%	2,798	− 23%	.5%	10.3%
8	24,171	10.3%	30,791	9.4%	35,473	9.8%	37,173	10.9%	48,198	10.4%	59,342	+ 23%	10.0%	19.7%
Totals	$234,556	100.0%	$326,846	100.0%	$362,453	100.0%	$340,882	100.0%	$465,052	100.0%	$594,358	+ 28%	100.0%	20.4%

Rounded Figures, Thousands of Dollars.
Percentages Rounded to Nearest Tenth.

*Change from Previous Year.
**C.G.R. Five Year Compound Growth Rates.

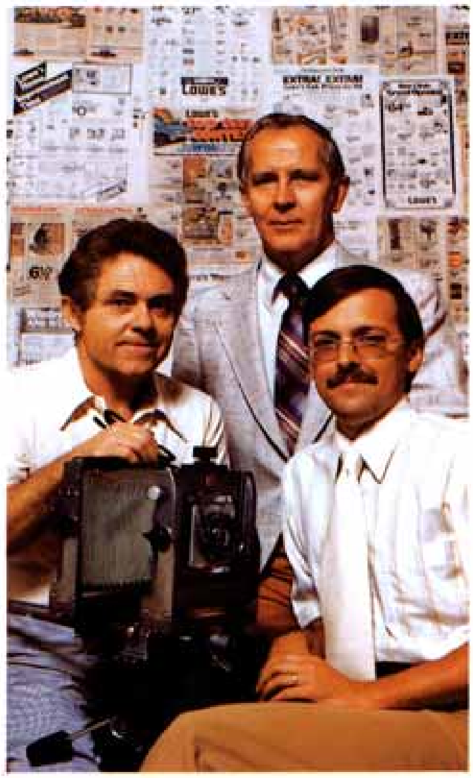
The Marketing Basics

A Marketing Definition: The concept of Marketing which seems most appropriate to us was written by Clarence E. Eldridge, who defined it as, "The art of determining the needs and wants of customers and filling them, at a profit to the organization." This customer-oriented approach is essential to marketing success, and the profit discipline is essential for corporate success. Therefore, an increasing amount of emphasis is being placed on research, in the attempt to keep our antennae trained towards the market, and to interpret the signals.

Marketing Research: Our research efforts take varied forms. 27,000 research opportunities visit our stores each day, called customers. Lowe's personnel are trained and financially motivated to maintain a helpful, listening attitude, and to channel this information back to the person in decision-making authority. Formal opportunities for market information flow include weekly store meetings of all personnel; weekly written reports from each store manager with sections for comments on inventories, advertising, delivery, and customer service; and regular conferences between store and regional management. Marketing research is a continuous process as our stores, product line, and customer mix grow and evolve. Customer surveys, market definitions, and market studies are conducted regularly.

Merchandise Research: Merchandise research is also required on a continuous basis, and this necessitates the personal judgment and talent of people. Data processing can tell us what is not selling, but not why, or what will sell. This task falls to our Marketing Managers, Merchandising Managers and Purchasing Agents who continuously study merchandise trends. They listen to salesmen, shop competitors, visit trade shows, and exercise basic market judgment.

Advertising: Prerequisite to being one of the nation's fastest growing retailers is having an innovative, aggressive advertising strategy. Our in-house advertising agency, Sterling Advertising Ltd., is a solidly professional group which has brought Lowe's to the position of acknowledged leadership in our field. The foremost goal of every person in the group is to keep the customers coming through the doors, and this is achieved through frequent and effective communication of Lowe's Low Prices, product value and service. Sterling prepares all of our pre-printed tabloids, billboards, grand opening and regular newspaper ads, product catalogs (Lowe's "Buyers Guide"), and produces and places all of our t.v. commercials. Sterling is also responsible for product research and preparation of Lowe's Value Guide, a unique reference manual for any current or potential Do-It-Yourselfer, containing important information about lumber, insulation, roofing, and other building materials, as well as sections describing how to plan a whole new kitchen, for example. The Value Guide has become the cornerstone of the growing consumer Product Reference Library in each Lowe's store.



Lowe's advertising team combines creativity with competitive superiority to keep the customers coming through the doors.

Diane Adams, Warehouse Express Merchandise Manager, delivers specialty products to our customers at Lowe's Low Prices.

Lowe's has its own computerized cooperative advertising department. We take advantage of every available dollar of cooperative advertising provided by each supplier, and this helps to defray our total advertising expenses.

Re-writing the advertising record books has become a pleasant habit at Lowe's, and fiscal 1977 was no exception. Our customer count for the year was 8,224,000, 17% more than 1976.

Lowe's "Triple-Option:" By design, Lowe's maintains a streamlined core of approximately 10,000 stockkeeping units of merchandise in our stores. But at Lowe's, we don't believe in limiting what we sell to what we stock in each store. Instead, we have developed a triple-option merchandise selection system: In addition to products in inventory at each store (stock items), we have products in inventory only at our central warehouses (Warehouse Express) and products not inventoried at all (Special Order Service).

Warehouse Express: This is a relatively new service for Lowe's, but one that has been well-received by our customers and our stores, producing $6.6 million in sales volume in fiscal 1977. Our basic stock merchandise in each Lowe's store cannot possibly include every product that our customers might need or want. However, out of the many thousands of these products, our customers have most frequently requested a wider variety of

With the Lowe's Homestead, Marketing V.P's Robinson and Barnhill offer a low-cost way to beat the high cost of housing.

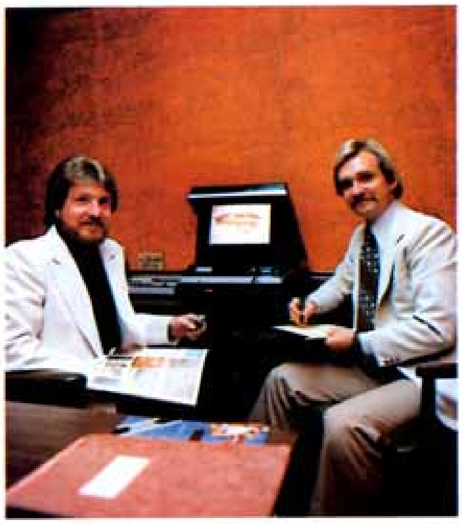
Our Data Processing system provides up-to-the-minute feedback on Lowe's customer and product trends.

Lowe's Improvers, led by Dick Griffin, stay on the go providing professional installation of our merchandise.

home finishing and decorating items, such as flooring, ceiling tile, specialty doors, storm windows, furnaces and other heating equipment, light fixtures, and hardware. By utilizing our central distribution warehouses for these products, and Lowe's trucks to make weekly express deliveries to our stores, Lowe's can offer this specialty merchandise without charging "specially high" prices. With Warehouse Express, we save on inventory investment, maximize inventory turnover, and keep our customers satisfied.

Special Order Sales: There are many stores and businesses which have special order programs, but Lowe's Special Order Service (SOS) is unique. Each of our stores has a library of catalogs from wholesale distributors containing many specialty products. Our sales force is trained to help customers select the items they need, order, and arrange delivery to the customer's home or construction site, as they prefer. Each store also has a copy of Lowe's Special Order Service Catalog, listing products which can be ordered from our manufacturers, and a current price list. SOS has grown to about 10% of Lowe's total sales volume, with $59 million recorded in fiscal 1977.

Lowe's Improver Program: This program is based on a simple, yet powerful marketing truth: People want a product's benefits more than they want the product itself. When there's no more hot water in the shower, your fundamental desire is not for the white metal cylindrical fabrication called a water heater. All you really want is hot water again. Lowe's merchandise line is filled with products that require professional installation—chain link fencing, asphalt roofing, carpeting, central air conditioners, and hundreds more. And now we have added our energy-conserving retrofit program, to raise the energy efficiency of existing homes through installation of insulation and storm doors and windows. We have spent three years getting the Improver program underway, and now we have most of our stores staffed with Improver Coordinators, who quote and contract installed prices, arrange and supervise outside installation, and are responsible to Lowe's customers for the satisfactory



completion of the job. We plan to double in fiscal 1978 the $5.5 million in volume achieved in fiscal 1977.

Lowe's Homestead: In November, 1970, we introduced an innovative marketing program, Lowe's Homestead house. This was a low-cost home "package" complete from foundation to roof, with floor space of about 1,000 square feet. Through July, 1971, 660 units were sold for a sales volume of $3,400,000. In 1972, 11 more plan selections were added, and the sales volume tripled. During 1973, the augmented portfolio featured more than 30 different homes including vacation homes, single-family residences, duplexes, and townhouses. The sales volume soared. In fiscal 1977, with over 40 Homestead house plans for customers to choose from, Homestead sales volume totaled $57,222,000, a 36% increase in sales over 1976, and a 60% compound annual growth since the program began. Furthermore, Lowe's has sold a total of 18,500 Homestead houses during these seven years. And we sell a majority of these home packages to retail customers.

Lowe's Homestead Sales

Fiscal Year	Sales ($ Mil.'s)	Unit Sales	Average Sales Price
1977	$57.2	4,715	$12,100
1976	42.0	3,311	12,700
1975	26.5	2,202	12,000
1974	30.0	2,898	10,400
1973	23.2	2,978	7,800
1972	10.2	1,735	5,900
1971	3.4	660	5,200

For each Homestead, we quote one price which is guaranteed for 90 days. Then we furnish all of the materials required to build the house to its design and code specifications, including carpeting and interior decor. Our customers receive a computer pre-printed invoice that lists all of the materials, grouped in construction sequence. We build nothing. Best of all, from Lowe's standpoint, each store stocks all materials for each plan in the Homestead brochure. And for our customers, the Homestead is a beautiful way to beat the high cost of housing.

Now we invite you to turn the page, for a look at what's new and exciting this year in marketing directions and programs at Lowe's. . . .

The Low-E energy-efficient contruction system drastically reduces the cost of heating and cooling. Three of the thirty Low-E Homestead designs. With the Design Consultants and "Con-Tech," Lowe's has a full-scale builder services division.

New Directions and Programs

Introduction: Energy Crisis. Two simple words that have changed the lives of every person in this country virtually overnight. After decades of enjoying the seeming abundance of cheap energy, the nation awakened one day in the fall of 1973 to face the harsh reality that gasoline, heating fuel and other energy end-products would be skyrocketing in price and, at least for some period of time, limited in supply. And although the "crisis" atmosphere has subsided somewhat, our continuing energy problem has rippled its way through our economy and into each American home. It has had a dramatic impact on the homeowner and his pocketbook, threatening his ability to provide shelter for his family. Because electric, oil, gas, and almost all utility bills have doubled and tripled to unmanageable and unaffordable heights, regardless of the energy source or heating system used.

So, how does this profound national, really international, problem relate to new marketing directions and programs at Lowe's? Well, the key to a successful marketing company lies in its ability to recognize a need and fill it. Lowe's is such a marketing company and we got where we are today by being responsive to the needs of homeowners. We truly think we have found a way to do this in our Low-E energy-efficient home program. Its story and success are so exciting that we wanted to dedicate the next few pages of this Annual Report to telling you all about it.

Low-E is a home. Or more precisely, it is a construction system. Low-E is also a complete building materials package like our other Homesteads, but totally different in its purpose and design. But let's back up a minute. We've already told you about our Homestead homes program. And, as you can see from the numbers—we've sold over 18,000 of these packages—we've done very well with our Homesteads because the Homestead is a good idea. But now we have made it even better with Low-E.

The basic design concept is not new. By using an old-fashioned construction technique for the framing of a house, called "post-and-beam," with a 2x6 stud used in the exterior wall and at least twice as much insulation in the walls, floor, and ceiling as in a minimum property standard home, reducing window area, and adding insulated doors and windows, to name just a few features, this construction design and concept can drastically reduce energy costs for heating and cooling. (The cut-away drawing on the facing page graphically presents the energy-saving features of the Low-E construction system.) And a Low-E home can be built for little or no more than the cost of a minimum property standard house, because, you see, the cost of added insulation is offset by a reduction in lumber. The savings from Low-E are really staggering. We asked the Duke Power Company to do some estimates on a 1,200 square foot Low-E home as compared with a similarly-sized home, built according to minimum property standards. By their calculations, the conventional home cost $493 to heat and cool for one year. The Low-E home cost $226—a savings of 54% or $267 in a year!

We can't take all of the credit for the idea, but we can take the credit for putting the idea in action. There are undoubtedly numerous ways to improve the energy-efficiency of a new home through construction design techniques. Early in 1976, we heard about the "Arkansas Story," a fifteen-year development project in energy conserving home designs conducted by some Arkansas Power & Light Company engineers. With the oil embargo and its derivative energy crisis, their design was an idea whose time had come. We went to Arkansas and carried back many of the design techniques these enlightened people had developed. And, we went back to our drawing boards and re-designed some of our Homestead homes from the ground up, from the inside out, with a single purpose in mind: to come up with the most energy-efficient home on the market today.

We did it. In August 1976, we flew 700 contractors to Las Vegas for a traditional Lowe's Builder Meeting. There, with Johnny Walker setting the pace for the meeting with a sobering discussion of energy shortages, energy waste, and the escalating cost of maintaining a home, we presented the first Low-E Homestead, the Pinehurst. The reception was overwhelming. We returned to North Wilkesboro with 350 firm commitments from builders interested in the Low-E design. Through the fall of 1976, more Homesteads were converted to the Low-E design, and in January, 1977, we brought the idea and its excitement to the 33rd Annual National Association of Home Builders Convention and Exposition in Dallas, Texas. Again, Low-E was a success.

Meanwhile, our marketing team was actively seeking to educate building code inspectors in the merits of the Low-E system; because when we started the project, 2x6 post and beam construction was not permitted for residential treatment in many building codes. We were therefore most pleased when Low-E not only received Southern Building Code approval, but was granted the SBC Seal. This means that a Low-E house meeting our specifications will be approved automatically by local building inspectors in areas subscribing to the Southern Building Code. The Low-E team met with representatives of the various power companies, to see if our design system met their standards for an energy-efficient home, and to gain their endorsement of the validity of the energy savings we anticipated. Finally, we talked with lenders in our area to encourage them to take a reduction in monthly utility costs into consideration when granting a mortgage to a potential homeowner. All in all, a great deal of thought, preparation, convincing, and just plain long hours went into making Low-E a reality. Then, along came the nation's coldest, most severe winter in years. The timing couldn't have been better for Low-E.

Here are the numbers: From a beginning at that builders' meeting in Las Vegas late in August, 1976, and only one house design to offer at that time, we have sold 1,052 Low-E house packages through July 31, 1977, 22% of our total Homestead units. This amounts to a dollar volume of $14,610,000 (an average of $13,888 per house package), 26% of the Homestead total. And that's

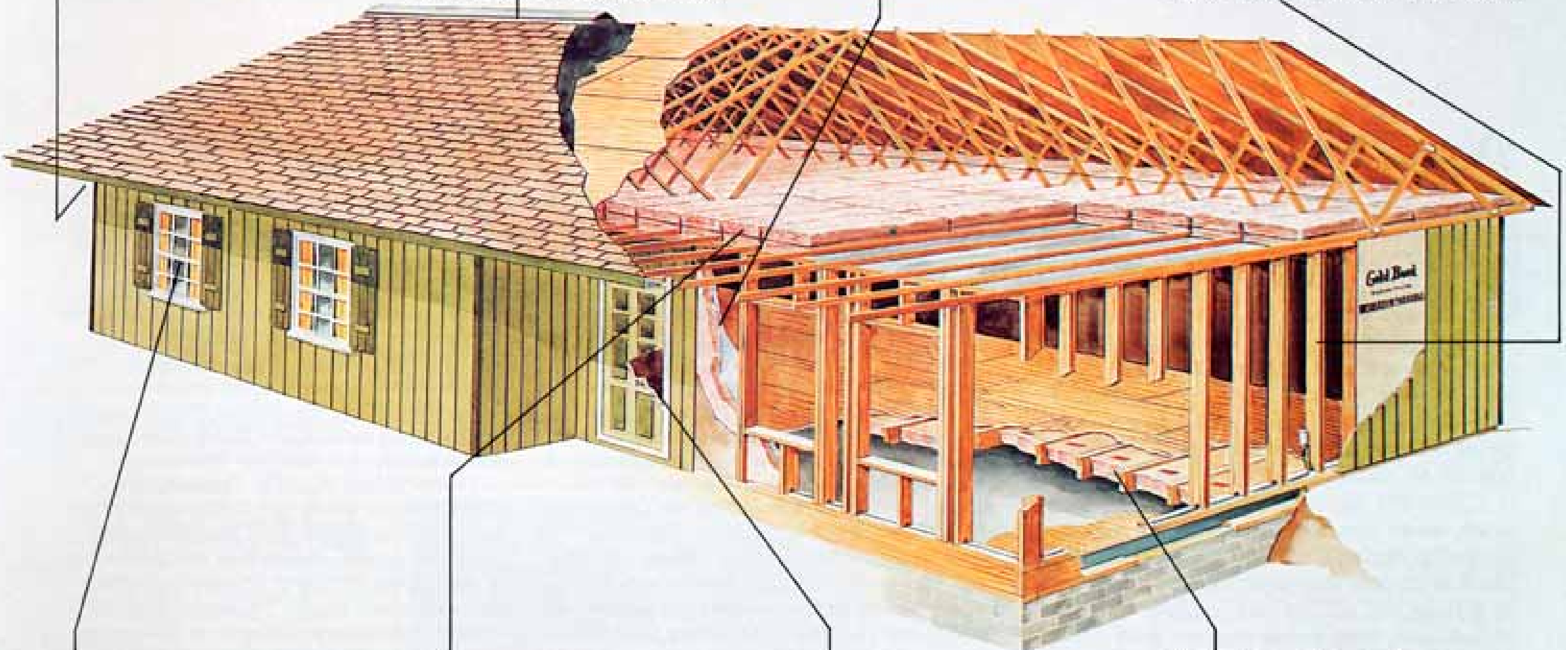
Here's an architect's-eye view of some of the energy saving features in every Low-E home.

Roof Overhang
Minimum 24″, to shade the glass areas and reduce summer cooling requirements.

Vent-A-Ridge
When combined with the continuous soffit vents, the Vent-A-Ridge works like a chimney, drawing hot air from the attic.

6″ Insulation
Walls are insulated with 6″ friction fit fiberglass insulation batts, with an R-value of 19.

2x6 Wall Studs- 24″ On Center
Allows room for 6″ fiberglass batts to be placed in the walls and provides structural strength beyond that of standard 2x4 walls.



Windows
First, there's less window area—about 8% to 10% of floor space. Second, all windows are insulated and are usually double-paned and double-hung; or single glazed with storm windows. Window openings are caulked to prevent air leaks.

12″ Insulation (R-38)
Friction fit fiberglass double the normal thickness, to prevent heat loss in winter, heat gain in summer. The ceiling is a major area of heat loss in most homes.

Insulated Door
Steel exterior door with a special core of polyurethane insulation is pre-hung and comes with its own magnetic weatherstripping. When caulked in place and closed, there is almost no air leakage.

6″ Kraft-Faced Insulation
Fiberglass insulation batts are used in floors over crawl spaces or basements. The kraft paper acts as a vapor barrier and is placed against the subflooring. 24″ wire supports hold the insulation in place between the floor joists.

Clockwise from top right: Charles Coley, a thermograph, Andy Andrew calculating heat load, the Thomases, the Thomas house, Low-E Homestead in River Ridge Run.

New Directions and Programs

only the beginning. We currently project $20 million in Low-E Homesteads in fiscal 1978. But these numbers don't tell the whole story. As the program got under way, we found that many of our builder customers wanted to change over to the Low-E system, but they preferred to use their own house plans rather than our Low-E Homestead packages. And since we had the expertise, they would ask us to convert their plans to Low-E, *i.e.* to a 2x6 post and beam exterior wall, more insulation, etc. So we set up a special department to do just that. And although the resulting houses were not rung out on the cash register as "Low-E's," we know that we sold enough building materials for close to 6,000 energy-efficient houses in fiscal 1977.

We currently have 15 basic designs in the Low-E program and, with all of the variations and elevations available, really a total of about 30 different house plans from which our customers can choose. Some of these completed homes are pictured on the facing page. And we are introducing new plans as fast as we can design them.

Expertise in energy efficiency has become a competitive edge for Lowe's. The Design Consultants division began as a department of architectural and engineering design technicians established to convert a builder's house plan into the Low-E system. Then we added the capacity to determine heating/cooling load calculations for homes. This is an important service, not only for new homes, but for all of the inadequately insulated and energy-inefficient existing homes. And then, through Lowe's Improver "retro-fit" program, we can often upgrade existing homes almost to Low-E standards by installing more insulation, and storm doors and windows. Then we added the Con-Tech (Contractor-Technical Services) sales team to serve our larger builder accounts. Together with Design Consultants, Lowe's now has a full-scale builder services division.

Low Energy, Low-E as we say it. Two simple words that can improve the quality of life for every interested homeowner in Lowe's land and across this great country. The challenge is before us and we are prepared to meet it with the Lowe's brand of marketing ingenuity and down home salesmanship. If any of you would like to learn more about our ideas for energy conservation in the home, or if you would like a copy of our 8-page, full color brochure describing our Low-E program in detail, please write our Homestead Department, P.O. Box 1111, North Wilkesboro, NC 28656. We think Low-E has a great future. As our advertisement says, "Low-E is a home that is not only necessary, it's inevitable."

Welcome to River Ridge Run, a tastefully designed housing development in the rolling foothills of central North Carolina. It snugs up against Lake Hickory, and takes full advantage of the natural environment. Homes range from 2,200 to 5,000 square feet, on ¾-acre lots. The prices begin at $65,000. It's Southern living at its best.

River Ridge Run is also a development of energy-efficient homes using many of the same principles (and some of the actual floor plans) in our Low-E program. This may come as a surprise to those among you who associate energy-efficient homes with uninspiring design and bland eye-appeal. A look at the photos on the facing page will give you an idea of the style and grace found in River Ridge Run. The developer is Charles Coley, a Low-E believer.

"Energy efficient homes are the key to what's happening in sales today," he says. "The whole Low-E concept makes so many existing designs obsolete."

Coley was a Lowe's customer prior to the Low-E launching. He was one of the group of 700 builders we flew to Las Vegas for the initial Low-E unveiling. After the Las Vegas meeting, Coley began incorporating many Low-E features into his homes. In fact, he helped us design some Low-E homes.

"The 2 x 6 construction is less expensive to build," says Coley. "It's a new experience for many of our workers, but we've gotten terrific response from them. It just took a little educational program from us."

As for specific figures, Coley has them. "We did some actual metered testing on several homes," he says. "One in particular has 3,200 square feet. From January 15 to February 15 of this past winter, the total energy cost was $82. Now, that's an actual bill from the power company.The same house built to minimum property standards during the same period would have been charged three or four times that amount."

Coley intends to build 60 energy efficient townhouses, 20 of which should be completed this year, and some 20 more Low-E homes are in the plans for future development. He estimates that the owners of these energy-efficient homes can expect to save $600-$1,000 per year on their fuel bills thanks to the energy-saving features.

In some of his advertising, Coley uses testimonials from River Ridge Run homeowners, like the Jim Thomases.

In the winter of 1975, Jim and Ann Thomas were living in a 2,290 square foot home. Their electric bills were averaging $150 per month. When they decided to build a new home, energy efficiency was a big consideration. So the Thomases contacted Coley Properties to build their house at River Ridge Run. Ann designed much of the home herself, and it incorporated many of the energy saving features in the Low-E design. For example, they used thermopane windows and 12" insulation in the ceiling, two important features of the Low-E system. In November of 1976, their new home was ready, and the Thomases moved in. That winter was the worst in over 100 years, throughout the nation and in North Carolina. The Thomases' average monthly electric bill in November, December and January, for a home with 3,240 square feet, was just $96.

Jim is a sales representative for the Westinghouse Apparatus Service Division. One of the services he sells is thermography, a sophisticated method of detecting heat transfer. Thermographic equipment registers even minute temperature change and projects X-ray-like pictures onto a special television screen. Jim used this equipment to test his new home and was very pleased with the thermographic reading.

"We were delighted with the results," says Ann. "During the winter heat loss was minimal. And we believe that we have made a good decision for the future. Saving energy and money becomes more important every year. No question about it, we wouldn't live in anything but an energy-efficient home."






Michael Brown, Senior Vice President, Marketing.
Dwight Pardue, Senior Vice President, Stores.
Edward Greene, Senior Vice President, Pricing.
Regional Vice Presidents, from left to right: Vernon McGimsey, Bill White, Jack Segraves, Ben Phillips, Wendell Emerine.

People and Organization

Management — The Next Generation: Lowe's growth requires continuing evolution and development of our management structure. During the past two years, Lowe's management structure has been strengthened through the realignment of our field organization and some of our General Office functions, and through the establishment of a number of new responsibility centers. We believe we have the people, structure, departments, and facilities in place to carry Lowe's through its next phase of growth and expansion.

Senior Management: The functions of Chief Executive Officer are performed by Lowe's Office of the President. This unusual management committee was established in 1970 to bring joint efforts and complementing talents to the job of proper policy formation. The Office of the President consists of four members of the Board of Directors, each one designated Executive Vice President. This Executive Committee meets weekly to review operations, form policy, and plan for future growth. Reporting to the Executive Committee are three recently appointed Senior Vice Presidents, pictured below, with primary responsibility for Store Sales and Net Profits, Marketing, and Pricing.

Field Organization: Our regional organization continues to be a positive dimension to management as it prepares to enter its eighth year. Our Regional Vice Presidents, also pictured below, have enabled us to maintain the close communication and contact between the General Office and our stores that has characterized Lowe's over the years. With 175 stores open for business as of the end of fiscal 1977, we have divided "Lowe's land" into five regions, each containing about 30 to 40 Lowe's stores. Each region currently has two Sales Managers, an Office Supervisor, Credit Supervisor, Warehouse Supervisor, and Improver Sales Manager. The work of our Regional Vice Presidents, and their capable staffs of regional management personnel, has allowed Lowe's to maintain superior leadership of the store sales and service growth, to maintain excellent control over inventory and accounts receivable levels, and to provide leadership for our personnel.

Store Managers: Each of our 175 Store Managers is an executive to whom a great amount of responsibility and trust is extended. He has three primary areas of accountability: first, to achieve his store's profit dollar budget; secondly, to safeguard the physical assets entrusted to his supervision; and thirdly, to train and develop his people for additional responsibility with Lowe's. He knows he must keep Lowe's competitive in the market place. Within these broad guidelines, a great deal of freedom of thought and action is encouraged so as to foster the Store Manager's personal development and to enable him to operate efficiently within his store's unique marketing area. Most of our Store Managers began their careers either on Lowe's sales floor, or in other functional areas of the company. Our Store Managers' average tenure is about 8-10 years, and turnover is extremely low. However, the opportunities are great for potential Store Managers since Lowe's current expansion rate calls for opening more than 20 new stores a year.

Store Sales Organization: Each store has an Assistant Manager who leads the professional sales team. These men are a principal source for new Store Managers, as are our Consumer Sales Managers who provide leadership and direction for our consumer sales force. Other trained specialists who provide leadership to our sales force and service to our customers in their particular areas include our Homestead Sales Managers; Plumbing, Heating, and Electrical Sales Managers; and Improver Coordinators. And we currently have a hard-hitting commissioned sales team comprised of approximately 1480 men and women.

Office Management: Responsibility for store office operations, including credit administration, is delegated to the Office and Credit Managers at each Lowe's store. These men and women report to the Regional Office and Regional Credit Supervisors, and of course, are aided by competent office workers and office manager trainees.

Warehouse Management: Each Lowe's store also has a Warehouse Manager who reports to a Regional Warehouse Supervisor. Lowe's Warehouse Managers have a large and important job, since they are responsible for receiving millions of dollars worth of merchandise, safely storing and securing it, and delivering it to Lowe's customers. And they must provide a high level of customer service, too, all on a dollar-conscious budget. The low level of inventory shortages and damage at Lowe's testifies to the fine job being done by this group of people.

Lowe's Leadership School: When you are a rapidly-expanding company opening more than 20 new stores a year, each with a management staff, an average of 8 salespeople, and 17 warehouse and office people, training becomes a critical element in the growth process. In 1976, Lowe's opened its own Leadership School, in North Wilkesboro, to provide initial sales training to new store employees, more advanced product training for potential professional salespeople, and management training for current and potential Store Managers, Warehouse, Credit, and Office Managers.

General Office Management: At Lowe's, we like to grow and cultivate our management people internally. During the past two years, the professional growth and development of a number of our fine young people has been recognized formally as the General Office management structure has been enlarged to meet the needs of our growing store base and company. Departmental Vice Presidencies have been established in Marketing, Sales, Purchasing, Corporate Administration, Accounting, Advertising, Expansion, and Investor Relations.

Tactical Staff: This group, formed in 1969, provides general administrative liaison between General Office departments, the Office of the President, the Regional Vice Presidents and their staffs, and the stores. At this group's monthly meetings, each person is made aware of new requirements being developed by the plans of other departments. The total implications of these plans are then discussed, and operational procedures and policies are then formulated. This group is thus a vital element in Lowe's ability to retain close control over operations during the company's rapid expansion.

Personnel Philosophy: Staffing a rapidly-expanding company like Lowe's keeps Personnel Director Ed Spears busy. "Our expansion requires many new people to fill all the available positions, and fortunately our reputation attracts the necessary good people," Spears says. The most dynamic aspect in our company is the spirit of our people, who are highly motivated with the desire to succeed and to excel. This drive and enthusiasm is noticeable, and is a characteristic of Lowe's people.

A basic in Lowe's philosophy is management's belief in incentives. First, we concern ourselves with the working environment and atmosphere, mental and emotional as well as physical, to help each employee enjoy his work and responsibility, and achieve personal satisfaction in a job well done. Our people have confidence that their personal performance is appreciated, and that their contribution of loyalty, sincerity, dedication and hard work is acknowledged to them in many ways.

We prefer to employ young aggressive people who show qualities of enthusiasm and an attitude that will assist in the growth and prosperity of Lowe's. Our policy is to promote from within, and our people know that they have an opportunity to grow professionally and financially and that they will not be overlooked when Lowe's growth creates new job opportunities, as it does.

Money Still No. 1: Money, and the opportunity to earn a lot more, is the foundation of our motivational program. We pay all employees by the week, and salespeople are paid weekly commissions. For achieving company goals, budgets, and objectives, annual bonuses are paid, and are available to all management staff. Many of our store managers, for example, have the opportunity to earn up to 100% of their base salary in bonus, predicated on achieving their sales and profit budgets. Incentives of every type are in constant use throughout the year, including contests, new cars, trips, and awards. These incentives lend zest and enthusiasm to the accomplishment of our corporate goals and objectives.

Profit Sharing: With salary as our short-term financial incentive, the long-range incentive par excellence at Lowe's has been the Profit Sharing Plan and Trust. The Plan was created in 1961 when the Trust, in accordance with the wishes of Lowe's founder, Carl Buchan, purchased Lowe's stock from Buchan's estate on behalf of Lowe's employees.

Membership: Every employee with 500 hours of service is eligible for membership. Each year, if the profit center to which he is assigned achieves the profit objectives set by management, an amount equal to 15% of his annual compensation is contributed to the Trust in his name. This significant program gives each employee an individual sense of ownership responsibility and participation in the long-term advantages of creative capitalism.

Shareholder Interests: A study, *Does Profit Sharing Pay?*, from the Profit Sharing Research Foundation ably and convincingly details the reasons shareholders should prefer profit sharing companies. We quote: "What we need today are organization incentives — programs which can simultaneously motivate and unite all factors contributing to corporate growth— stockholders, management, and employees. Profit sharing is multi-motivational because it focuses attention on a common goal — increased profits — and rewards all factors."

Lowe's employees do have a significant stake in the progress of their company. And the record they have achieved proves they recognize this.

"Woodstock:" cost-efficient distribution of commodities with maximum speed, flexibility, and inventory turnover.
Distribution specialists at TFP keep our stores supplied with regular and chemically-treated lumber, plywood, asphalt, and mouldings.

People and Organization

General Office Organization: The General Office provides the central support functions for the stores and the corporation. Departments are grouped by function, and include: Accounting, Advertising, Aviation, Costing, Credit, Data Processing, Distribution, Expansion, Inventories, Investor Relations, Marketing, Merchandising, Operations, Payroll, Personnel, Printing, Purchasing, Promotion, and Transportation.

Distribution: Each of the departments listed above and the people in them has contributed to Lowe's progress and achievement of a balanced performance during these past few years. However, we would like to highlight some of the recent developments in Distribution at Lowe's, since the growth and expansion of this department has enhanced our ability to serve our current store base with products, and increased our competitive position in each store market. Furthermore, we now have in place the systems and physical facilities to support store expansion beyond Lowe's current geographic perimeter.

Perspective: At the end of fiscal 1974, Lowe's 116 stores were served by one central warehouse in Wilkes County, North Carolina, containing about 236,000 square feet of floor space, and used primarily for distribution of consumer products. Commodities such as lumber and plywood were delivered directly to each of our stores either by rail or truck. In 1977, our 175 stores are being served by two separate distribution systems, one for consumer products and one for commodities, with facilities in six states, and containing approximately 563,250 square feet of storage area.

Lowe's "Woodstock:" The development and expansion of Lowe's "Woodstock" system for the distribution of commodity products came about because increasingly over the years, inflationary cost pressures have caused manufacturers to distribute products in the manner most cost-efficient for them, which is not necessarily the most cost-efficient for the retailer. And the distribution costs become more significant as the weight of the product and distance moved increase. Lowe's heavy concentration in heavy, bulky commodities, many of which are shipped a great distance, has caused us to seek a more efficient system to distribute these products to our stores. We believe we have such a system. Beginning with the opening of Thomasville Forest Products (TFP) in November, 1974, our Woodstock system has grown to four commodity distribution centers currently, and a fifth one about to commence operation. These five centers, in Thomasville, North Carolina; Manassas, Virginia; Hopkinsville, Kentucky; Pittsview, Alabama; and Simsboro, Louisiana; are geographically situated to economically distribute commodity products including structural lumber, wood boards, plywood, mouldings, and asphalt roofing to all of our current store locations in 16 states. And, while all of these products are still shipped directly to our stores, the Woodstock system can supply our stores with up to 40% of their requirements for these commodities and up to 60-70% of their requirements for structural lumber and wood boards. In addition, TFP (pictured on this page) has a facility at which we chemically treat lumber to resist deterioration caused by water and insects, and a door and window assembly operation. The important thing about Woodstock is that it gives Lowe's the flexibility to distribute these commodities at the lowest cost and with the greatest speed, while maintaining maximum inventory availability and turnover for our stores.

Consumer Products: Lowe's distribution system for consumer products is identified as "LPD" — Lowe's Product Distribution. It includes two centers, 236,000 square feet of warehouse space in Wilkes County and a new facility, containing 152,500 square feet of floor space in Hernando, Mississippi, opened in March, 1977, and pictured on the next page. With this second LPD center, Lowe's can support anticipated store expansion further northwest, west, and southwest. And to increase our LPD capacity in the Wilkes County facility, a 179,000 square foot expansion is currently underway.

With creative incentives, Jim Lyall brings zest and enthusiasm to the accomplishment of corporate objectives.

Staffing our rapidly expanding company with capable, motivated young people keeps Ed Spears and Cliff Oxford busy.

Each functional department in the General Office contributes to the achievement of a balanced performance.

Introduction: At Lowe's, we manufacture nothing. Thus a fundamental requirement for success is a continuing availability of quality merchandise at the right price, at the right place, and at the right time. Over the years, a network of suppliers has evolved whose productive capacity for merchandise of quality and value constitutes a massive resource and major asset to our company. Lowe's is not dependent upon one source of supply for any major merchandise group. In most product groups, we have at least two, and more often three or more sources of supply.

Lowe's Supplier Network: Lowe's is fortunate to have a broad base of some 2,000 suppliers of basic stock merchandise. The roster of these manufacturing sources reads like an excerpt from Fortune's top 500 list: Abitibi, Alcoa, AMF, Armstrong Cork, Black & Decker, Celotex, Certainteed, Champion International, Crown Zellerbach, Dan River, GAF, General Electric, Georgia Pacific, Hotpoint, International Paper, Johns-Manville, MacMillan Blodel, Masonite, McGraw Edison, Murray Ohio, National Gypsum, Owens Corning Fiberglas, Penn-Dixie Steel, RCA, Skil, St. Regis Paper, Stanley Hardware, Triangle Pacific, U. S. Gypsum, Weyerhaeuser, Whirlpool, and Zenith are representative of our larger suppliers.

Certain of our other manufacturing sources are probably not as well known by the general public, but are eminent in their fields. These include Canadian Forest Products (lumber), the Croft Metal Company (pre-built aluminum building products), Dynamark (lawn mowers), the Enterprise Paint Company, Modern Maid (appliances), Northwood Mills (lumber), Salem Carpet, and Temple Industries (lumber). A third group makes up an essential sub-section of Lowe's supplier network, and includes the approximately 3,000 suppliers of special order products.

Our own transportation network is essential to adequately serve today's sophisticated consumer and professional customers.

Our second product distribution center in Hernando, MS will support Lowe's future expansion to the northwest, west, and southwest.

Performance Measurements

Management Analysis: How does inventory turnover affect earnings per share? What does return on sales have to do with return on shareholder equity? How do the policies and performance of finance, sales, operations, marketing, and expansion really interact? To answer these questions, a framework formula is needed, one that can give arithmetically measurable results, plus insight into the relative importance of the causative factors. We use a formula like this for Lowe's, and part of it is shown in Table A. The bottom line, Return on Shareholder Equity, may be derived by dividing Net Earnings by Shareholder Equity. But this approach provides no understanding of why and how this return was attained. It is better to "take it from the top" and think through each major variable. For a full discussion of this formula, its variables, and results, see our 16 Year Review of Performance on the inside front cover fold-out.

Many people prefer to express return on equity as a percentage of the average of the beginning and ending equity. It is a more "conservative" computation. Our 1977 return on average equity was 20.68%. Using average totals may be more accurate, but beginning totals are more useful. The reason is aligned with the concept of profitability accounting as opposed to custodial, or hindsight accounting. We use beginning totals in Table A and in our 16 Year Review.

Anatomy: Performance and Growth **A**

	1977	1976	1975	1974
Asset Turnover (Sales ÷ Assets) Times	$ 3.00	$ 3.01	$ 2.26	$ 2.88
Return on Sales (Net Earnings ÷ Sales) Equals	3.61%	3.72%	3.08%	4.03%
Return on Assets (Net Earnings ÷ Assets) Times	10.83%	11.22%	6.96%	11.63%
Leverage (Assets ÷ Equity) Equals	2.10	1.97	2.24	2.43
Return on Shareholder Equity (Net Earnings ÷ Equity)	22.74%	22.13%	15.60%	28.23%

Note: Components are rounded, therefore multiplied versus divided totals vary slightly.

Beginning totals also allow us to chart objectives at the start of each period. We know now that fiscal 1978's beginning assets are $246,809,000. $720,000,000 in sales will require $2.92 in asset turnover. Each major factor can be forecast, and by using monthly and quarterly rates, we can check our progress during the year while action can still be taken to affect results. An understanding of this framework and these basic variables will reveal how inventory turnover can decrease while asset turnover increases, or vice-versa. Our objective is not to try to maximize a single factor at the expense of the others, but to manage each of them to optimize growth and return on shareholder equity.

Productivity: Turnover, leverage, and mathematical models are largely conceptual. Lowe's real and unique assets are our people, their personality, their drive, their motivation, and their record of increasing productivity shown in Table B. Since 1972, our employees have increased 105%, but their efficiency and performance have increased. Note the comparison with other companies below.

Performance Comparisons: Table B also shows performance measurements of three groups: the nation's top five retailers (non-food); the two largest companies with major chain building material retailing activity; and Lowe's latest six years. (Note that in Table B, we have used ending asset and equity totals.) Many conclusions may be drawn from this study. Sears' return on sales, and K-Mart's growth rate in earnings per share prove that giant companies can be nimble performers. Lowe's is small by comparison and growing more rapidly, but growth is not diluting Lowe's performance. During these years, sales per employee and net profit per employee reached all-time highs. This reinforces management's decision not to try to be all things to all people, not to chase each grass-is-greener prospect, but to invest our resources of time, energy, experience, and growth investment funds into new Lowe's stores as our basic growth policy.

Performance Measurements and Comparisons **B**

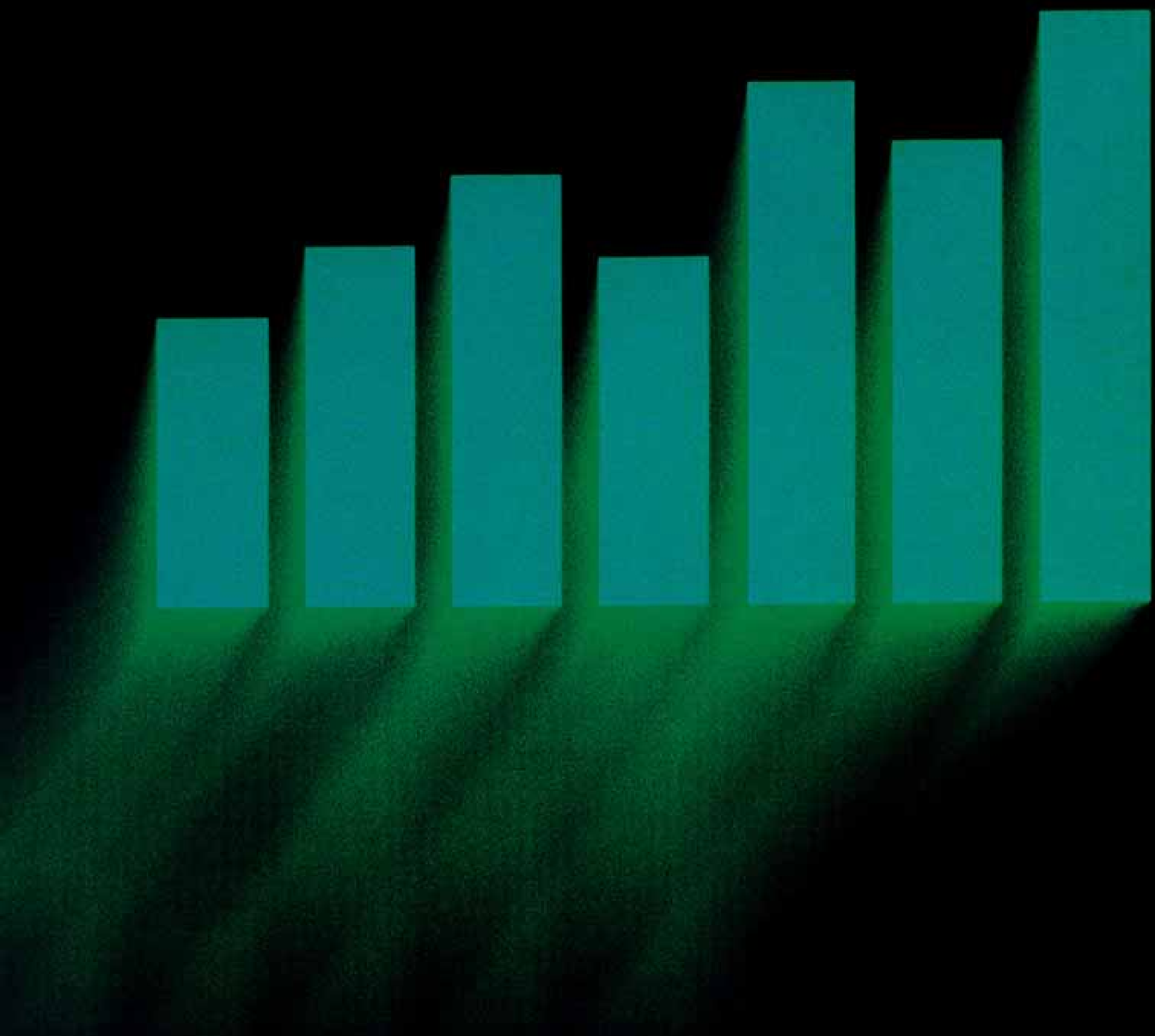
	Total Sales (000,000)(1)	Total Profits (000,000)(1)	Total Assets (000,000)(1)	Total Equity (000,000)(1)	Asset Turnover X	Return On Sales = %	Return on Assets × (%)(2)	Leverage = Factor	Return On Equity (%)(2)	Earnings Per Share C.G.R.(3)	Number of Employees(4)	Sales Per Employee(5)	Profit Per Employee(6)
Sears	$14,950	$695	$12,711	5,937	$1.18	4.65	5.49	2.14	11.7	6.86 %	394,600	$ 37,900	$1,761
K-Mart	8,484	267	2,866	1,442	2.96	3.15	9.32	1.99	18.5	22.61 %	173,000	49,000	1,543
Penney	8,354	228	3,484	1,917	2.40	2.73	6.55	1.82	11.9	8.49 %	184,831	45,200	1,234
Marcor	5,280	153	3,765	1,479	1.40	2.90	4.06	2.55	10.4	N.A.	146,202	36,100	1,046
Woolworth	5,152	108	2,093	1,077	2.46	2.10	5.17	1.94	10.0	4.50 %	201,201	25,600	537
Wickes	1,228.1	17.6	514.9	186.3	2.39	1.43	3.42	2.76	9.4	(1.77)%	13,051	94,100	1,349
Evans	781.3	30.4	494.5	241.9	1.58	3.89	6.15	2.04	12.5	11.55 %	12,300	63,500	2,472
Lowe's 1977	594.4	21.4	246.8	112.9	2.41	3.61	8.70	2.19	19.1	21.78 %	4,826	123,200	4,434
1976	465.1	17.3	197.7	94.4	2.35	3.72	8.74	2.10	18.4	19.18 %	3,976	117,000	4,351
1975	340.9	10.5	154.4	78.2	2.21	3.08	6.81	1.97	13.4	16.90 %	3,586	95,100	2,928
1974	362.5	14.6	150.6	67.2	2.41	4.03	9.71	2.24	21.8	24.25 %	3,447	105,200	4,236
1973	326.8	12.7	125.7	51.8	2.60	3.89	10.11	2.43	24.6	25.89 %	2,963	110,300	4,286
1972	234.6	9.1	89.5	39.3	2.62	3.89	10.19	2.28	23.2	23.11 %	2,351	99,800	3,871

Sources of figures for other companies: 1976 Fortune Directory (c) Time Inc.
Figures may vary slightly due to rounding.

(1) Latest year ending figures.
(2) Return on ending Assets and ending Shareholder Equity.
(3) Last 10 years average annual compound growth rate.
(4) Average number of employees during year.
(5) Total sales for year ÷ average number of employees, to nearest $100.
(6) Total earnings after taxes ÷ average number of employees.

Lowe's Financial Report

This section of the Fiscal 1977 Annual Report represents a truly augmented effort to achieve better communication of financial information through a combination of more pages, more numbers, and more pertinent and explanatory disclosure. There is so much included in the next 17 pages that we felt a mini-Table of Contents was necessary, and follows these comments. We particularly want to advise you again, that virtually all of the information required by the S.E.C on Form 10-K is included in this Annual Report, much of it in this section.



Shown in Chart A is the sales growth trend at Lowe's, up an average 20.4% per year from 1972 through 1977. This growth rate, fairly constant over the past fifteen years (see 16 Year Review, on the inside front cover) despite several roller coaster cycles in the economy, indicates the marketplace acceptance of Lowe's merchandise and services; and the harmonious interrelationship of marketing policies, operations techniques and financial management.

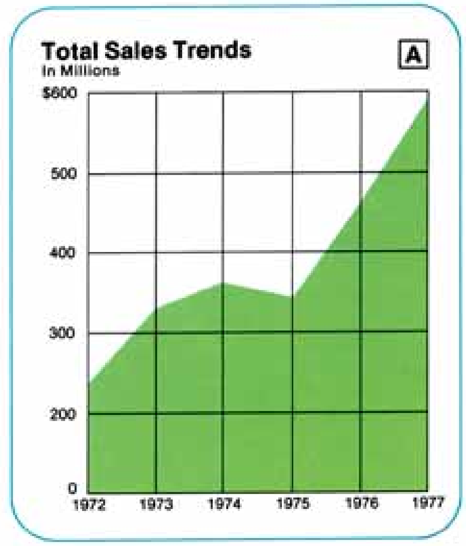
Chart B delineates net earnings as a percentage of sales during the last 5 years. Net return on sales measures the efficiency of the sales organization. It is affected by sales volume, customer and product mix, and income statement factors — margin rates, fixed and variable expenses, and tax rates. The consistency of the rates shown indicates a well-balanced effort which remains instrumental in maintaining Lowe's Return on Assets. (See "Performance Measurements" on page 18.)

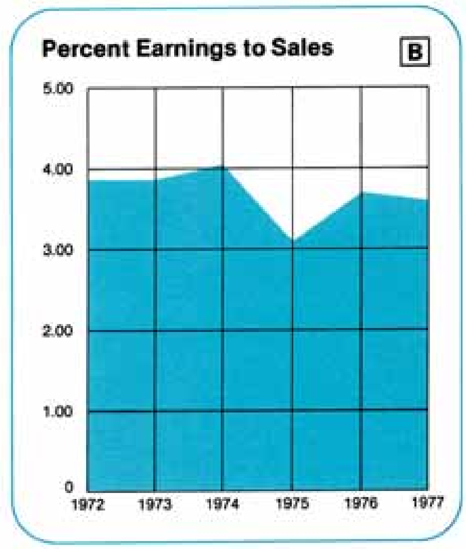
Management's policy of earnings application is portrayed in Chart C. Recently, we have been systematically increasing the cash dividend payout to our shareholders; however, we are still retaining and reinvesting the major portion of earnings to provide working capital for Lowe's continuing growth. These policies, which facilitate growth without dilution of shareholder equity, have received consistent support in your responses to our shareholder surveys.

Let us now consider Balance Sheet Policies and Management (page 22). Two major areas for financial policy, one for each half of the Balance Sheet, have guided Lowe's growth. First, for the Assets half, we concern ourselves with the structural balance of the various Asset components which contribute to our profits and growth. Charts A and B on page 22 portray the trends and proportions of each major component. Since Fixed Assets provide no direct return on investment, we maintain the major portion of our Assets in items that "turn" around sales, specifically Inventory and Accounts Receivable. From 1972 through 1977, Inventory and Receivables have been maintained at an average of 67% of total Assets. This heavy proportion in these two Assets, coupled with their high rates of turnover, has enabled us to maintain our rate of total Asset Turnover (pages 18 and the inside front cover), a major factor in our consistently high rate of Return on Shareholder Equity.

Inventory is the single most important Asset to a company like Lowe's. Our fundamental mission is the retail marketing of hard goods, not retail financing and not real estate investment. Inventory is where the profitability is, and it rightly maintains its major proportion of Assets. Lowe's Inventory Turnover rate - Total Sales divided by Average Inventory - was maintained at 6.8 times in 1977, the same rate achieved in 1976.

Accounts Receivable occupy the next largest portion of total Assets and are an essential marketing service to our professional customers. Their average tenure on the ledgers varies seasonally between 40 and 55 days. Although we offer credit terms to our retail customers, these contracts are sold daily to finance companies on a non-recourse basis. These credit sales are therefore like cash sales to Lowe's - from the dual standpoints of risk and cash flow - and aren't carried in Receivables. Our Receivables increased sharply this year, both in dollars and as a percent of total Assets, reflecting an acceleration of "Pro" sales at year-end. Accordingly, Fixed Assets decreased as a percent of total Assets to 24% in 1977 from a peak of 29% in 1975. All other Assets declined as a percent of total as well.





Consolidated Statement of Current and Retained Earnings

LOWE'S COMPANIES, INC. AND SUBSIDIARIES

Year Ended July 31, 1977 With Comparative Figures for 1976	1977	1976
CURRENT EARNINGS		
Net Sales	$594,358,146	$465,051,984
Cost of Sales, Buying, Warehousing and Occupancy	476,087,497	370,058,359
Gross Profit	$118,270,649	$ 94,993,625
Other Expenses:		
Advertising, Selling, Administrative and General Expenses	$ 55,316,189	$ 45,385,900
Depreciation	6,212,137	4,976,213
Profit-Sharing Contribution (Note 8)	6,375,711	4,869,817
Provision for Bad Debts	3,722,631	2,456,551
Interest and Loan Cost	4,156,637	3,009,888
Total Other Expenses	$ 75,783,305	$ 60,698,369
Pre-Tax Earnings	$ 42,487,344	$ 34,295,256
Provision for Income Taxes (Notes 1 and 6)	21,056,266	16,983,840
Net Earnings	$ 21,431,078	$ 17,311,416
Earnings per Common Share (Note 11)	$ 1.646	$ 1.329
Dividends Paid per Common Share	$ .210	$ .097
Weighted Average Shares Outstanding (Note 11)	13,022,126	13,022,126

	1977	1976
RETAINED EARNINGS		
Balance at Beginning of Year	$ 82,385,828	$ 68,516,617
Additions:		
Net Earnings	$ 21,431,078	$ 17,311,416
Less: Cash Dividends	(2,734,646)	(1,271,851)
Common Stock Dividend		(2,170,354)
Net Additions	$ 18,696,432	$ 13,869,211
Balance at End of Year	$101,082,260	$ 82,385,828

SEE THE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS, AN INTEGRAL PART OF THESE STATEMENTS ON PAGES 26, 27, 28, 29 and 30

The second major financial policy consideration in Balance Sheet management deals with the Liabilities and Shareholders' Equity half, where we are specifically concerned with the financing of total Assets. The most important components here are Shareholders' Equity, Accounts Payable, Long Term Debt, and Other Liabilities. Chart B and C show the proportions and trends of these major Balance Sheet elements, for the last six years.

Let's discuss Equity first. Since it was 46% of total Liabilities and Equity on July 31, 1977, it was obviously financing 46% of total Assets. Since the Equity growth rate is 23.5% annually compounded for the last five years, the concurrent 22.5% annual growth of total Assets has caused Equity's portion to increase from 44% to 46% of the total (the reverse situation of the previous five years). And, Equity continues to finance the largest percentage of total Assets, and the Retained Earnings policy discussed earlier will implement this. Still, Equity cannot finance the total Assets required to maximize Lowe's operations and opportunities. Besides shareholders' money, other people's money is needed and obtained, some on a short term basis and some long term. Leverage, as used here, is computed by dividing total Assets by Shareholder Equity. Trends in Leverage are shown in the small table at right, and on line 19 of the 16 Year Review.

Accounts Payable are historically the second largest portion of this half of the Balance Sheet. Payables are a function of Inventory purchases and the level will fluctuate as a percent of Inventory and as a source of financing Assets, mainly depending upon the yearly and seasonal patterns in the merchandise mix. It is interesting to note that in 1977, there was an increase in credit extended to Lowe's, called Payables, and an increase in credit extended by Lowe's, called Receivables. In fact, the similarity in the trends of Payables and Receivables over the past six years provides insight into management of these sources and uses of short term credit.

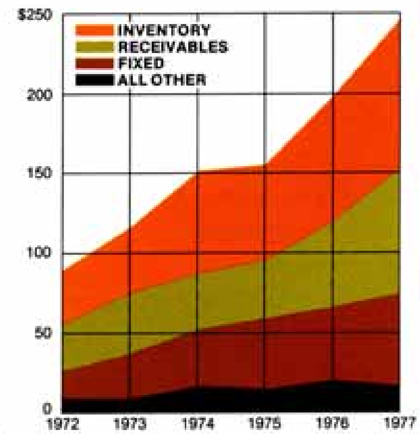
As Chart B shows, Long Term Debt has gyrated most as a source of financing Assets in the last six years. This reflects changes in our store expansion policy. At the end of fiscal 1970, Lowe's owned half of our 64 stores and leased the other half. Between 1970 and the end of fiscal 1975, most of the stores we opened were built by us, according to a standard design, and owned by Lowe's. And, since these non-turning Fixed Assets are a long-term investment, they were financed with Long Term Debt, hence the growth in Long Term Debt shown between 1972 and 1975. With the onset of the recession in 1975 and the opportunities presented thereby to take over existing facilities at attractive rentals, we changed our expansion strategy again. In fiscal 1976 and 1977, 34 out of the 45 new stores opened were leased facilities and, since none of these qualify as so-called capital leases, our Fixed Asset total and the accompanying Long Term Debt have declined as a percent of total. However, we are still building and owning a portion of our new store facilities, and these continue to be financed over a 15-year period through long-term borrowings from the Metropolitan Life Insurance Company.

The ratio derived by dividing Equity by Long Term Debt is an oft-used evaluatory measure for capital structure, and trends therein shown in the small table at right and on line 36 in the 16 Year Review, reflects a consistently high level and good balance in Lowe's financing base.

Other Liabilities are various current obligations, including accrued income taxes, and were financing 11% of our Assets on July 31.

In summary, Balance Sheet management is one of the most important of Lowe's corporate strategies, and obviously essential to our growth.

Assets Trends & Composition A



Leverage Factor	2.28	2.43	2.24	1.97	2.10	2.19

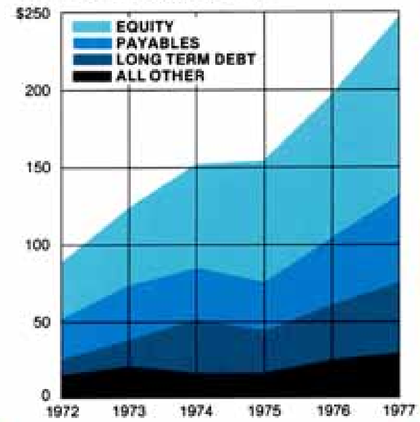
Balance Sheet Trends B
% of Total*

	1972	1973	1974	1975	1976	1977
Inventory:	38%	40%	41%	38%	39%	39%
Receivables:	31%	30%	24%	25%	26%	31%
Fixed Assets:	22%	23%	26%	29%	26%	24%
All Other:	9%	7%	9%	8%	9%	6%
Totals:	100%	100%	100%	100%	100%	100%
Equity:	44%	41%	44%	51%	48%	46%
Payables:	31%	29%	22%	19%	22%	24%
Debt:	11%	14%	22%	21%	18%	19%
All Other:	14%	16%	12%	9%	12%	11%
Totals:	100%	100%	100%	100%	100%	100%

*Totals Rounded

Equity-Debt Ratio	3.9 to 1	2.8 to 1	2.0 to 1	2.4 to 1	2.6 to 1	2.4 to 1

Equity and Liabilities Trends & Composition C



Consolidated Balance Sheets

LOWE'S COMPANIES, INC. AND SUBSIDIARIES

July 31, 1977 With Comparative Figures for July 31, 1976	1977	1976
ASSETS		
Current Assets:		
Cash	$ 13,323,725	$ 15,620,103
Accounts Receivable Less Allowance for Doubtful Accounts - 1977 - $4,017,124; 1976 - $2,873,569	76,162,294	52,321,613
Inventories at the Lower of Cost (First-In, First-Out) or Market (Notes 1 and 2)	96,164,370	77,962,738
Prepaid Expenses and Other Current Assets	547,964	530,496
Total Current Assets	186,198,353	146,434,950
Property, Improvements and Equipment (Notes 1 and 3):		
At Cost Less Accumulated Depreciation - 1977 - $23,552,581; 1976 - $18,982,648	60,209,994	50,433,835
Other Assets:		
Unamortized Loan Cost	137,527	102,581
Sundry Assets at Cost	263,557	769,448
Total Assets	$246,809,431	$197,740,814
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Current Maturities of Long-Term Debt (Note 4)	$ 1,778,877	$ 1,431,929
Accounts Payable	60,323,927	42,941,833
Provision for Employees' Profit-Sharing (Notes 1 and 8)	5,123,942	3,760,787
Other Liabilities	10,974,859	10,520,879
Federal and State Income Taxes Payable (Notes 1 and 6)	9,507,261	8,050,046
Total Current Liabilities	87,708,866	66,705,474
Long-Term Debt (Note 4):		
Notes Payable	44,643,676	36,664,267
Obligations Under Capital Leases	1,600,000	
Total Long-Term Debt	46,243,676	36,664,267
Total Liabilities	133,952,542	103,369,741
Contingent Liabilities and Commitments (Notes 4, 9 and 10)		
Shareholders' Equity (Notes 1, 4, 7 and 11):		
Common Stock - $ .50 Par Value, Authorized 20,000,000 Shares; Issued and Outstanding 13,022,126 in 1977 and 1976	6,511,063	6,511,063
Capital in Excess of Par Value (Note 6)	5,263,566	5,474,182
Retained Earnings	101,082,260	82,385,828
Total Shareholders' Equity	112,856,889	94,371,073
Total Liabilities and Shareholders' Equity	$246,809,431	$197,740,814

SEE THE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS, AN INTEGRAL PART OF THESE STATEMENTS ON PAGES 26, 27, 28, 29 and 30

Fifteen-Year Summary of Changes in Financial Position

LOWE'S COMPANIES, INC. AND SUBSIDIARIES

AMOUNTS IN THOUSANDS; ( ) INDICATES A DECREASE	Fifteen-Year Totals 1963-1977 Amount	%	7-31-77* Amount	%	7-31-76* Amount	%	7-31-75 Amount	%	7-31-74 Amount	%
Source of Funds:										
Net Earnings	$115,698	52.0	$21,431	53.7	$17,312	62.8	$10,492	59.3	$14,617	33.2
Depreciation and Amortization	30,530	13.7	6,212	15.6	4,976	18.0	4,177	23.6	3,458	7.8
Total Funds From Operations	$146,228	65.7	$27,643	69.3	$22,288	80.8	$14,669	82.9	$18,075	41.0
Sale of Common Stock Under Option Plan	4,672	2.1					1,329	7.5	1,534	3.5
Additions to Long-Term Debt	67,151	30.2	11,452	28.7	4,941	17.9	1,200	6.8	23,820	54.0
Disposals of Property and Equipment	2,533	1.1	301	.8	286	1.0	141	.8	295	.7
Tax Benefit From Optionee Stock Disposition	1,155	.5	18		88	.3	346	2.0	359	.8
Other Sources	877	.4	471	1.2						
Totals	$222,616	100.0	$39,885	100.0	$27,603	100.0	$17,685	100.0	$44,083	100.0
Disposition of Funds:										
Dividends Paid	$ 14,139	6.4	$ 2,735	6.9	$ 1,272	4.6	$ 1,171	6.6	$ 1,045	2.4
Additions to Property and Equipment	92,010	41.3	16,289	40.8	10,569	38.3	10,894	61.6	13,066	29.6
Decrease in Long-Term Debt	22,589	10.2	1,873	4.7	1,433	5.2	1,202	6.8	8,900	20.2
Retirement of Preferred Stock	45									
Other Dispositions	1,382	.6	228	.6	420	1.5	312	1.8	55	.1
Totals	$130,165	58.5	$21,125	53.0	$13,694	49.6	$13,579	76.8	$23,066	52.3
Increase in Working Capital	$ 92,451	41.5	$18,760	47.0	$13,909	50.4	$ 4,106	23.2	$21,017	47.7
Changes In Components of Working Capital:										
Current Assets:										
Cash	$ 11,366		$ (2,296)		$ 4,046		$ (1,412)		$ 5,128	
Receivables	72,360		23,841		13,789		1,683		(753)	
Inventories	90,296		18,201		19,740		(3,552)		11,136	
Other Current Assets	440		17		76		122		41	
Totals	$174,462		$39,763		$37,651		$ (3,159)		$15,552	
Current Liabilities:										
Accounts Payable and Other Accrued Liabilities	$ 71,672		$19,199		$18,544		$ (3,822)		$ (2,487)	
Notes Payable	1,687		347		274		163		(4,637)	
Provision for Income Taxes	8,652		1,457		4,924		(3,606)		1,659	
Totals	$ 82,011		$21,003		$23,742		$ (7,265)		$ (5,465)	
Increase in Working Capital	$ 92,451		$18,760		$13,909		$ 4,106		$21,017	

*Although the figures for all years shown have been audited in previous years, the two most recent fiscal years ended July 31, 1977 and July 31, 1976 are specifically covered in the Report of the Independent Certified Public Accountants on page 30.

												Five-Year Totals	
7-31-73		7-31-72		7-31-71		7-31-70		7-31-69		7-31-68		1963-1967	
Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
$12,728	48.2	$ 9,121	50.7	$ 6,548	50.5	$ 4,870	61.6	$4,608	80.4	$3,592	70.8	$10,379	60.1
2,791	10.6	2,295	12.7	1,626	12.5	1,221	15.4	951	16.6	827	16.3	1,996	11.5
$15,519	58.8	$11,416	63.4	$ 8,174	63.0	$ 6,091	77.0	$5,559	97.0	$4,419	87.1	$12,375	71.6
473	1.8	532	3.0	63	.5			13	.2	226	4.5	502	2.9
9,907	37.5	5,714	31.7	4,511	34.8	1,620	20.5			401	7.9	3,585	20.8
152	.6	302	1.7	163	1.3	133	1.7	159	2.8	25	.5	576	3.3
344	1.3												
		42	.2	60	.4	61	.8					243	1.4
$26,395	100.0	$18,006	100.0	$12,971	100.0	$ 7,905	100.0	$5,731	100.0	$5,071	100.0	$17,281	100.0
$ 1,017	3.9	$ 946	5.3	$ 907	7.0	$ 844	10.7	$ 780	13.6	$ 756	14.9	$ 2,666	15.4
12,851	48.6	7,840	43.5	5,487	42.3	3,825	48.4	2,482	43.3	1,668	32.9	7,039	40.7
1,683	6.4	2,996	16.6	531	4.1	498	6.3	1,242	21.7	493	9.7	1,738	10.1
		45	.2										
40	.2							5	.1	108	2.1	214	1.3
$15,591	59.1	$11,827	65.6	$ 6,925	53.4	$ 5,167	65.4	$4,509	78.7	$3,025	59.6	$11,657	67.5
$10,804	40.9	$ 6,179	34.4	$ 6,046	46.6	$ 2,738	34.6	$1,222	21.3	$2,046	40.4	$ 5,624	32.5
$ 57		$ 1,498		$ 1,645		$ 18		$ 510		$ (685)		$ 2,857	
10,164		6,495		6,057		328		2,679		2,205		5,872	
16,163		7,143		8,292		4,857		1,708		2,943		3,665	
(103)		62		38		242		(82)		(10)		37	
$26,281		$15,198		$16,032		$ 5,445		$4,815		$4,453		$12,431	
$10,530		$ 8,033		$ 8,522		$ 4,233		$1,961		$1,816		$ 5,143	
4,959		194		3		(979)		959		62		342	
(12)		792		1,461		(547)		673		529		1,322	
$15,477		$ 9,019		$ 9,986		$ 2,707		$3,593		$2,407		$ 6,807	
$10,804		$ 6,179		$ 6,046		$ 2,738		$1,222		$2,046		$ 5,624	

Note 1—Summary of Accounting Policies:

The accounting policies of Lowe's Companies, Inc. and subsidiaries are in accordance with generally accepted accounting principles. Outlined below are those policies considered particularly significant.

PRINCIPLES OF CONSOLIDATION—The consolidated financial statements include the accounts of the company and its subsidiaries, all of which are wholly owned. There are 154 subsidiary corporations: 149 store companies, two lumber distribution yards, a merchandise distribution center, a real estate company and an advertising agency. The practice of forming a subsidiary for each new market area has been discontinued and present plans call for new store locations and existing subsidiaries to be organized within state lines. All material intercompany accounts and transactions have been eliminated.

INVENTORIES—Inventories are stated at the lower of cost or market, cost being determined on the first-in, first-out basis.

PROPERTY AND EQUIPMENT—Land, buildings and machinery and equipment are carried at cost. Major additions are capitalized and depreciated; maintenance and repairs which do not improve or extend the life of the respective assets are expensed currently. Upon disposal of fixed properties the cost and related accumulated depreciation are removed from the accounts. The gain or loss on an item traded is applied to the property accounts, and that of items otherwise disposed of is reflected in income.

The provision for depreciation is based generally on accelerated rates for both financial reporting and income tax purposes.

INCOME TAXES—It is the policy of the company to report income substantially on the same basis for tax and financial purposes. The company and its subsidiaries follow the practice of filing separate federal income tax returns. Investment tax credits are accounted for as a reduction of income tax expense in the year in which the credit is utilized as a reduction of the tax liability.

EMPLOYEE RETIREMENT PLAN—A qualified noncontributory employee profit-sharing plan is available for all employees meeting minimum length of service requirements. The plan is a multi-employer plan and one trust serves the parent and the subsidiaries. It provides generally for a contribution of 15% of annual compensation of participating employees and is funded currently.

STOCK OPTION PLANS—For a number of years qualified stock option plans have been in effect to enable management to offer stock options to key employees. The plans have been noncompensatory and have no effect on the earnings statement. The tax benefits flowing from the early disposition of stock by the optionees have been treated as an addition to capital in excess of par value.

START-UP EXPENSES—Expenses associated with the opening of new stores and service facilities are charged to income as incurred and are so reflected in the consolidated statements.

ACCOUNTS RECEIVABLE—Substantially all of the trade receivables are on a 30, 60 or 90-day basis. Service charges arising from certain classes of customer accounts are treated as a reduction of selling and administrative expenses in the statement of earnings.

Allowances for doubtful accounts are based on the experience encountered in the various locations. Installment receivables arising from consumer sales are sold without recourse to outside finance companies.

EARNINGS PER SHARE—Earnings per share of common stock are calculated on the basis of the weighted average shares of common stock outstanding during each year. Common stock equivalents have no material dilutive effect on earnings per share.

AUDIT COMMITTEE—The company has an audit committee consisting of outside members of the Board of Directors. The committee meets regularly to review with management and the independent auditors the company's accounting policies and internal and external audit plans and results.

Note 2—Inventories:

The inventory amounts used in computing cost of goods sold were as follows:

July 31, 1975	$58,223,067
July 31, 1976	77,962,738
July 31, 1977	96,164,370

Note 3—Properties and Accumulated Depreciation:

The properties and accumulated depreciation are summarized below by major classes with estimated lives in years as follows: Buildings, 20 to 50; Store and Office Equipment, 5 to 10; Transportation, 3 to 7; and Leasehold Improvements, 10 to 30.

	1977		1976	
	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Land	$ 8,618,451	$	$ 7,997,843	$
Buildings	35,971,468	6,079,563	31,669,767	5,129,919
Equipment:				
Store	11,250,978	4,534,647	7,770,525	3,015,713
Office	2,597,784	1,341,832	2,408,727	1,012,579
Transportation	15,714,063	9,051,519	11,912,149	7,823,732
Leasehold	9,609,831	2,545,020	7,657,472	2,000,705
Totals	$83,762,575	$23,552,581	$69,416,483	$18,982,648

Note 4—Long-Term Debt:

Long-term debt including current maturities for July 31, 1977 and July 31, 1976 is summarized as follows:

Notes Payable:	1977	1976
Insurance Company Loans:		
Unsecured 5¾% and 8¼% Notes Maturing 1977 to 1989	$15,000,000	$15,070,000
Secured 5⁵/₈% to 9% Notes Maturing 1979 to 1993	27,829,668	19,811,757
Bank Loans:		
Secured Notes Maturing 1981 to 1993 Interest Rates Prime Plus a Maximum of 2%	3,180,268	3,075,937
Mortgage Company Loans:		
Secured 9⁵/₈% Note Maturing in Monthly Installments thru 1999	306,121	
Other loans:		
Unsecured 5½% to 8% Notes Maturing 1977 to 1981	106,496	138,502
Totals	$46,422,553	$38,096,196
Less Current Maturities	1,778,877	1,431,929
Long-Term Notes Payable	$44,643,676	$36,664,267
Obligations Under Capital Leases:		
Maturing 1979 to 1991	1,600,000	
Totals	$46,243,676	$36,664,267

Debt maturities for the next five years are as follows: 1978 - $1,778,877; 1979 - $1,940,453; 1980 - $3,602,890; 1981 - $3,713,833; 1982 - $3,784,697.

The agreement covering the insurance company loans places certain requirements as to the financial condition to be maintained, restricts other borrowing and limits the payment of dividends. After giving effect to the most restrictive provisions, $38,178,421 of consolidated retained earnings are available for payment of dividends.

Deeds of trust covering store, central office and warehouse properties with a net book value of $30,596,641 have been pledged as collateral for the secured insurance company loans. Store properties having a net book value of $3,893,676 have been pledged as collateral for the other secured loans.

The company leases two facilities, one in Alabama and one in Mississippi, from industrial development authorities under terms requiring rental payments in amounts sufficient to pay the interest at 6.3% to 7.5% and debt retirement of the underlying indebtedness.

In July 1977, the company entered into an agreement with an insurance company enabling the company to obtain $6,000,000 on December 6, 1977 in long-term borrowings. Interest on these borrowings will be at 8¼% per annum and the notes mature on December 1, 1992. No commitment fee on these funds is required by this agreement.

Note 5—Short-Term Borrowings:

The following information relates to aggregate short-term borrowing, for the years ended July 31, 1977 and 1976:

	1977	1976
Maximum Amount Outstanding at Any Month-End	$20,000,000	$10,000,000
Average Amount Outstanding: (Total of Daily Outstanding Principal Balances Divided by 365)	8,095,890	3,266,000
Weighted Average Interest Rate: (Actual Interest Expense on Short-Term Debt Divided by Average Short-Term Debt Outstanding)	6.46%	6.81%

No compensating balances are required for any of the company borrowings.

Note 6—Income Taxes:

There are no material timing differences in reporting revenues and expenses for financial and income tax purposes. Substantially all of the income tax expense is therefore currently payable. Actual provisions for federal income tax expense are less than the amounts computed by applying a federal tax rate of 48% to pre-tax income. The reasons for these differences for the two most recent fiscal years are shown in the following table:

	1977		1976	
	Amount	%*	Amount	%*
Income Taxes:				
Federal	$20,393,925	48.0	$16,461,723	48.0
State (Net of Federal Tax Benefit)	1,273,088	3.0	1,018,646	3.0
Investment Tax Credit	(601,541)	(1.4)	(405,569)	(1.2)
Surtax Exemptions	(13,500)	—	(27,156)	(0.1)
Miscellaneous	4,294	—	(63,804)	(0.2)
Total Provision for Income Taxes	$21,056,266	49.6	$16,983,840	49.5

*Percent of Pre-Tax Income.

The income tax liabilities have been reduced by the tax benefit resulting from the early disposition of stock by the optionees under the stock option plan. The 1977 and 1976 benefits of $17,883 and $88,461 respectively have been treated as additions to capital in excess of par value.

Agents of the Internal Revenue Service have completed their examination of the company and its subsidiaries for the years 1973 thru 1975. Income tax provisions made in prior years for undistributed earnings of subsidiary companies were sufficient to cover federal tax assessments for dividends constructively received by the parent company. Assessments resulting from adjustments to tax benefits from the early disposition of stock by optionees in the amount of $228,499 were treated as a reduction of capital in excess of par value.

Note 7—Employees' Stock Option Plan:

There is in effect the 1968 Qualified Employee Stock Option Plan approved by the shareholders on November 12, 1968. The plan provides for the reservation of 600,000 shares of the unissued common stock of the company to be issued to employees pursuant to options to be granted under the plan. Options are granted for a period of five years at 100% of the fair market value of the stock on the date the option is granted and may be exercised for 25% of the total number of shares granted during the second year from the date of the grant and for 25% of such total within each of the following three years. If all or a portion of an option is not exercised in the year it becomes exercisable, it may be carried over and exercised at any time during the remainder of the option period.

On September 2, 1969, options were granted for 471,264 shares. The final date for exercising these options expired September 2, 1974.

On May 18, 1973, additional options for 183,000 shares were granted at $34.33 per share or a total of $6,283,000. Shares forfeited from the initial grant on September 2, 1969 were included in the grant on May 18, 1973, in addition to options not previously granted. Information for the years ended July 31, 1977 and 1976 with respect to this group of options is as follows:

	1977	1976
Option Price Per Share	$ 34.33	$ 34.33
Shares Under Option at July 31	139,710	145,500
Option/Market Price Total	$4,796,244	$4,995,015
Options Exercisable During Year Ended July 31	34,950	37,005
Option Price Total	$1,199,834	$1,270,382
Market Price Total	$ 817,131	$1,011,347
Market Price Per Share	$ 23.38	$ 27.33

No Options Were Exercised During Either Fiscal Years Ended July 31, 1977 or July 31, 1976.

All figures have been adjusted to give effect to the stock dividends since the date the plan was adopted. The time for granting options under the plan expired September 30, 1973.

Note 8—Employees' Profit-Sharing Plan Provisions:

Provisions for payments to the employee profit-sharing plan amounted to $6,375,711 for 1977 and $4,869,817 for 1976. The trust created by the plan holds approximately 17% of the outstanding shares and is the company's largest single shareholder.

Note 9—Long-Term Leases:

There were 103 real estate leases with initial or remaining terms in excess of one year at July 31, 1977. These leases cover 80 store locations, four of which are not yet in operation; two lumber distribution yards; one merchandise distribution center; and six office and auxiliary locations. Of these 89 locations under lease, 22 represent land leases on which the company has erected substantially all of the improvements; the remaining 67 locations include both land and lessor improvements. Generally the leases will expire during the next 10 years. In the normal course of business, however, the majority of the leases will be renewed at expiration by company option, or replaced by other properties. Purchase options available for leased properties at 14 of the store locations would amount to $2,810,650 if exercised under the current provisions of the leases. Six of the primary locations are leased from Lowe's Companies Profit-Sharing Plan and Trust, the employee profit-sharing plan. Lowe's real estate subsidiary owns 99 store locations and five office and auxiliary locations currently in operation.

The company has adopted the requirements of Statement of Financial Accounting Standards No. 13 in accounting for and reporting on its leases, as encouraged by the Financial Accounting Standards Board and the Securities and Exchange Commission. In the notes to the financial statements of prior years, certain of the existing leases were reported as financing leases as defined by the Securities and Exchange Commission regulations. In the current year, these leases are classified as operating leases under the provisions of SFAS No. 13, which have been accepted by the Securities and Exchange Commission. Two leases, one for a merchandise distribution center and the other for a lumber distribution yard, are classified as capital leases.

The following is an analysis of assets under capital leases at July 31, 1977 which are included in property, plant and equipment in the financial statements.

Land	$ 62,406
Buildings	1,260,827
Store equipment	34,999
Office equipment	3,184
Transportation and other equipment	100,848
	1,462,264
Less: Accumulated amortization	(45,168)
Net property under capital leases	$1,417,096

The charge to income resulting from amortization of these assets is included in depreciation expense in the financial statements. These properties are being financed by industrial revenue bonds and Lowe's has available from the proceeds of the bonds an additional $137,136 for expansion purposes.

The future minimum rental payments required under capital leases and under operating leases having initial or remaining noncancelable lease terms in excess of one year are summarized as follows:

	Operating Leases			
	Real Estate	Equipment	Capital Leases	Total
Year Ending July 31:				
1978	$1,685,841	$225,258	$ 114,158	$ 2,025,257
1979	1,480,145	129,420	114,158	1,723,723
1980	1,287,434		215,640	1,503,074
1981	980,017		208,535	1,188,552
1982	712,825		210,972	923,797
Later Years	3,297,246		1,727,803	5,025,049
Total Minimum Lease Payments	$9,443,508	$354,678	2,591,266	$12,389,452
Less: Amount Representing Interest			991,266	
Present Value of Minimum Lease Payments Under Capital Leases			$1,600,000	

Gross rental expenses charged to income for the fiscal years ending July 31, 1977 and 1976 are as follows:

	1977	1976
Real estate	$1,448,794	$1,176,129
Equipment	723,381	621,513
Totals	$2,172,175	$1,797,642

Note 10—Contingent Liabilities and Commitments:

The company had capital purchase commitments as of July 31, 1977 of approximately $2,200,000 for land and the construction of store facilities, and $1,100,000 for equipment.

Note 11—Per Share Earnings:

Earnings per share have been computed on the weighted average outstanding shares during the applicable years and adjusted for a 50% stock dividend in 1976. Equivalent common shares resulting from the outstanding stock options have been computed in compliance with APB No. 15. Since the dilution in each year is less than 3%, no effect is reflected in the per share earnings.

Note 12—Quarterly Financial Data (Unaudited):

Summarized quarterly financial data for 1977 and 1976, as adjusted for a 50% stock dividend in June 1976, are as follows:

Quarter Ended:	Net Sales	Gross Profit	Net Income	E.P.S*
(Fiscal 1977)				
10/31/76	$139,635,063	$28,203,881	$5,122,257	$.39
1/31/77	115,129,627	22,954,511	3,110,129	.24
4/30/77	149,049,026	29,323,318	5,423,606	.42
7/31/77	190,544,430	37,788,939	7,775,086	.60
(Fiscal 1976)				
10/31/75	$106,780,560	$20,786,219	$3,465,081	$.27
1/31/76	93,640,831	19,657,642	2,782,124	.21
4/30/76	122,478,258	25,656,419	5,044,933	.39
7/31/76	142,152,335	28,893,345	6,019,278	.46

*Earnings Per Share

Note 13—Replacement Cost Information (Unaudited):

In order to give investors some understanding of the impact of inflation on the operations and financial status of corporations, the Securities and Exchange Commission now requires that large, publicly held companies determine the cost of specific items on the balance sheet and income statement if those items were to be purchased currently, *i.e.* their "replacement cost." Lowe's management sets forth below the estimated replacement costs for inventories, plant and equipment, and accumulated depreciation for those fixed assets on July 31, 1977, and the cost of sales and depreciation expense for the year then ended. Comparable related historical amounts with respect to these same items as included in the consolidated balance sheet and statement of operations are presented for informational purposes.

Management strongly concurs with the Securities and Exchange Commission's intention that the following replacement cost data not be used to indicate the effect of inflation upon the company's net income; to do so could be greatly misleading. For example, consideration of the replacement cost information for cost of sales alone does not recognize the customary relationship between cost changes and changes in selling price to maintain profit margins. Also, with regard to fixed assets, this information should not be interpreted to indicate that Lowe's actually has present plans to replace such assets or that actual replacement would take place in the form and manner assumed in developing these estimates. Also, the estimated replacement costs for plant and equipment should not be interpreted to represent amounts that could be obtained upon sale of such assets. It must be recognized that this replacement cost data is imprecise and predicated upon assumptions and subjective judgements of management. This information represents only one method of showing the impact of inflation and, in fact, the method chosen by the SEC for companies to use.

	(In Thousands)	
	Historical Cost July 31, 1977 Consolidated Statements	Estimated Replacement Cost
Balance Sheet Items:		
Inventories	$ 96,164	$101,832
Properties	$ 83,763	
Less:		
Land	8,618	
Construction in Progress	2,197	
Equipment Held for Installation	984	
	11,799	
Properties for Which Replacement Cost Data Provided	$ 71,964	$ 99,887
Accumulated Depreciation	$ 23,553	$ 31,059
Income Statement Items:		
Cost of Sales	$476,087	$482,357
Depreciation	$ 6,212	$ 6,987

ASSUMPTIONS—The estimated replacement cost of Lowe's buildings has been developed by using engineering estimates based upon the current local cost to replace equivalent facilities in the various locations. Values for office and store equipment, vehicular units and airplanes were generally based on current vendor prices or on most recent purchases. Replacement cost estimates for any fixed asset items which could not be specifically estimated by the means stated above, were arrived at by application of an appropriate Department of Commerce price index. However, these items represent a relatively small portion of the total asset dollars valued. The property accounts include two facilities held under capital leases as defined by SFAS No. 13.

The estimated replacement cost of inventories at July 31, 1977 was based on the current cost of individual inventory items. Historically, the company values its inventories by the lower of cost (first-in, first-out) or market. Replacement cost of sales reflect the adjustments to historical cost of sales for the price changes between the time of incurring inventory costs and their subsequent conversion into sales revenue.

The estimated amounts of accumulated depreciation and annual depreciation expense for replacement costs were computed on a straight-line basis as recommended by the SEC, although accelerated methods have been used to compute historical depreciation amounts. For such computations, the historical estimated useful lives of such assets were used and no depreciation expense was included for fully depreciated assets. The annual expense was based on the average replacement values during the year.

Note 14—Supplementary Earnings Information:

Items in excess of 1% of sales for the two fiscal years ended July 31, 1977 and July 31, 1976 are as follows:

	1977	1976
Advertising	$7,586,237	$6,773,325
Taxes other than income:		
Payroll	3,505,744	2,736,262
Other	2,301,785	2,017,169

Report of Independent Certified Public Accountants

The Board of Directors and Shareholders
Lowe's Companies, Inc.
North Wilkesboro, North Carolina

We have examined the consolidated balance sheets of Lowe's Companies, Inc. and subsidiaries as of July 31, 1977 and 1976, and the related consolidated statements of current and retained earnings, changes in shareholders' equity and changes in financial position for the two years then ended. Our examinations were 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 financial statements referred to above present fairly the consolidated financial position of Lowe's Companies, Inc. and subsidiaries at July 31, 1977 and 1976, and the consolidated results of operations and changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

J. A. GRISETTE CO.

Lenoir, North Carolina
September 16, 1977

Fiscal 1976 Compared to Fiscal 1975:

Net sales increased 36% in fiscal 1976, setting a new record at $465,051,984. The primary external factor contributing to the sales gain was the dramatic improvement in economic conditions, in particular, the recovery in the new housing industry and in consumer spending in the markets Lowe's serves. Internal factors contributing to the overall sales gain included expansion of retail selling space through new store openings, advertising and selling programs which resulted in increased market penetration through higher unit sales, and to a lesser degree, new product additions and higher selling prices. An analysis of this total sales increase by product group, customer group, and by stores open more than a year is shown in Tables 2, 3, and 4 on page 32.

Lowe's opened 22 new stores during fiscal 1976, two of which replaced existing Lowe's facilities resulting in a net addition of 20 stores. These 20 new stores generated $17,090,000 in sales volume, 4% of the fiscal 1976 total and a 5% increment to fiscal 1975 sales volume. However, established stores provided most of the fiscal 1976 sales increase. The 130 stores open throughout fiscal 1976 produced $447,962,000 in sales volume for a 31.4% increase in established-store sales (See Table 4.)

All major product groups increased sales, with gains led by the 63% increase in structural lumber sales. In contrast to fiscal 1975 when lumber prices were lower year-to-year, lumber prices were higher on balance during fiscal 1976, with prices fluctuating during the year. Of the total increase in lumber sales, higher unit volume represented about two-thirds of the gain, with increased prices accounting for the balance. Prices for plywood, included in the Building Materials category in the Sales Analysis by Product Group shown on page 32, were similarly higher, on balance, and volatile during fiscal 1976. The other major product categories exhibited strong sales gains, with appliances ("Kitchens and Home Laundry") and Home Entertainment product sales lagging, but still higher year-to-year. Inflation in these product sales was modest (5% or less) for the year as a whole, so overall the sales gains reflected unit increases.

Table 1: Summary of Operations:
In Thousands (Except Earnings and Dividends Per Share)

	Year Ended July 31,				
	1977	1976	1975	1974	1973
Net Sales	$594,358	$465,052	$340,882	$362,453	$326,846
Cost of Sales (1)	476,087	370,058	273,384	288,023	266,758
Gross Profit	$118,271	$ 94,994	$ 67,498	$ 74,430	$ 60,088
Other Expenses:					
S,G&A, Adv. (2)	$ 55,316	$ 45,386	$ 34,563	$ 33,371	$ 26,681
Depreciation	6,212	4,976	4,177	3,458	2,791
Profit-Sharing	6,376	4,870	3,368	3,649	2,695
Bad Debt Prov.	3,723	2,457	2,051	1,920	1,177
Totals	$ 71,627	$ 57,689	$ 44,159	$ 42,398	$ 33,344
Profit Before Income Deductions	$ 46,644	$ 37,305	$ 23,339	$ 32,032	$ 26,744
Income Deductions:					
Interest Exp.	$ 4,146	$ 3,002	$ 2,522	$ 2,741	$ 1,349
Amortization of Loan Cost	11	8	6	4	2
Totals	$ 4,157	$ 3,010	$ 2,528	$ 2,745	$ 1,351
Pre-Tax Income	$ 42,487	$ 34,295	$ 20,811	$ 29,287	$ 25,393
Income Taxes:					
State	$ 2,448	$ 1,959	$ 1,357	$ 1,775	$ 1,552
Federal	18,608	15,025	8,962	12,895	11,113
Totals	$ 21,056	$ 16,984	$ 10,319	$ 14,670	$ 12,665
Net Earnings	$ 21,431	$ 17,311	$ 10,492	$ 14,617	$ 12,728
Earnings Per Share	$ 1.65	$ 1.33	$ .81	$ 1.14	$ 1.00
Weighted Average Shares Outstanding	13,022	13,022	13,013	12,794	12,711
Dividends Per Share	$ .21	$ .097	$ .09	$ .0817	$ .08

(1) Cost of Sales, Buying, Warehousing, & Occupancy.
(2) Advertising, Selling, Administrative, & General Expenses.

Several new products were added during fiscal 1976, notably automotive accessories and some pre-packaged building hardware lines. Although these additions increased the company's number of stockkeeping units (SKU's) from 8,000 to 10,000, the dollar volume derived has been relatively insignificant since these are primarily small, low-priced items.

Compared to the 36% gain in total company sales, Lowe's professional buyer business increased 51%, reflecting the recovery in housing activity from extremely depressed levels the previous year. The more gradual improvement in consumer spending was evident in the 21% increase in retail customer purchases during fiscal 1976.

The balance of this discussion is devoted to the changes in costs, expenses, and income. For a more detailed analysis of the summary of operations on a quarterly basis, please refer to Lowe's Companies, Inc. Fiscal 1976 Quarterly Reports which are available on request.

Gross profit increased 41% and the gross profit margin widened to 20.43% of sales in fiscal 1976 from 19.80% in fiscal 1975. Sales to retail customers yield a higher gross profit margin than do sales to professional buyers. In fiscal 1976, the gross profit margin was higher year-to-year on sales to both categories of customers. In general, higher gross profit margins resulted from an easing of competitive pricing pressures during fiscal 1976.

Total other expenses declined as a percent of sales in fiscal 1976 to 13.05% from 13.70% in fiscal 1975, as a result of careful expense control and the favorable leverage effect of the sales increase achieved this year. Productivity gains were achieved in higher sales per employee and this factor favorably influenced the operating expense ratio as well. Advertising, selling, administrative and general expenses increased 31%, in part due to the additional expense incurred by the 20 net new stores opened during the past twelve months, but primarily due to the increased salary dollars which vary with the level of sales. Advertising expenditures (see Note 14 on page 30) increased 29.7%, less than the total of advertising, selling, administrative and general expenses.

Depreciation expense increased 19% in fiscal 1976, a normal change rate relative to our store expansion and the increase in support facilities and equipment purchased.

The contribution to profit sharing is based on salary expense and this item increased 45% in fiscal 1976. This was more than the increase in salary expense in 1976, however, because of the retroactive payment provision of the profit-sharing plan for past years' contributions not paid, once a store has reached a minimum required level of earnings.

The provision for bad debts increased 20% in fiscal 1976, reflecting the increase in professional builder sales and resulting higher accounts receivable.

Interest expense increased 19% in fiscal 1976 primarily due to higher short-term borrowings (despite lower average interest rates year-to-year on such borrowings), and less interest income year-to-year in fiscal 1976.

After deducting expenses from gross profit, pre-tax income increased 65%. The lower expense ratio and higher gross margin caused the pre-tax margin to widen to 7.37% of sales in fiscal 1976 from 6.11% in fiscal 1975. After taxes at a comparable rate in fiscal 1976 versus fiscal 1975, net earnings also increased 65%. (See Note 6 on page 27, for an analysis of the tax liability.)

Table 2: Sales Analysis By Product Group

In Thousands

Year Ended July 31:	Fiscal 1977		Fiscal 1976		Base Year Fiscal 1975	
	Amount	% Chg.	Amount	% Chg.	Amount	% Chg.
1. Structural Lumber	$116,016	+35%	$ 85,803	+63%	$ 52,491	−20%
2. Building Materials & Hardware	276,839	+29%	214,440	+38%	155,817	− 3%
3. Plumbing, Electrical, Heating & Cooling	55,258	+27%	43,409	+29%	33,547	− 3%
4. Kitchens & Home Laundry	29,860	+23%	24,245	+ 5%	23,036	+ 3%
5. House, Yard, & Farm Supplies	39,316	+16%	33,768	+34%	25,259	+ 6%
6. Home Entertainment	14,929	+29%	11,565	+ 6%	10,960	−22%
7. Mobile Homes	2,798	−23%	3,624	+39%	2,599	−51%
8. Special Order Sales	59,342	+23%	48,198	+30%	37,173	+ 5%
Totals	$594,358	+28%	$465,052	+36%	$340,882	− 6%

Table 3: Sales Analysis By Customer Group

In Thousands

Year Ended July 31:	Fiscal 1977		Fiscal 1976		Base Year Fiscal 1975	
	Amount	% Chg.	Amount	% Chg.	Amount	% Chg.
Professional Buyer Sales	$364,029	+36%	$266,940	+51%	$176,917	−11%
Retail Customer Sales	230,329	+16%	198,112	+21%	163,965	—
Totals	$594,358	+28%	$465,052	+36%	$340,882	− 6%

Table 4: Sales Analysis By Stores: Established Stores vs. New Stores

In Thousands

Year Ended July 31:	Fiscal 1977	Fiscal 1976	Base Year Fiscal 1975
Number of Stores Open	175	150	130
Total Sales	$594,358	$465,052	$340,882
% Change Total Sales	+27.8%	+36.4%	− 6.0%
Number of Established Stores[1]	150	130	116
Sales of Established Stores	$583,615	$447,962	$323,463
Sales of Same Stores Previous Year	$465,052	$340,882	$362,453
% Change Established Store Sales	+25.5%	+31.4%	−10.8%
Number of New Stores	25	20	14
Sales of New Stores	$ 10,743	$ 17,090	$ 17,419
% Added by New Store Sales	+ 2.3%	+ 5.0%	+ 4.8%

[1] Established Stores are stores which have been open more than a year.

Table 5: Cost and Income Analysis

	Fiscal 1977		Fiscal 1976		Base Year Fiscal 1975	
	% Chg.[1]	% of Total[2]	% Chg.[1]	% of Total[2]	% Chg.[1]	% of Total[2]
Net Sales	+28%	100.00%	+36%	100.00%	− 6%	100.00%
Cost of Sales[3]	+29%	80.10%	+35%	79.57%	− 5%	80.20%
Gross Profit	+25%	19.90%	+41%	20.43%	− 9%	19.80%
Other Expenses:						
S, G, & A, Advertising	+22%	9.31%	+31%	9.76%	+ 4%	10.14%
Depreciation	+25%	1.05%	+19%	1.07%	+21%	1.23%
Profit-Sharing	+31%	1.07%	+45%	1.05%	− 8%	.99%
Provision for Bad Debts	+52%	.63%	+20%	.53%	+ 7%	.60%
Interest & Loan Expense[4]	+38%	.70%	+19%	.65%	− 8%	.74%
Total Other Expenses	+25%	12.75%	+30%	13.05%	+ 3%	13.70%
Pre-Tax Income	+24%	7.15%	+65%	7.37%	−29%	6.11%
Taxes (total)	+24%	49.56%[5]	+65%	49.52%[5]	−30%	49.58%[5]
Net Earnings	+24%	3.61%	+65%	3.72%	−28%	3.08%

Notes: [1]Percent Change in dollar totals as in the Summary of Operations.
[2]Percent of total sales, rounded to the nearest hundredth of a percent.
[3]Cost of Sales, Buying, Warehousing and Occupancy.
[4]Interest plus amortization of loan cost.
[5]Tax Rate — taxes as a percent of pre-tax income.

Table 6: Reserves for Doubtful Accounts Receivable
(10-K Schedule XII)

Introduction: The information in the following table is related to both the income statement and the balance sheet. The ending reserve balance is deducted from gross receivables to arrive at the receivables total shown on the balance sheet. This reserve is determined on the basis of the actual bad debt experience encountered in the various locations and on historical percentages applicable to the closing balances. The Provision for Bad Debts charged as an expense on the income statement is the difference between the required ending reserve balance and the beginning balance, plus actual accounts receivable charged off during the year. We present this information for the last three fiscal years.

	Balance at Beginning of Year	Additions Charged to Income Statement	Deduction from Reserves	Balance at Close of Year
Allowance for Doubtful Accounts:				
Year ended July 31, 1977	$2,873,569	$3,722,631	$2,579,077	$4,017,124
Year ended July 31, 1976	2,176,464	2,456,551	1,759,446	2,873,569
Year ended July 31, 1975	2,007,200	2,050,450	1,881,186	2,176,464

Fiscal 1977 Compared to Fiscal 1976:

Net sales increased 28% in fiscal 1977, setting another new record at $594,358,146 in the second year of recovery from the 1974-1975 recession in the economy. With mortgage financing readily available and consumer disposable income improving, conditions were ripe for Lowe's to increase sales to professional builders and retail customers alike in the 16 states served by Lowe's stores. Although in general, the twelve month period corresponding to Lowe's fiscal 1977 year was marked by a better external economic and operating environment for increasing sales, careful analysis of the quarters reveals that a severe (and perhaps more normal) winter limited Lowe's sales opportunity relative to the previous year, during the two middle quarters (ending January 31, 1977 and April 30, 1977). Cold temperatures and snows reaching down as far south as Mississippi and Florida restricted new home building (our professional buyer customers). And the same cold temperatures resulted in exorbitant utility bills for our consumer customers to pay, and caused plant closings and layoffs due to a shortage of natural gas, further crimping the disposable income of many of our retail customers. In contrast to these quarters, however, sales opportunities and results were excellent in the first quarter and our seasonally strongest, fourth quarter. (For sales trends by quarter, please see Lowe's Quarterly Financial Review, page 36.)

Internal factors contributing to the overall sales gain for the year included expansion of retail selling space through new store openings, advertising and selling programs (many discussed in this Annual Report on pages 8 through 13) which resulted in increased market penetration through higher unit sales, and to a lesser degree, higher selling prices. An analysis of this total sales increase by product group, customer group, and by stores open more than a year is shown in Tables 2, 3, and 4 on page 32. Price changes are discussed further on in this discussion; also refer to Chart 16, "Trends, Construction Costs & Prices," on page 43, and Note 13, "Replacement Cost Information," on pages 29 and 30.

Lowe's opened 25 new stores during fiscal 1977, bringing the total to 175 stores in 16 Southeastern states. These 25 new stores generated a total of $10,743,000 in sales volume, which is 2% of the fiscal 1977 total and a 2.3% increment to fiscal 1976 sales volume. The 25 new stores contributed less to this year's sales volume than the 20 new stores opened last year contributed to fiscal 1976 volume primarily because of the timing of the store openings. Construction delays caused by the winter weather resulted in an unusually high portion of the fiscal 1977 store openings to be scheduled at the very end of the year and, therefore, these new stores contributed only modestly to fiscal 1977 sales. Lowe's 150 established stores provided most of the fiscal 1977 sales increase. These 150 stores open throughout fiscal 1977 produced $583,615,000 in sales volume for a 25.5% increase in established-store sales. (See Table 4.)

Compared to the 28% gain in total company sales, Lowe's professional buyer business increased 36%, reflecting a continuing upsurge in housing activity, particularly new single-family units. For the second year in a row, our retail customer sales increase, +16%, although a reasonably good increase, lagged the gain in builder sales (see Table 3). For a further discussion of Lowe's customer sales trends, we refer you to page 6 of this report.

Again this year, all major product groups increased sales (see Table 2), except for Mobile Homes, a merchandise line we are phasing out because although profitable, it provides an inadequate return on our investment.

Of all of our product groups, lumber sales increased most with a 35% gain. Lumber prices fluctuated less this year than in fiscal 1975; however, prices did rise during fiscal 1977, particularly at the very end of the year. (See Chart 17, "Lumber and Plywood Price Trends," on page 43.) We estimate, however, that unit gains accounted for well over half of the total increase in lumber sales. Building materials and home entertainment products both increased sales by 29%, but with a notable difference. Home entertainment product prices were close to flat, this year against last year, so the 29% gain was in units. Prices of several products in the building materials group were increased during the year including plywood, millwork, gypsum, and asphalt (roofing). Therefore, we estimate that unit increases accounted for about 70% of the total 29% sales gain in that group. Price increases in the remaining product groups in general were modest (5% or less), so overall, the increases shown represent unit gains. For a further discussion of these product groups and their sales trends, please see the Product Analysis on page 7.

The balance of this discussion is devoted to the changes in costs, expenses, and income as detailed in Table 5 on page 33, with supplementary Table 6. For a more detailed analysis of the summary of operations on a quarterly basis, please refer to Lowe's Companies, Inc. Fiscal 1977 Quarterly Reports which are available on request.

Cost of sales increased 29% in fiscal 1977, more than the increase in sales, and therefore, gross profit increased only 25% and the gross profit margin narrowed to 19.90% from 20.43% in fiscal 1976. Contributing to the decline in total gross margin was a shift in the mix of business favoring professional buyer sales to 61% of total sales in fiscal 1977 from 57% in fiscal 1976. (Professional buyer sales yield a lower gross margin than do retail customer sales because of their higher composition of low-margin commodity products and because of discounts on volume purchases.) In addition the gross profit margin on sales to both builders and retail customers was modestly lower year-to-year in fiscal 1977. In both customer groups, this was principally due to the lower margin opportunity in the sale of commodities, particularly lumber and plywood. In other words, while our costs on these commodities were rising during the year, we were not always able to pass through the cost increases completely in the form of higher selling prices.

Total other expenses declined as a percent of sales again in fiscal 1977 to 12.75% from 13.05% in fiscal 1976, primarily due to good expense control and the favorable leverage effect of above-average sales gains. Advertising, selling, administrative, and general expenses increased 22%, in part due to the additonal expense incurred by the 25 new stores opened during the past twelve months, but primarily due to the increased salary dollars which vary with the level of sales. The increase in net advertising expenditures, +12%, (see Note 14), helped keep down the overall SG & A expense gain, but the increase in productivity per employee was the real key in the improved expense ratio. Our sales per average employee increased 5% to $123,158 in fiscal 1977 from $116,965 in fiscal 1976.

Depreciation expense increased 25% in fiscal 1977, again, a normal change rate relative to our store expansion and continuing purchases of data processing and transportation equipment. Yearly increases should continue to approximate this rate of change.

The profit-sharing contribution is based on salary expense and this item increased 31% in fiscal 1977. This was higher than the increase in salary expense, again this year, because of the retroactive payment provision of the profit-sharing plan for past years' contribution not paid, once a store has reached a required level of earnings.

The provision for bad debts increased 52% in fiscal 1977, commensurate with a very strong year for professional builder sales and resulting higher receivables, particularly at year-end. (See Table 6.)

Interest expense increased 38% in fiscal 1977, primarily due to a net increase of approximately $9.6 million in long-term debt and higher short-term borrowings during the year. The added long-term debt was borrowed for fifteen years at 9% interest and is to be used to finance new store expansion. Short-term borrowings are used to finance seasonal increases in working capital requirements, and these borrowings were repaid prior to July 31, 1977, leaving no short-term debt on the balance sheet at year-end. Interest rates paid on short-term borrowings were lower in fiscal 1977 than in fiscal 1976. (See Note 4 — Long Term Debt, and Note 5 — Short-Term Borrowings, for additional information.)

After deducting expenses from gross profit, pre-tax income increased 24%. Since the improvement in the expense ratio was not sufficient to offset the lower gross margin, the pre-tax margin contracted slightly to 7.15% of sales in fiscal 1977 from 7.37% in fiscal 1976. After taxes at approximately a comparable rate in both years (See Note 6 on page 27), net earnings also increased 24%.

Introduction: The following includes a broad range of additional information about Lowe's business and operations, most of which is required disclosure in the 10-K Report to the Securities and Exchange Commission.

Competition (10-K Item 2): The building materials and hard goods retailing business in the areas served by Lowe's stores is highly competitive. Our stores experience competition from both nationwide and regional chain stores (Sears, K-Mart, Wickes, Moore-Handley, Moore's, 84 Lumber, etc.) and local independent merchants and lumber yards. However, we believe Lowe's merchandising and operating techniques, many described elsewhere in this report, will continue to enable our stores to compete effectively.

Properties (10-K Item 3): Most Lowe's stores are located on 3 to 5-acre tracts on major streets or highways and are easily accessible to customers with adjacent parking space and railroad and truck loading facilities. The typical Lowe's store has averaged 65,000 square feet, of which about 52,000 square feet has been used for warehouse facilities and the remainder for sales, display, and office space. However, our newer stores (opened since fiscal 1975) contain approximately 42,000 square feet, of which about 32,000 square feet is used for warehousing and the balance for sales, display, and office space. As of July 31, 1977, 76 stores were leased or constructed on leased land, and 99 stores were owned by the company. Reference is made to Note 9 of Notes to Financial Statements, on page 28, for information on long-term leases.

In addition, the following is a summary of Lowe's warehousing and distribution properties:

Location	Square Footage[1]	Land (Acres)	Purpose
Owned Properties:			
N. Wilkesboro, NC.	80,000	12	Lowe's General Office
Wilkes County, NC	146,000	44	Central Warehousing and Distribution
Thomasville, NC.	27,750	30	Lumber Processing, Chemical Treatment, and Distribution
Hopkinsville, KY.	64,000	17	Lumber Distribution
Simsboro, LA.	43,000	20	Lumber Distribution
Leased Properties:			
Wilkes County, NC	90,000[2]	6	Central Warehousing and Distribution
Hernando, MS	152,500	10	Central Warehousing and Distribution
Pittsview, AL	40,000	20	Lumber Distribution

[1] Includes enclosed space and covered storage.
[2] Includes an owned, 30,000 square foot building.

Lowe's owns 172 motor vehicles and 188 trailers used at the company's General Office or for making deliveries from the central warehouses or the lumber distribution facilities to the stores, and another 1,099 motor vehicles for customer deliveries from the stores. In addition, Lowe's owns and uses in its business one Cessna 310-L, one Piper-Navajo PA-31-325, and two Mooney MU-2 airplanes.

Subsidiaries of Lowe's Companies, Inc. (10-K Item 4): Lowe's (the parent company) has 154 wholly owned subsidiary corporations, all of which are lumber and building material retail stores except for the following: Lowe's Investment Corporation, a real estate company which leases land and buildings to Lowe's stores; Sterling Advertising Ltd., an in-house agency which handles all of Lowe's advertising; Lowe's of Hopkinsville, Inc. and Pittsview Forest Products, both lumber and commodity distribution yards; and Lowe's of Hernando, Inc., a merchandise distribution center. Buchan Lumber Company, a subsidiary including a lumber processing facility which also served as a retail outlet for the sale of lumber products, was merged into the parent company during the year which ended July 31, 1977, and is no longer in operation as such. The operations of Buchan Lumber are now conducted through Thomasville Forest Products. Also merged during the year were two retail outlets, Lowe's of York, Inc. and Lowe's of Hanover, Inc., into Lowe's of Lancaster, Inc., (see Principles of Consolidation, page 26). The consolidated financial statements of Lowe's Companies, Inc. include the operation of all subsidiary corporations.

Legal Proceedings (10-K Item 5): There are no material pending legal proceedings to which Lowe's or any of its subsidiaries is a party or any of their property is subject.

Change in Outstanding Securities and Indebtedness (10-K Item 6): Lowe's is required to report any changes in outstanding equity during the year and there were none. For quarters beginning subsequent to December 31, 1976, Lowe's is also required to describe in detail in the 10-K, any changes in indebtedness in excess of 5% of the beginning of the year total. Such a change occurred during the final three months of the year and it is described as follows:

Long-term debt:	
Outstanding April 30, 1977	$44,126,920
Outstanding July 31, 1977	48,022,553

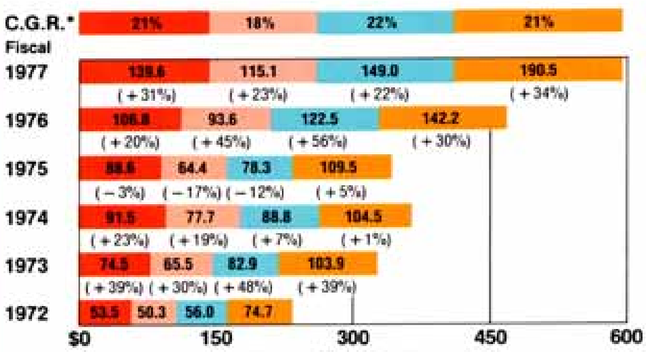
Lowe's Investment Corporation, a wholly owned subsidiary, negotiated a series of eight secured notes in an aggregate face amount of $4,000,000 with an insurance company pursuant to an agreement dated July 29, 1964. These notes bear interest at 9% and are to be retired by quarterly payments of $116,820 including interest beginning January 1, 1978. Lowe's of Dublin, Inc., also a wholly owned subsidiary, issued a secured note to a bank dated May 10, 1977 in the face amount of $350,000. This note bears interest at prime plus ½% and is to be retired by quarterly payments of $5,833.35 plus interest beginning August 1, 1977. The net proceeds of the issues were for the face amounts of the notes and are to be used for payment of land, buildings and leasehold improvements. No underwriters were involved in either issue and the transactions are exempt under Section 4(2) of the Securities Act of 1933 since they do not involve a public offering.

Quarterly Sales Trends

1

MILLIONS OF DOLLARS, ROUNDED TOTALS

First Qtr. Second Qtr. Third Qtr. Fourth Qtr.



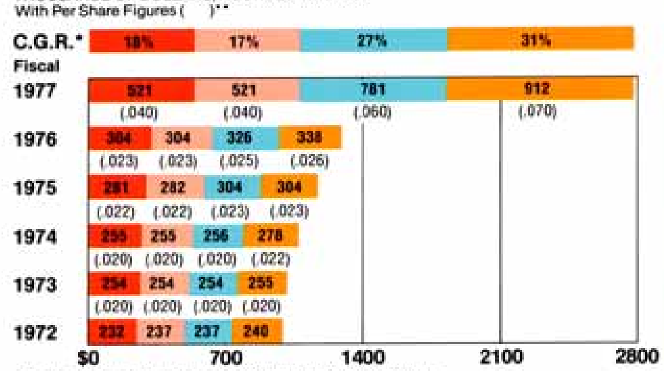
*Quarterly Compound Growth Rates, Fiscal 1972 through 1977, rounded totals.
( ) Percent change from same quarter previous year, to nearest whole percent.

Quarterly Dividend Trends

4

THOUSANDS OF DOLLARS, ROUNDED TOTALS
With Per Share Figures ( )**

First Qtr. Second Qtr. Third Qtr. Fourth Qtr.



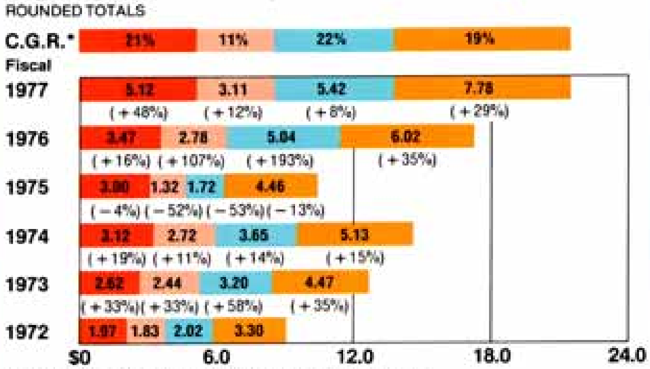
*Quarterly Compound Growth Rate, Fiscal 1972 through 1977, Rounded Totals.
**Per share dividends adjusted to reflect 50% stock dividend, June, 1976.

Quarterly Earnings Trends

2

AFTER TAX EARNINGS IN MILLIONS, ROUNDED TOTALS

First Qtr. Second Qtr. Third Qtr. Fourth Qtr.



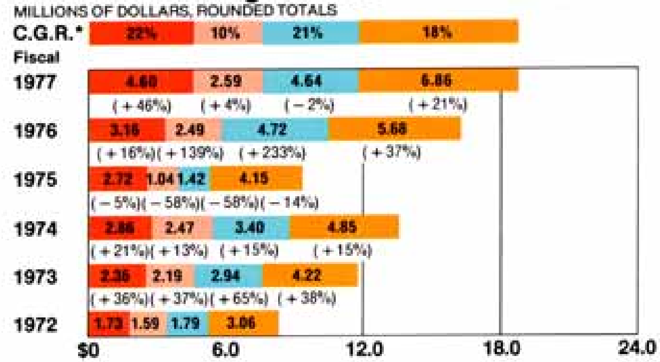
*Quarterly Compound Growth Rates, Fiscal 1972 through 1977, rounded totals.
( ) Percent change from same quarter previous year, to nearest whole percent.

Quarterly Additions to Retained Earnings Trends

5

MILLIONS OF DOLLARS, ROUNDED TOTALS

First Qtr. Second Qtr. Third Qtr. Fourth Qtr.

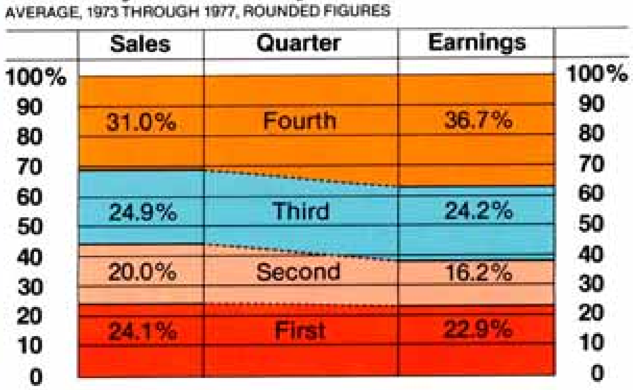


*Quarterly Compound Growth Rates, Fiscal 1972 through 1977, rounded totals.
( ) Percent change from same quarter previous year, to nearest whole percent.

Sales and Earnings Quarterly % of Yearly Total

3

AVERAGE, 1973 THROUGH 1977, ROUNDED FIGURES



Quarterly Per Share Trends*

6

Fiscal:	Earnings 1st Qtr.	Earnings 2nd Qtr.	Earnings 3rd Qtr.	Earnings 4th Qtr.	Shares 1st Qtr.	Shares 2nd Qtr.	Shares 3rd Qtr.	Shares 4th Qtr.
1977	$.393	$.239	$.416	$.597	13,022	13,022	13,022	13,022
1976	.266	.214	.387	.462	13,022	13,022	13,022	13,022
1975	.231	.101	.133	.342	12,986	13,022	13,022	13,022
1974	.245	.213	.285	.399	12,744	12,776	12,798	12,860
1973	.206	.192	.251	.351	12,687	12,707	12,720	12,729
1972	.156	.145	.160	.261	12,632	12,638	12,662	12,680

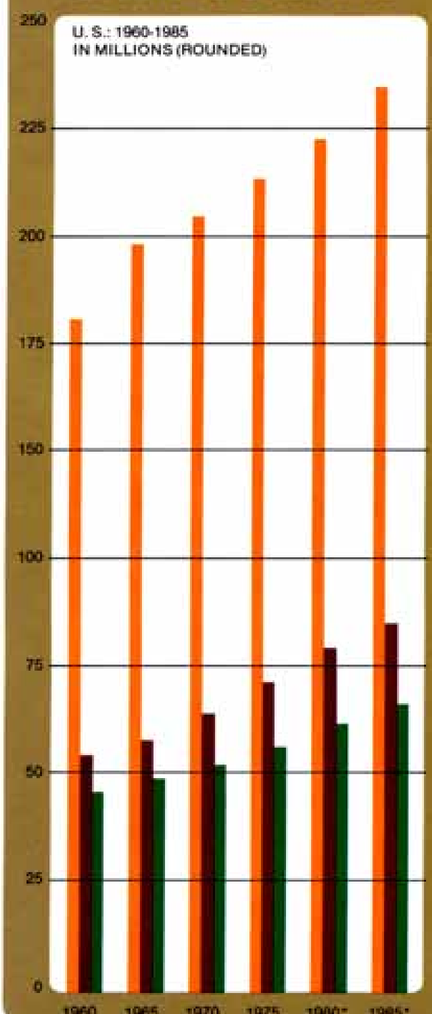
*Earnings in cents, shares in thousands, all adjusted for following stock dividends: Dec. 1971, 50%; July 1972, 33⅓%; June 1976, 50%. Variation in shares is due to exercise of employee stock options.

Lowe's Marketing Research Report

Marketing research at Lowe's focuses on the broad markets we serve. The mission is to perceive opportunities, to forecast changes, and to measure performance. In these next 8 pages, we summarize the fundamental marketing dimensions for Lowe's opportunities, from a national overview of the total production of goods and services, to private new home construction, sources of mortgage and consumer credit, and regional retail sales of our products. Then we show you just exactly where we fit into the jigsaw puzzle with a map of our 175 Lowe's store locations in 16 southeastern states. Along with the map for geographic positioning, we think these marketing dimensions will help you position Lowe's in America's economic mainstream, for a clearer perspective of our future possibilities.

Population and Households: Chart 1 is a census and projection of population, households, and families through 1985. Since our product line and merchandising efforts have primary orientation to homes, home builders, and homeowners, households are a principal measure of marketing opportunity. From 1960 through 1975, population increased by 19%, passing the 213,000,000 mark. During the same period, households increased by 34%, while the increase in families was only 24%. The average number of persons per household declined from 3.4 to 3.0. By 1985, the total population is expected to grow by only 10%, to 234,000,000. However, the rate of new family formation is projected to increase 18% and total households should grow another 19% to 84,700,000.

Population, Households & Families [1]

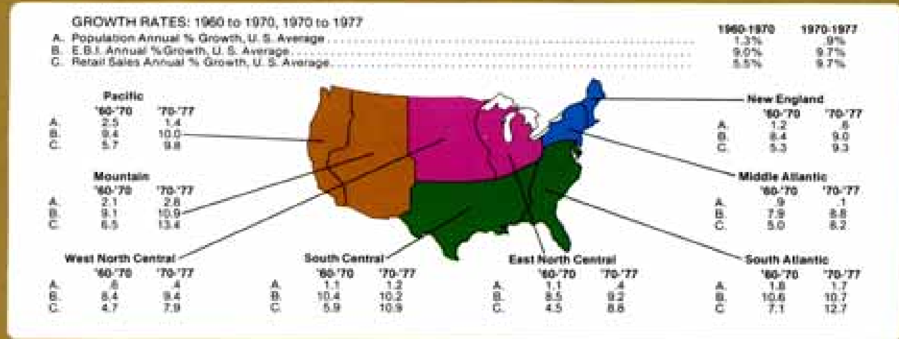


POPULATION ■ HOUSEHOLDS ■ FAMILIES

*Projected

SOURCE: NATIONAL CONSUMER FINANCE ASSN.

Regional Population, Buying Income, and Retail Sales [2]



SOURCE: EDITOR & PUBLISHER MARKET GUIDE, Further Reproduction Prohibited

Growth Rates in Population: The average population trends shown for the nation vary significantly within the geographic regions and divisions of the United States. 165 of Lowe's 175 stores are located in the Southern region; 123 in the South Atlantic division, and 42 in the South Central division. Shown in Chart 2 are average annual growth rates in population, buying income, and retail sales. In general, the West and the South are America's growth areas. The South Atlantic area is most pertinent to our present stores. Here the population growth in the 70's so far almost doubled the national average. Strong growth in buying income was translated into increased retail sales, with growth in the Southern region second only to the Mountain states.

Regional Demographics: Chart 2 focused on the rates of growth. However, boys normally outgrow men, therefore a quantification of these marketing factors is apropos. Chart 3 summarizes the 1976 totals and distribution among regions. The South emerges as the undisputed winner on all counts. First, it is the most populous region of the country. Its 69,400,000 population is 32% of the nation's total. Second, the South represents the largest share of effective buying income. In 1976, EBI for the South totaled $339 billion, 29% of U.S. EBI. Finally, the South again proved its greater propensity to spend. With retail sales of $209.4 billion, it was the only region for which retail sales as a % of the nation's total exceeded the region's buying income as a % of total.

Regional Demographics — 1976 [3]

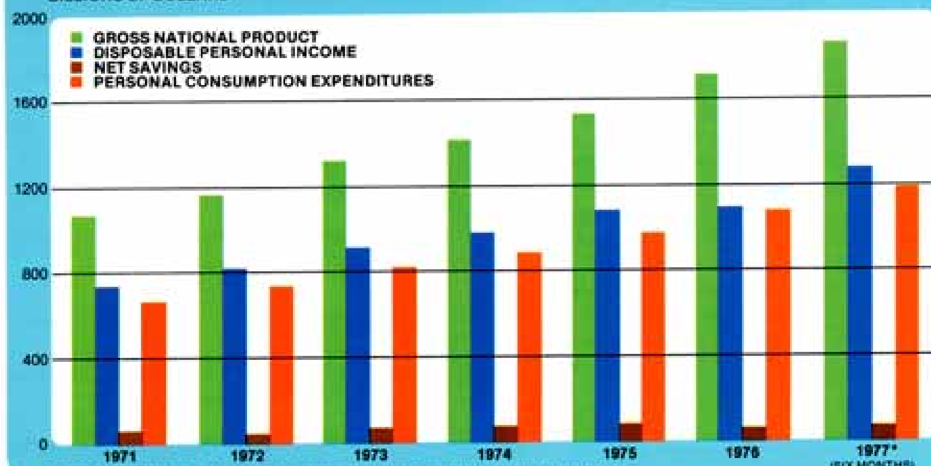
	Population		Retail Sales		Effective Buying Income	
	(000,000)	% of Total	(000,000)	% of Total	(000,000)	% of Total
New England	12.3	6%	$ 38.3	6%	$ 69.8	6%
Middle Atlantic	37.3	17	107.0	16	221.1	19
NORTHEAST	49.6	23	145.3	22	290.9	25
South Atlantic	34.3	16	105.0	16	173.7	15
East So. Central	13.8	6	38.1	6	60.4	5
West So. Central	21.3	10	66.3	10	105.1	9
SOUTH	69.4	32	209.4	32	339.2	29
Mountain	10.0	5	31.9	5	49.4	4
Pacific	28.8	13	95.8	14	171.7	15
WEST	38.8	18	127.7	19	221.1	19
West No. Central	16.9	8	49.7	8	90.0	8
East No. Central	41.1	19	129.7	20	235.1	20
MIDWEST	58.0	27	179.4	27	325.1	28
United States	215.9	100%	$661.7	100%	$1,176.2	100%

SOURCE: SALES & MARKETING MANAGEMENT, Further Reproduction Prohibited

Gross National Product: America's most publicized economic indicator is the total of goods and services known as GNP. As indicated in Chart 4, this bellwether measure passed the $1 trillion dollar mark during 1971 and in 1977 is climbing towards $2 trillion. Also shown is the concurrent growth pattern in disposable personal income. This total, $1.2 trillion in 1976, was 68% of GNP. Portrayed next is the increment of personal savings, which rose to an unprecedented level of $80.2 billion in 1975, but has dropped to a seasonally adjusted rate of $68.5 billion midway through 1977. Disposable personal income less personal savings, less certain interest and other outlays, equals personal consumption expenditures. This represents the total spending for durable goods, non-durable goods, and services, and in 1977, PCE are on their way to $1.3 trillion.

Gross National Product, PERSONAL INCOME, SAVINGS AND EXPENDITURES 4

BILLIONS OF DOLLARS



SOURCE: ECONOMIC INDICATORS *Seasonally adjusted annual rates for quarter ending 6/30/76.

Personal Consumption Expenditures Trends 5

BILLIONS OF DOLLARS

	1971	% of Total	1975	% of Total	1976	% of Total	1977*	% of Total	C.G.R.** '71-'77	% Growth '76-'77***
Non-Durable Goods	$277.7	41%	$409.3	42%	$ 442.7	40%	$ 474.4	40%	9.3%	+ 8.5%
Durable Goods:										
Motor Vehicles ..	43.8	7%	53.9	5%	71.9	7%	84.5	7%	11.6%	+ 19.0%
Furniture & Household	39.4	6%	58.0	6%	63.9	6%	69.3	6%	9.9%	+ 10.0%
Other...........	13.9	2%	21.0	2%	23.1	2%	24.8	2%	10.1%	+ 9.3%
Totals	97.1	15%	132.9	13%	158.9	15%	178.6	15%	10.7%	+ 14.0%
Services	293.4	44%	438.2	45%	492.3	45%	541.1	45%	10.7%	+ 11.7%
Total Personal Consumption Expenditures	$668.2	100%	$980.4	100%	$1,094.0	100%	$1,194.0	100%	10.2%	+ 10.7 %

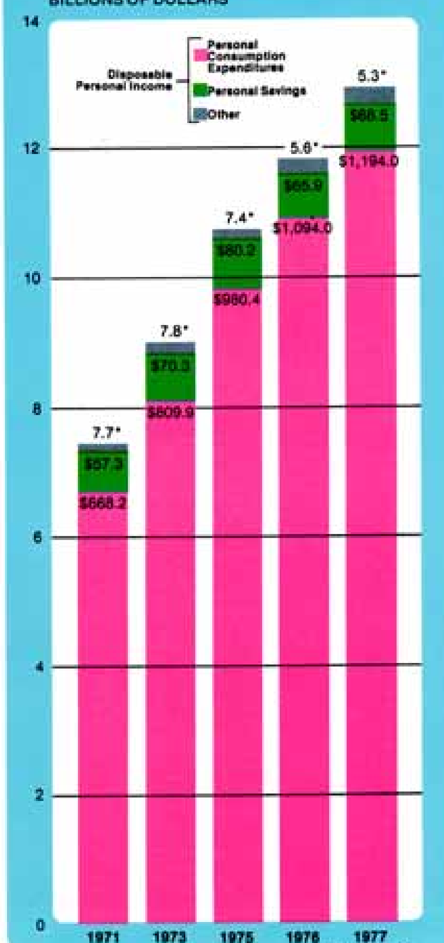
*Seasonally adjusted annual rate for quarter ending 6/30/77.
**Compound Growth Rates, 5 Years.
***1977* compared with seasonally adjusted annual rate for quarter ending 6/30/76.
SOURCE: ECONOMIC INDICATORS

Income Disposition Trends, Spending: Chart 5 takes one part of DPI, personal consumption expenditures, and details the growth in dollars and the varying percentage trends of the major spending components from 1971 to June, 1977. Over this period, most of these percentages have been consistent with a few subtle changes. Since 1971, spending for non-durable goods has declined slightly as a percent of total PCE, to 40% from 41%. Services have increased slightly, to 45% from 44%. Durables spending has remained fairly constant as a percent of PCE, with spending on furniture and household products (the market most closely tied to Lowe's) holding at 6% throughout the period, and reaching a SAAR of $69.3 billion in June, 1977.

Income Disposition Trends, Savings: In general, what is left over in disposable personal income after our personal consumption expenditures is savings. Portrayed here, graphically, are these two important components of DPI. Personal savings as a percent of disposable personal income is known as the savings rate, also shown. The savings rate has a two-edged effect on Lowe's business. When it rises, savings and loan deposit increases help housing, but too high a savings rate dampens retail purchases of durables. A historically high savings rate didn't help either housing or durables sales in the recession year, 1975. In 1976 and 1977 so far, the savings rate is more normal by historical standards.

Savings Trends 6

BILLIONS OF DOLLARS



*Savings as a percent of Disposable Personal Income.
SOURCE: ECONOMIC INDICATORS

Construction Spending: National trends in construction spending are shown in Chart 7. During 1974, the total spending rate reached $138.5 billion, 9.8% of Gross National Product. Thereafter, the level dropped with the downturn in the economy and tight money in 1975. In spite of many structural changes in governmental and private home financing programs, high interest rates and tight money still exert a devastating effect on the construction industry. 1976 and 1977 have been recovery years, with construction spending reaching a seasonally adjusted annual rate of $171 billion at midyear. Trends in private construction, also shown in Chart 7, are of course most relevant to Lowe's marketing. Private construction has led the recovery, with a $132 billion going rate in June, 1977, up 42% from 1975.

Construction Spending Components

8

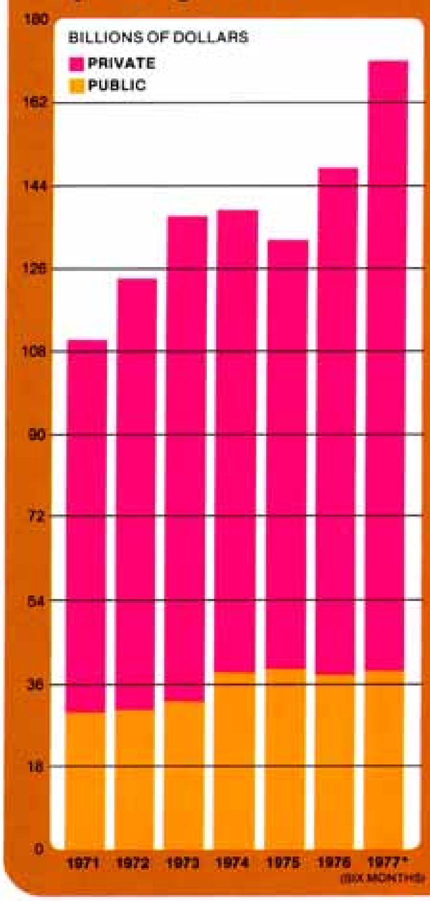
BILLIONS OF DOLLARS

	1971	1975	1976	5 Year C.G.R.†	1977*	'76-'77 Change**
A. Government	$ 29.9	$ 40.7	$ 38.0	4.9%	$ 38.8	− 2.8%
B. New Housing	35.1	34.4	47.3	6.1%	66.6	+45.4%
C. Remodeling***	8.2	12.1	13.3	10.2%	13.4	− 1.2%
D. Commercial & Industrial	17.0	20.8	19.9	3.2%	21.9	+10.6%
E. Other	19.8	26.3	29.0	7.9%	30.0	+ 4.8%
Total	$110.0	$134.3	$147.5	6.0%	$171.0	+14.3%

*Seasonally adjusted annual rates (SAAR), June 30, 1977.
**SAAR, June, 1977 compared with SAAR, June, 1976.
***Understated, apparently due to statistical-gathering method used. See Chart 9.
†Compound Growth Rate.
SOURCE: ECONOMIC INDICATORS

Construction Spending Trends

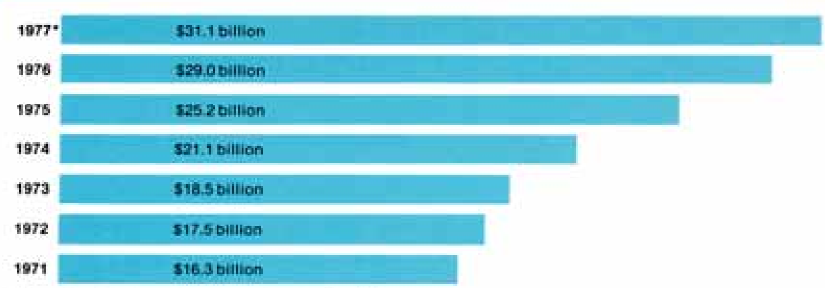
7



*Seasonally adjusted annual rates
SOURCE: ECONOMIC INDICATORS

Remodeling Expenditures

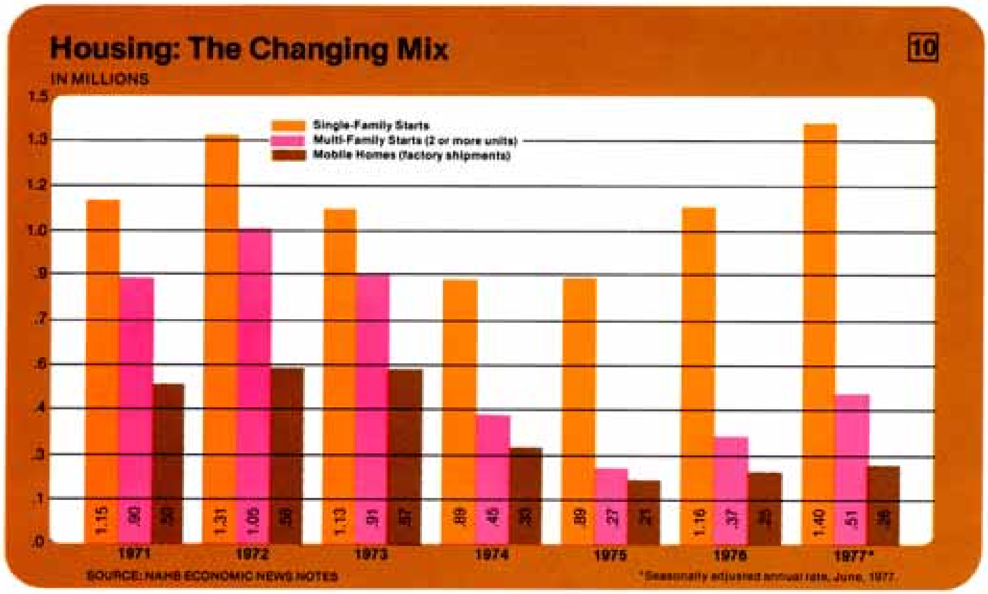
9

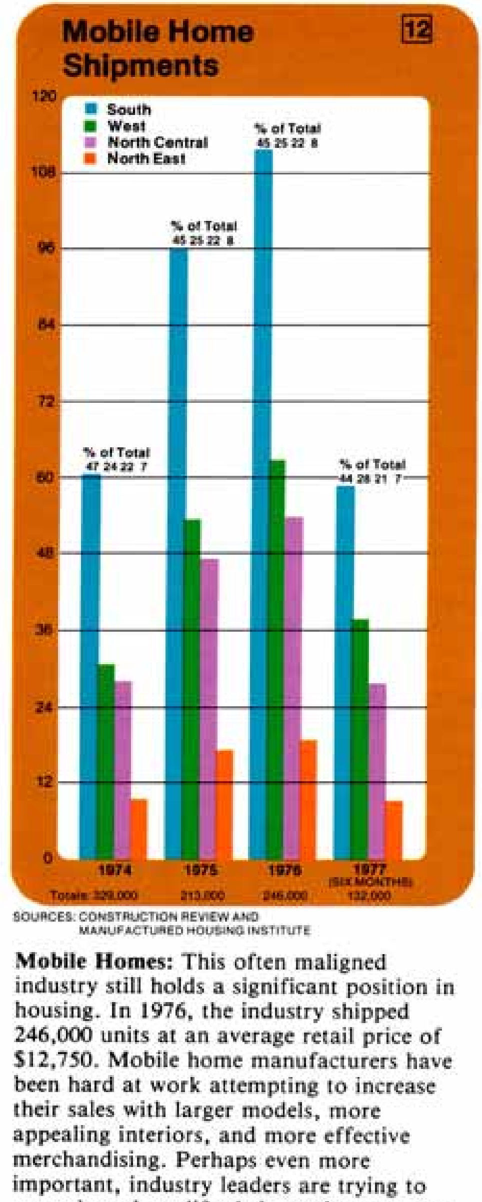


*Seasonally adjusted annual rate, quarter ending June 30, 1977.
SOURCE: DEPARTMENT OF COMMERCE, RESIDENTIAL ALTERATIONS AND REPAIRS

Construction Spending Components: Chart 8 presents totals and trends of the major components of construction spending from 1971 through 1976, the 5-year annual compound growth rates of each, and the changes through June, 1977. The impact of governmental policy on this industry is clearly indicated by the fairly high and consistent level of governmental construction. New housing has been the most volatile performer, but has scored the strongest gains in the last twelve months, increasing to a seasonally adjusted annual rate of $66.6 billion in June, 1977. And, remodeling has experienced the highest growth rate over the period shown. Both new housing and remodeling are markets Lowe's serves.

Remodeling Expenditures: Chart 9 portrays the growing aftermarket for additions, alterations, and repairs to existing homes. The reported going rate of total remodeling expenditures for 1977 at midyear is almost double the 1971 total. Of the $29 billion total in 1976, single-family, owner-occupied residences accounted for $18.5 billion, of which $13 billion represented payments to a contractor for labor and material, with the balance of $5.5 billion being payments for materials purchased by owners. Lowe's competes vigorously and successfully in this $5.5 billion market which grew at an average annual rate of 14% between 1971 and 1976. Since 1973, we have also been participants in the labor-intensive $13 billion portion, with Lowe's "Improver" program, see page 9.





SOURCES: CONSTRUCTION REVIEW AND MANUFACTURED HOUSING INSTITUTE

The Housing Mix: Chart 10 presents an interesting picture of growth. The three record years for total new housing, 1971, 1972, and 1973, each surpassed any previous estimates or expectations. Then came tight money and national recession. The impact on private construction and factory-built housing is painfully evident in 1975's 1,160,000 total new, conventional (stick-built) houses started, and 213,000 mobile homes shipped. The recovery in 1976 and 1977 has been dampened somewhat by high mortgage rates (despite record liquidity for savings and loans), and soaring home prices. But, single-family starts have rebounded and should reach an all-time high for 1977.

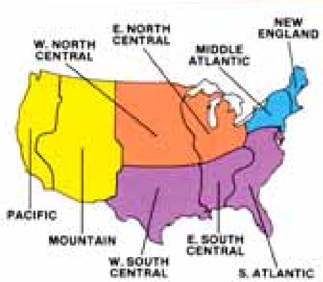
Regional Housing Starts: National trends include, but can obscure, great variances in regional growth rates. Since Lowe's stores are predominantly in the South, these figures are pertinent in assessing our continuing opportunities. As Chart 11 illustrates, the North East accounts for the fewest number of housing starts and has a rather low, long-range growth rate. The North Central share of total has increased slightly over the past five years, reversing an earlier trend. The West generally has been gaining ground and continued growth is forecast. The South is still much the largest region, but its share of total new housing starts has not yet recovered to the pre-1975 level.

Mobile Homes: This often maligned industry still holds a significant position in housing. In 1976, the industry shipped 246,000 units at an average retail price of $12,750. Mobile home manufacturers have been hard at work attempting to increase their sales with larger models, more appealing interiors, and more effective merchandising. Perhaps even more important, industry leaders are trying to upgrade and modify their product to meet standards for long-term mortgage financing. Success has been ephemeral for this industry as shipments have yet to recover to 1972 and 1973 record levels of 550,000+ units. But the price is still right, and the South continues to represent the largest portion of this business.

Regional Housing Starts 11

(LESS MOBILE HOMES)

	North East		North Central		West		South		
	(000)	% of Total	(000)	% of Total	(000)	% of Total	(000)	% of Total	Total
1971	271	13.0	440	21.1	490	23.5	884	42.4	2085
1972	334	14.0	445	18.7	532	22.4	1068	44.9	2379
1973	278	13.5	442	21.5	431	20.9	906	44.0	2058
1974	183	13.5	320	23.7	289	21.4	561	41.5	1353
1975	150	12.8	295	25.2	278	23.7	448	38.3	1171
1976	170	11.0	401	25.9	403	26.0	548	35.4	1548
1977*	189	9.9	519	27.2	476	24.9	726	38.0	1910
'75-'76 Change	+13.3%		+35.9%		+45.0%		+22.3%		



*Seasonally adjusted annual rates, June, 1977.
SOURCE: CONSTRUCTION REVIEW, NAHB ECONOMIC NEWS NOTES.

Home Mortgage Financing: A network of sources of money and credit is necessary for Lowe's business to function and to grow. A major element of this network is the availability of permanent financing for residential construction. Chart 13 contrasts the distribution of home mortgage loans in 1973 and in 1976. It is clear that the most significant factor in home mortgage financing continues to be America's Savings and Loan institutions. This dominance explains, to a great extent, why new housing starts are so sensitive to money rates. High interest rates attract savings funds away from the Savings and Loans and other financial intermediaries, into direct market instruments such as stocks and bonds. This is known as "disintermediation," and when it occurs, these lenders cut back on their mortgage commitments. Conversely, as interest rates decline, favoring rates paid by thrift institutions, savings funds flow back in, and this is called "reintermediation." In 1976 and thus far in 1977, savings inflows have been strong and S and L's, flush with funds, have supported a high level of mortgage lending.

Another increasingly important factor in the home mortgage market, although it is a more indirect source of funds, is the government through the so-called "second layer lenders" (included in "All Other" in Chart 13). These are government owned or sponsored agencies such as the Federal National Mortgage Association (Fannie Mae), the Government National Mortgage Association (Ginnie Mae), and the Federal National Mortgage Corporation (Freddy Mac). Since 1968 (1970 for Freddy Mac), these federal credit agencies have provided a measure of support to the mortgage market primarily by purchasing mortgages when lendable funds are in short supply.

Sources, Home Mortgages

13

TOTAL OUTSTANDING
BILLIONS OF DOLLARS

	1973				1976			
	1-4 Family	% of Total	Multi-Family	% of Total	1-4 Family	% of Total	Multi-Family	% of Total
Savings and Loan Associations	$166.8	48	$ 24.2	27	$262.0	47	$ 28.1	28
Mutual Savings Banks .	44.3	12	16.8	18	52.8	10	14.5	14
Life Insurance Companies..........	21.8	6	18.3	20	16.1	3	19.3	19
Commercial Banks	67.2	17	7.0	8	84.0	15	5.1	5
All Other..............	65.9	17	24.1	27	139.1	25	34.7	34
Totals	$386.0	100	$ 90.4	100	$554.0	100	$101.7	100

SOURCE: 1977 SAVINGS & LOAN FACT BOOK, U. S. LEAGUE OF SAVINGS ASSOCIATIONS

Savings Flow: Chart 14 presents a national recapitulation of trends in savings flow from 1971 through the first six months of 1977. The 1973 and 1974 figures show the impact of disintermediation on the S and L's and Mutual Savings Banks. Funds began to flow back into the thrift institutions in 1975, and reached record levels in 1976. So far in 1977, the record level is holding.

Consumer Credit: We provide interim credit to our professional customers, shown as Accounts Receivable on the Balance Sheet on page 23. However, to finance our sales to retail customers, Lowe's has available a large and predictable source of funds — America's consumer credit industry. Chart 15 shows its consistent growth, with installment credit totaling $185.5 billion in 1976. A variety of nonrecourse credit plans are offered to our customers.

Savings Flow Trends

14

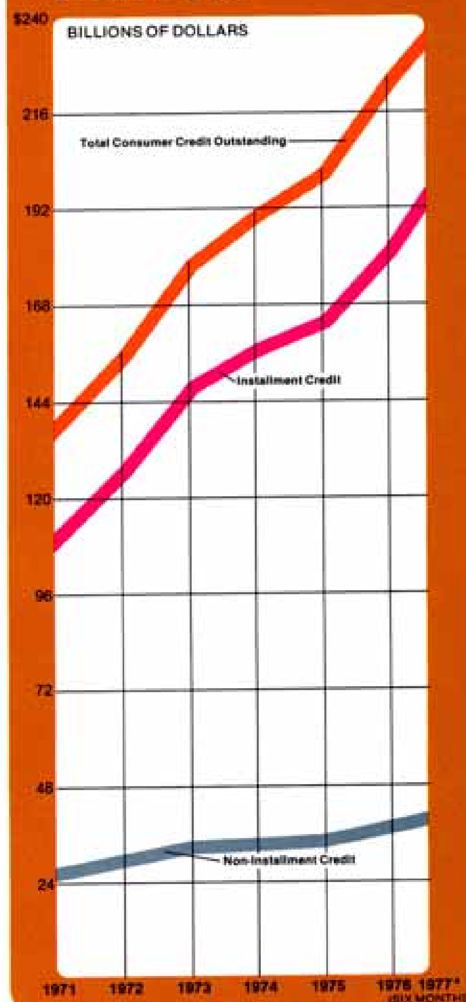
SELECTED SAVINGS INSTITUTIONS
BILLIONS OF DOLLARS

	1971	1972	1973	1974	1975	1976	5 Yr. C.G.R.*	1977**
Savings & Loans	$28.0	$ 32.7	$20.2	$16.1	$ 42.8	$ 50.7	13%	$28.4
Mutual Savings Banks .	9.9	10.2	4.7	3.1	11.2	12.8	5%	6.4
Life Insurance Co.'s ...	14.8	17.6	12.7	10.9	26.0	32.2	17%	12.8
Commercial Banks	41.1	42.5	50.3	53.2	28.5	42.5	1%	32.1
Totals	$93.8	$103.0	$87.9	$83.3	$108.5	$138.2	8%	$79.7

*Compound Growth Rates, 1971-1976, to nearest whole percent.
**Unrevised Figures 6-30-77
SOURCE: FED. HOME LOAN BANK BOARD JOURNAL, U. S. LEAGUE OF SAVINGS ASSOCIATIONS
1976 SAVINGS AND LOAN FACT BOOK

Consumer Credit Trends

15



*Seasonally adjusted
SOURCE: BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM.

Cost and Price Trends: The changing levels and trends of construction costs and prices are portrayed in Chart 16, along with price indexes for all consumer goods, food, and all durable goods, for comparative purposes. As everyone knows only too well, the consumer price index continues upward. Durable goods prices are also continuing to rise, spurred by the higher cost of raw materials. Construction materials in the aggregate, and most of the individual materials shown, have experienced cost increases in excess of that for the CPI and Durable Goods. Particularly note the increases, which have continued their upward spiral in 1977, for such housing-demand intensive products as lumber, plywood, millwork, gypsum, and roofing.

Trends, Construction Costs and Prices

16

Index: 1967 = 100	Consumer Price Index	All Durable Goods	Food	All Construction Materials	Southern Pine Lumber	Plywood
1971	121.3	116.5	118.4	119.5	133.8	114.7
1972	125.3	118.9	123.5	126.6	151.5	130.7
1973	133.1	121.9	141.4	138.5	187.9	155.2
1974	147.7	130.6	161.7	160.9	184.5	161.1
1975	161.2	145.5	175.4	174.0	175.3	161.2
1976	170.5	154.3	180.4	187.7	217.3	186.9
1977*	181.8	163.4**	193.9**	202.5	246.9	202.6
1971-1976 % Change	+41%	+32%	+52%	+57%	+62%	+63%

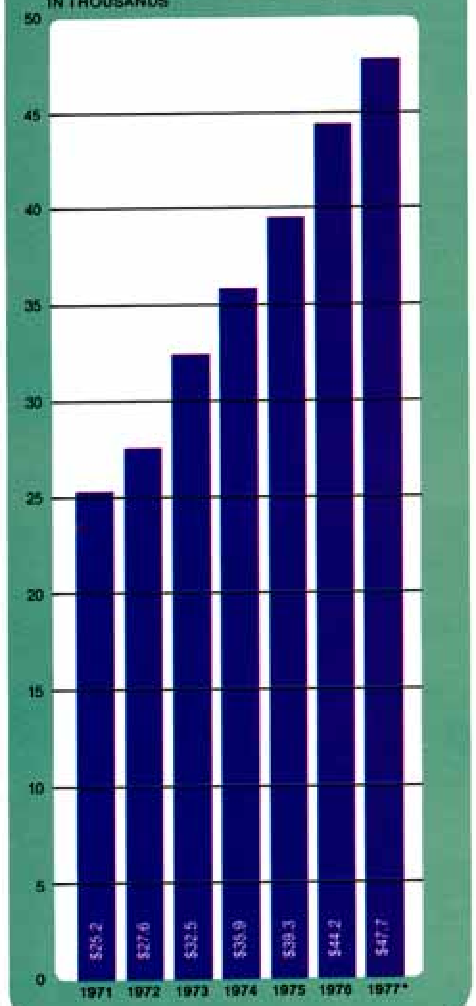
	Millwork	Gypsum	Asphalt Roofing	Plumbing	Brick	Hardware
1971	120.7	99.7	126.5	116.4	117.4	117.7
1972	128.4	107.8	133.4	119.7	122.1	120.4
1973	144.2	113.7	138.3	125.8	130.8	124.3
1974	157.1	128.5	189.9	149.1	143.5	141.2
1975	160.4	130.8	217.9	162.3	160.5	158.8
1976	176.8	137.1	231.3	174.1	176.8	164.2
1977*	192.4	NA	238.7	186.1	201.4	176.8
1971-1976 % Change	+46%	+38%	+83%	+50%	+51%	+40%

*Monthly index, June 1977, data not adjusted for seasonal variation unless otherwise indicated.
**Seasonally adjusted annual rate.
NA: Not available SOURCES: ECONOMIC INDICATORS, CONSTRUCTION REVIEW

Cost of Housing

18

Median Sales Price New Single-Family Homes Sold: IN THOUSANDS

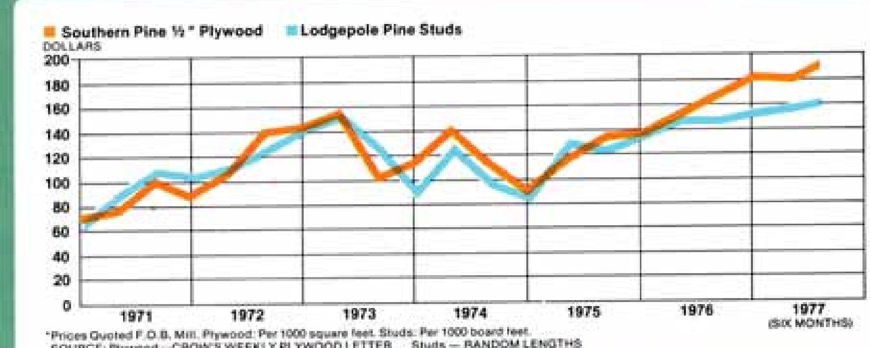


*Average, first six months 1977
SOURCE: NAHB, ECONOMIC NEWS NOTES

Lumber & Plywood Price Trends

17

MONTHLY AVERAGE REPORTED PRICES*



*Prices Quoted F.O.B. Mill. Plywood: Per 1000 square feet. Studs: Per 1000 board feet.
SOURCE: Plywood—CROW'S WEEKLY PLYWOOD LETTER Studs — RANDOM LENGTHS

Selected Prices: Structural lumber and plywood account for about 28% of our total sales. Prices of these commodities are particularly volatile and susceptible to seasonal and other short-range demand changes. Shown here are price trends from 1971 through mid-1977 for Lodgepole Pine Studs and Southern Pine Plywood. Both are significant in our product line: Lodgepole Pine Studs account for about 20% of our sales in structural lumber, and Southern Pine Plywood represents almost half of Lowe's total plywood sales. The upward trend in prices of both from 1971 through early 1973 corresponds to the boom in housing during that period. Since the recovery began in 1975, the price pattern for the most part, has been a straight line upward.

The Cost of a House: The rising prices shown in Charts 16 and 17 are naturally pushing up housing selling prices as shown in Chart 18. Shown here is the increase in the median selling price of new single-family homes between 1971 and June, 1977. The price has almost doubled and continues to rise, fueled by increased costs of the three L's - labor, land, and lumber, as well as other building materials. And, with higher financing costs, the increase in the cost of a house has a geometric effect on the total monthly payment. We think our Homestead house helps our customers beat the spiraling cost of new housing: our average Homestead package sold for $12,100 in fiscal 1977; with a 2.5 x the materials cost rule of thumb, that fully constructed Homestead cost $30,000.

United States Retail Store Sales 19

MILLIONS OF DOLLARS

	1971	1976	CGR*	1977**	'76-'77*** % Change
Food	$ 89,149	$140,984	9.6%	$ 74,137	+ 6%
Eating/Drinking Places	31,146	52,290	10.9%	28,420	+10%
General Merchandise	68,117	104,168	8.9%	54,991	+ 9%
Apparel Group	20,740	28,612	6.6%	14,467	+ 3%
Furniture & Appliance Group	18,560	28,963	9.3%	15,387	+ 8%
Automotive Group	78,916	125,625	9.7%	72,247	+16%
Gasoline Stations	29,182	47,731	10.3%	25,756	+10%
Drug & Proprietary Stores	13,709	19,704	7.5%	10,406	+ 8%
Liquor Stores	8,787	11,411	5.4%	5,903	+ 4%
Lumber, Building Materials, Hardware & Farm Equipment Group	23,032	38,778	11.0%	21,376	+13%
Durable Goods	131,725	214,169	10.2%	119,773	+14%
Non-durable Goods	276,878	437,715	9.6%	231,668	+ 8%
United States-Totals	$408,603	$651,884	9.8%	$351,441	+10%

Note: U. S. and group totals include kinds of business not shown separately.
*Compound Growth Rates, 5 Years, 1971-1976.
**6 Months 1977, data not adjusted for seasonal variations.
***6 Months 1977 compared with 6 months 1976, data not adjusted for seasonal variations.
SOURCE: MONTHLY RETAIL TRADE, U. S. DEPARTMENT OF COMMERCE/BUREAU OF THE CENSUS

Selected Retail Group Sales By Region 20

MILLIONS OF DOLLARS

	North East Region					West Region				
	1971	1976	CGR*	1977**	'76-'77 Change %***	1971	1976	CGR*	1977**	'76-'77 Change %***
All Stores	$ 99,399	$136,291	6.5%	$ 69,302	+ 7%	$ 73,344	$124,916	11.2%	$ 65,741	+ 13%
All Durables	27,743	38,486	6.8%	20,488	+ 10%	24,091	41,314	11.4%	23,458	+ 20%
GAF Group	28,030	35,913	5.1%	16,349	+ 5%	18,292	30,695	10.9%	14,920	+ 12%
LBHFE Group	3,733	5,319	7.3%	2,643	+ 7%	4,053	7,349	12.6%	3,989	+ 17%

	North Central Region					South Region				
	1971	1976	CGR*	1977**	'76-'77 Change %***	1971	1976	CGR*	1977**	'76-'77 Change %***
All Stores	$117,325	$191,498	10.3%	$ 99,233	+ 10%	$118,535	$199,179	10.9%	$104,098	+ 10%
All Durables	38,852	63,926	10.5%	35,042	+ 13%	41,128	70,443	11.4%	38,678	+ 13%
GAF Group	30,449	45,313	8.3%	21,153	+ 8%	30,608	49,822	10.2%	23,813	+ 8%
LBHFE Group	8,303	14,341	11.5%	7,310	+ 12%	6,914	11,769	11.2%	6,577	+ 15%

*Compound Growth Rates, 5 Years, 1971-1976.
**6 Months, data not adjusted for seasonal variations.
***Percent change 6 months 1977, compared with 6 months 1976, data not adjusted for seasonal variations.
GAF Group combines general merchandise, apparel, and furniture groups.
LBHFE Group is lumber, building materials, hardware, and farm equipment stores.
SOURCE: RETAIL TRADE, U. S. DEPT. OF COMMERCE/BUREAU OF THE CENSUS: WESTERN LBHFE ESTIMATES BY LOWE'S

Retailing: One of the most difficult questions to answer from people who have never visited Lowe's is "What kind of stores are they?" The answer is complex because our stores perform many functions in a unique blend. We have said they are a combination lumber yard, building material supplier, appliance and hardware dealer, and hard goods discounter. These figures on America's retailers may help clarify the size and shape of the retail market we serve.

Retail Volume: Table 19 presents total retail store sales in the United States from 1971 through 1976, with latest figures and rate changes through June, 1977. This is a giant industry whose 1976 totals were equivalent to 38% of GNP, and 60% of personal consumption expenditures! The size of the various components may be seen, along with recent growth rates. The Lumber and Building Material Group experienced the highest growth rate between 1971 and 1976, and the second best change rate of the retail store components thus far in 1977. Lowe's fits logically, but only partially, in this group, due to our wide product line.

Regional Trends: Shown in Table 20 are sales of selected store groups by region for these same years, 1971 and 1976, 1977 through June, and appropriate growth rates. Here also, the size and growth of the Southern region is impressive. This region fits most closely with our present marketing area. The "South" includes all but three of the 16 states wherein we have stores (Pennsylvania, Ohio, and Indiana), and in addition, the "South" includes Arkansas, Oklahoma, and Texas.

Pertinent Groups: A more detailed breakdown of two of the retail groups, LBHFE and Furniture and Appliance, is shown in Table 21, listing 1971 and 1976 sales volume, sales for the first 6 months of 1977, and the 5-year and 6-month growth rates. This Chart also shows the number of competitors in 1972 in each category. Lowe's does not really compete with full-line furniture or farm equipment dealers, even though there is some product line overlap. Therefore, the major relevant retailing categories are 1A, 1B, and 2B. This grouping posted sales of $37,368,000,000 in 1976, and the 1972 census indicated about 87,493 stores shared the total. Lowe's share of this volume continues its long range growth.

Pertinent Retail Group Store Sales & Census Sales Volume 21

MILLIONS OF DOLLARS

	1971	1976	CGR*	1977** % Change	1972 Census # of Stores
1. Lumber, Building Materials, Hardware, Farm Equipment Group	$23,032	$38,778	11.0%	+13%	76,824
A. Lumber Yards, Building Material Dealers, Paint, Plumbing, and Electrical Stores	13,733	21,946	9.8%	+16%	40,857
B. Hardware Stores	3,645	6,222	11.3%	+ 7%	26,374
C. Farm Equipment and Other	5,654	10,610	13.4%	+12%	9,593
2. Furniture and Appliance Group	$18,560	$28,963	9.3%	+ 8%	116,857
A. Furniture, Home Furnishings Stores	11,004	17,053	9.2%	+12%	66,705
B. Household Appliance, TV, Radio Stores	6,221	9,200	8.1%	+ 5%	20,262
C. Other	1,335	2,710	15.2%	N.M.	29,890
TOTALS: 1A, 1B, 2B	$23,599	$37,368	9.6%	+12%	87,493

*Compound Growth Rates, 5 Years, 1971-1976.
**Percent change 6 months 1977 compared with 6 months 1976, data not adjusted for seasonal variations.
N.M. not meaningful
SOURCE: RETAIL TRADE, U. S. DEPT. OF COMMERCE/BUREAU OF THE CENSUS

Lowe's 175 Store Locations

Alabama-10
Birmingham
Dothan
Gadsden
Huntsville
Mobile (2)
Montgomery
Muscle Shoals
Prattville
Tuscaloosa

Delaware-2
Dover
Wilmington

Florida-6
Gainesville
Inverness
Maitland
Orlando
Pensacola
Tallahassee

Georgia-19
Albany
Athens
Augusta
Brunswick
College Park
Columbus (2)
Doraville
Gainesville
Macon
Marietta
Moultrie
Rome
Savannah
Smyrna
Thomasville
Thomson
Valdosta
Warner Robins

Indiana-3
Clarksville
Indianapolis
Westfield

Kentucky-5
Elizabethtown
Frankfort
Lexington
Louisville
Paducah

Louisiana-6
Alexandria
Baton Rouge
Lafayette
Leesville
Shreveport
West Monroe

Maryland-5
Cumberland
Easton
Frederick
Hagerstown
Salisbury

Mississippi-8
Greenville
Greenwood
Gulfport
Hattiesburg
Jackson (2)
Meridian
Tupelo

North Carolina-44
Albemarle
Asheboro
Asheville
Boone
Burlington
Chapel Hill
Charlotte (2)
Durham
Fayetteville
Forest City
Gastonia
Goldsboro
Greensboro
Hendersonville
Hickory
High Point
Jacksonville
Kannapolis
Kinston
Lincolnton
Lumberton
Monroe
Morganton
Mount Airy
New Bern
North Wilkesboro
Raleigh
Reidsville
Rockingham
Rocky Mount
Sanford
Shelby
Sparta
Statesville
Troy
Washington
Waynesville
Whiteville
Wilmington
Wilson
Winston-Salem (2)
Zebulon

Ohio-4
Belpre
Cincinnati
Circleville
Springfield

Pennsylvania-3
Hanover
Lancaster
York

South Carolina-17
Aiken
Anderson
Charleston
Columbia
Easley
Florence
Gaffney
Greenville
Greenwood
Laurens
Manning
Myrtle Beach
Orangeburg
Rock Hill
Spartanburg
Sumter
West Columbia

Tennessee-13
Chattanooga
Clarksville
Dyersburg
Gallatin
Jackson
Johnson City
Kingsport
Knoxville
Maryville
Memphis
Morristown
Murfreesboro
Nashville

Virginia-23
Bristol
Charlottesville
Coeburn
Danville
Dublin
Fredericksburg
Harrisonburg
Hopewell
Leesburg
Lynchburg
Manassas
Marion
Martinsville
Newport News
Norfolk
Richmond
Roanoke
South Boston
Staunton
Suffolk
Vienna
Winchester
Woodbridge

West Virginia-7
Charleston
Fairmont
Huntington
Matewan
Morgantown
Oak Hill
Princeton

Lowe's Shareholder Research Report

Introduction: This next section of the fiscal 1977 Annual Report focuses on information of particular interest to and about our shareholders. For example, we will discuss Lowe's trading market, our shareholder composition, stock transfer, and most important to all shareholders, Lowe's dividend. We hope you will find this information both interesting and useful during your tenure as a Lowe's shareholder.

Stock Offerings: Many of you may not be aware of the fact that Lowe's Companies, Inc. has never sold stock to the public. In other words, Lowe's has never participated in what is called a "primary" offering of stock wherein new stock is issued and the proceeds of the sale go to the company. Instead, Lowe's common stock was initially offered to the public in 1961 through a "secondary" offering or sale of stock by an existing shareholder, Lowe's Profit Sharing Trust. (The events surrounding this offering are detailed in our Corporate History section beginning on page 53.) Before the offering, Lowe's Profit Sharing Trust owned virtually all of Lowe's stock; after, the Trust owned half, with the public owning the other half. A second "secondary" by the Profit Sharing Trust in 1971 further distributed Lowe's shares to the public.

Market: Lowe's common stock has been traded in the Over-The-Counter (O-T-C) market since the initial public offering in 1961. The O-T-C market is a large, decentralized, negotiation type market, with many broker/dealers "making a market" in a single security. Lowe's is fortunate to have more than a dozen market makers and to be listed on the NASDAQ computerized quotation network to which many broker/dealers subscribe. As of July 31, 1977, Lowe's market value totaled $292,997,835.

Prices for Lowe's shares are quoted by the National Association of Securities Dealers (N.A.S.D.) through the NASDAQ system, and are published daily in the Over-The-Counter Market sections of various financial publications. Table 2 on page 47 shows the quarterly range of high and low bid and asked prices for Lowe's common stock for the fiscal years ending July 31, 1977 and July 31, 1976.

A solid growth record and a commitment to disclosure mark Lowe's 15th Anniversary as a public company.

Shareholder Census and Survey

Stockholder Composition: The number of Lowe's shareholders increased over 19% to 4,588 this July from 3,846 a year ago (welcome, new shareholders!). We think this is significant since our shareholder ranks have increased only modestly in number in recent years. Table 3 at right presents our current shareholder census: the breakdown of the number of shareholders and number of shares, by state, of record July 14, 1977, with the number of new shareholders this fiscal year, delineated by state, in the far right column. Of Lowe's total shareholders, 75% of you live in the 16-state marketing area served by Lowe's stores, and the group includes many customers, employees, and suppliers; in other words, those who know us best. Of our new shareholders this year, 79% reside in this area. However, 48 out of the 50 states, the District of Columbia, Canada, and several foreign countries are represented. Despite two secondary offerings and annual distributions of stock to retirees, Lowe's Profit Sharing Trust continues to be the largest shareholder, with approximately 2,300,000 shares currently, 17% of the total. Thus, each Lowe's employee has a direct interest in our continued growth and profitability.

Shareholder Survey: We appreciate your participation in our periodic surveys of shareholders. This is one of the major ways we receive feedback from you concerning Lowe's. This year, we have been surveying new shareholders and the results are summarized in Table 1 at right. A majority of new shareholders have become acquainted with Lowe's only within the past year, and even a larger percentage have not previously owned Lowe's stock. Interestingly, more than half of our new shareholders desire capital appreciation as their primary investment objective, with another 40% desiring both capital appreciation and dividend income. While our policy has been to plow back into the company the majority of earnings to meet the needs of expansion and growth, we have been able to accelerate the payment rate of quarterly cash dividends in recent years. (See the discussion of Dividends on page 50, and also in the President's Letter, and Chart 4 on page 36.)

Survey of New Shareholders — 1977 [1]

1. Gender of Shareholders:

Male	71%
Female	25%
No Response	4%

2. Age Group Breakdown:

Under 25	7%
25-34	18%
35-44	21%
45-54	22%
55-64	19%
Over 65	13%

3. Previous Ownership of Lowe's Stock:

Yes	26%
No	72%
No Response	2%

4. First Interest in Investing in Lowe's Occurred Within Past:

Year	47%
1-2 Years	14%
2-5 Years	19%
Over 5 Years	18%
No Response	2%

5. First Interest in Lowe's as a Result of:

Broker	22%
Friend	12%
Lowe's Employee	7%
Lowe's Financial Reports	15%
Media Articles	2%
Other	24%
More than one of the above	17%
No Response	1%

6. Investment Objectives:

Capital Appreciation	55%
Dividend Income	2%
Some of Both	40%
No Response	3%

Lowe's Quarterly Stock Price Range [2]

Fiscal Year Ended:	Bid		Asked	
July 31, 1977	High	Low	High	Low
First Quarter	$29.50	$23.75	$30.25	$24.50
Second Quarter	32.25	24.25	33.00	25.00
Third Quarter	26.75	23.00	27.50	23.75
Fourth Quarter	24.75	21.00	25.50	21.75
July 31, 1976				
First Quarter	$27.50	$21.83	$28.17	$22.50
Second Quarter	33.67	25.67	34.33	28.33
Third Quarter	33.00	28.33	33.67	29.00
Fourth Quarter	29.75	25.50	30.50	26.17

SOURCE: WALL STREET JOURNAL, NATIONAL ASSOCIATION OF SECURITIES DEALERS

Shareholder Census [3]

State	Holders	Shares	New Holders FY 7/77*
Alabama	46	5,188	2
Alaska	2	284	
Arizona	6	631	1
Arkansas	1	360	
California	72	221,271	4
Colorado	9	4,435	1
Connecticut	75	130,539	2
Delaware	24	24,933	
District of Columbia	30	72,799	
Florida	92	65,126	6
Georgia	85	23,127	6
Hawaii	2	900	
Idaho	2	15,450	
Illinois	111	370,381	3
Indiana	18	5,028	
Iowa	6	8,210	1
Kansas	5	337	
Kentucky	35	4,807	4
Louisiana	20	4,580	
Maine	2	1,190	1
Maryland	104	53,666	3
Massachusetts	157	1,187,604	9
Michigan	42	52,070	1
Minnesota	24	159,138	
Mississippi	16	4,567	1
Missouri	45	36,622	2
Montana	3	52	
Nebraska	6	23,136	
Nevada	4	1,210	
New Hampshire	3	670	1
New Jersey	102	176,274	4
New Mexico	1	204	
New York	250	4,198,223	8
North Carolina	2,108	2,787,337	112
Ohio	84	87,770	5
Oklahoma	3	1,038	
Oregon	8	1,500	1
Pennsylvania	95	126,116	8
Rhode Island	88	97,603	4
South Carolina	204	88,665	8
South Dakota	1	210	
Tennessee	126	134,620	6
Texas	46	152,708	3
Utah	1	30	
Vermont	5	18,473	
Virginia	323	234,712	7
Washington	17	24,190	
West Virginia	35	52,886	2
Wisconsin	16	58,021	
Canada	11	21,876	
Foreign	16	8,631	
Sub Total	4,587	10,749,798	216
Employees' Profit Sharing Trust	1	2,272,328	
Totals	4,588	13,022,126	216

*State of Residence was not indicated on 39 survey cards

What You Should Know About Being a Lowe's Shareholder

Introduction: Whether you are a new owner of Lowe's Companies, Inc. common stock, or a shareholder of long standing, we thought you might have a few questions about stock ownership itself. For example, how can you transfer stock if you should want to change the registration on your stock certificates? What should you know about the certificate itself? What should you do if a certificate is lost or stolen? On the next four pages we will try to answer these and several other questions of concern to all of you.

Stock Transfer: Before we tell you how you can transfer your stock, it might be helpful to know a little bit about the logistics of stock transfer, and the people involved in this important behind-the-scenes function. Stock transfer is the process through which changes in the ownership of a company's stock are officially registered in the company's shareholder records, and certified through an exchange of stock certificates. All of the outstanding shares of a company's stock are represented by numbered certificates, and all of the numbered certificates are registered in the name of, and issued to, a shareholder or a designated representative of a shareholder. Since the number of shares represented by certificates must always equal the number of shares outstanding, each registered stock certificate must be accounted for and correspond to a shareholder name in the company's records. Any change in the registration of a certificate must be accompanied by a comparable change in the company's shareholder records, and by the cancellation of the old stock certificate and issuance of a new one.

The Transfer Agent has primary responsibility for the efficient transfer of a company's stock including maintenance of shareholder records and the cancellation and issuance of stock certificates. The transfer agent can also issue the company's dividends and provide shareholder mailing lists for a variety of corporate communications. A company may be its own transfer agent or, as is more often the case, a bank or trust company is designated to serve in this capacity. For greater convenience and more expeditious stock transfer service, Lowe's has appointed two transfer agents: Wachovia Bank & Trust Company, N.A., in Winston-Salem, North Carolina; and Morgan Guaranty Trust Company of New York in New York City. Wachovia is Lowe's principal transfer agent and, as such, also maintains Lowe's official shareholder records and acts as Lowe's Dividend Disbursing Agent.

The Registrar verifies that when stock is transferred, the new number of shares issued is equal to the number of shares canceled. This double checking of the debit and credit of stock transfers is extra protection for shareholders and for the company, and this service is also typically performed by a bank or trust company. Lowe's also has two registrars. The registrar for Winston-Salem transfers is the Northwestern Bank, and for New York City transfers, the Chase Manhattan Bank.

When You Can Transfer Stock: As we explained, stock transfer is required whenever the registration of a stock certificate is changed. The change in registration most often occurs when shares are sold by one stockholder and purchased by another. However, in most cases, you will need to contact a broker for the purchase or sale of stock.
Stock transfer is also required when a gift of stock is made from a shareowner's personal holding, or in the event that a stockholder wishes to have his shares re-registered, with his name in a different form. The latter could include name changes resulting from marriage, or consolidation of several certificates of the same stock on which there are slight variations in the way the shareholder's name is registered. A stockholder may also wish to co-register his shares with another person and this, too, would necessitate stock transfer. In all of these instances, you may initiate transfer yourself, and now we are ready to tell you how to go about it.

How You Can Transfer Stock: If, at some point, you would like to change the registration on part or all of your share holding, you can do so directly by sending the certificates to be transferred via registered or certified mail, along with a letter of instructions, to either of Lowe's transfer agents. The certificates have to be endorsed by you as they are registered which means that you must sign your name exactly as it appears on the face of the certificate. (You will find the "registration" at letter "A" on the face of the certificate pictured on page 49.) To endorse the certificate, you may sign where indicated on the reverse side of the certificate (at letter "N"). Your signature must be "guaranteed" (at "O") in order for certificates to be accepted for transfer. For your added protection, it is recommended that you fill in all of the information requested on the reverse side of the certificate, particularly the blank space designating an "Attorney" ("M"), where you may insert the name of whichever of Lowe's transfer agents is performing the transfer for you. If you would rather not send an endorsed stock certificate through the mail, you may send in a separate envelope a "stock power" which can be obtained from a bank or broker. The stock power must be filled out completely and endorsed, again, with your signature guaranteed. If you decide to use the stock power, it is still recommended that you send the unsigned stock certificate being transferred via registered or certified mail, and it would be helpful to include a note indicating that a stock power is being forwarded separately.

If you wish to make a gift of stock and your shares are registered in your name, you follow the same procedure. However, please be sure to include in your letter of instructions, the number of shares to be given, along with the full name, address, and if possible, the Social Security number of the recipient. If the number of shares being given or transferred is less than the number of shares sent to the transfer agent, new certificates for the balance will be issued and returned to you.

All transfers should be sent in care of the Stock Transfer Dept. to whichever of Lowe's transfer agents you choose, and you will find the addresses for both of Lowe's transfer agents on page 52.

*What You Should Know About Your Lowe's Stock Certificate**

Pictured below is a Lowe's stock certificate, perhaps like one you have in your possession, from the inventory of Lowe's New York transfer agent, Morgan Guaranty Trust Company of New York. This certificate is a non-negotiable sample and it is blank, which means that it appears here just as it comes from the printing company. It does not contain any of the registration information added by the transfer agent when a certificate is issued to a shareholder, a certificate number, or the authorized signatures of the transfer agent and the registrar which would then render the certificate valid.

Lowe's stock certificates are engraved in three color-keyed denominations. This certificate is blue in color and is used for issuing less than 100 shares of stock, called an "odd lot". The orange 100 share certificate, (which we used for its color on the cover of this quarterly), is appropriately used for issuing 100 shares of stock, called a "round lot". The green "unlimited" certificate, as its name implies, can be used for issuing any amount of stock but is primarily used for a number of shares in excess of 100. We would like to give you a guided tour of our sample certificate so that you will have a better idea of what information is included on it—for record-keeping purposes and just for general interest. Each capital letter on the face and reverse side of the certificate corresponds to a capital letter elsewhere on this page where you will find an explanation of that particular portion of the certificate.

A The Registration contains the shareholder's name exactly as it appears in Lowe's shareholder records. It also "certifies" the shareholder's ownership of the shares of stock represented by the certificate. If the certificate represents joint ownership of shares, this is noted in the registration by one of several abbreviations, most of which are found in full form on the reverse side of the certificate at letter "K".

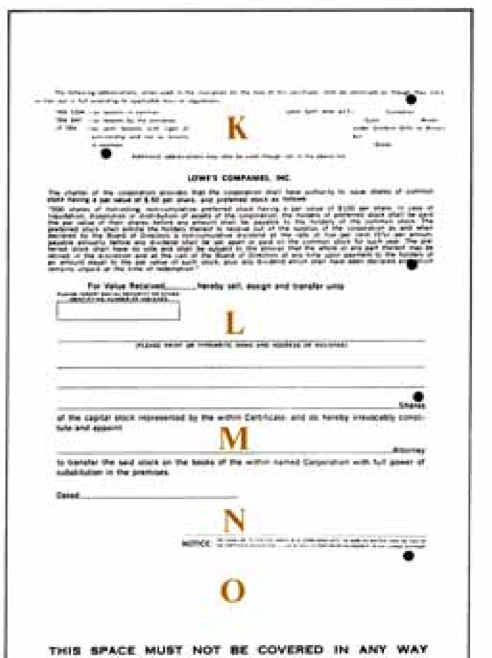
B The Certificate Number identifies the stock certificate, and each certificate issued has a distinct certificate number. The certificate number includes a letter prefix, which is engraved, followed by a number. In our sample, since the certificate has not been issued, no number appears. The prefix identifies the city where the certificate is to be issued or transferred, and the denomination of the certificate. As noted, this particular certificate was part of the inventory of our New York transfer agent and, thus, "NY" begins the prefix. (Many of you probably have certificates beginning with the letter "R" which stands for Raleigh, North Carolina, the city in which Wachovia's Stock Transfer Dept. used to be located. In the future, certificates issued by Wachovia will be designated "WS" in the prefix for Winston-Salem, N. C.) The last letter of the prefix might be "O", "C", or "U" and, as you can see, on our certificate it is "O". These letters denote the three possible denominations: "O", for "odd lot", or less than 100 shares; "C", for 100 shares; and "U", for "unlimited" or more than 100 shares.

C The Corner Counter repeats the denomination. On all "O" certificates, "LESS THAN 100 SHARES" is engraved in both corner counters. On "C" certificates, "100 SHARES" is engraved in both corner counters. Lowe's "U" certificates have nothing engraved in the corner counter.

D The Share Counter tells you exactly how many shares your certificate represents. Only the "C" certificate has the number "100" engraved in the share counter oval. On both the "O" and "U" certificates, the transfer agent prints the exact number of shares, usually in red ink.

E The number of shares represented by the certificate is repeated here, typed in words by the transfer agent. The exception is the "C" certificate on which "ONE HUNDRED" is engraved.

F The Punch Out Column appears only on odd lot, "O" certificates and it provides another place for the transfer agent to indicate the number of shares represented by the certificate, in this instance, by punching a hole through one number in each column.



G This section of the certificate is referred to as the Script Story (because for New York Stock Exchange listed companies, this section is engraved in script). It tells you where the certificate may be transferred, explains under what circumstances it is valid, and points out the seal of the company and its officers' authorized signatures. (If you have a certificate which was issued in Raleigh, N. C., you may transfer it in Winston-Salem; if, by chance, you send a certificate to Wachovia in Raleigh, it will be forwarded to Winston-Salem.)

H The Date of Issuance is printed on the certificate by the transfer agent on the day the certificate is issued to the shareholder.

I The Transfer Agent Panel includes the name of whichever transfer agent issues the certificate and a space for the authorized signature of the transfer agent, required for the certificate to be valid. Since our sample is an "NY" certificate, the name of Morgan Guaranty Trust Company of New York is engraved on the face. Wachovia Bank & Trust Company, N.A., would be engraved here if the certificate was issued by them.

J The Registrar Panel, similarly, includes the name of whichever registrar verifies the certificate transfer, and a space for the authorized signature, also required for the certificate to be valid. The registrar for New York transfers is the Chase Manhattan Bank (National Association) and for Winston-Salem, it is the Northwestern Bank.

K This section of the reverse side of the certificate lists most of the abbreviations used in the registration on the face to indicate joint ownership of the certificate.

L The Assignment section is, for the most part, self-explanatory. In transferring or making a gift of stock, it is suggested that you fill in where indicated the social security number and the name and address of the person to whom shares are being transferred, (the "Assignee"), as well as the number of shares being transferred, particularly if less than the number of shares represented by the certificate.

M For greater protection when you transfer stock yourself, it is in this space that you may insert the name of whichever of Lowe's transfer agents is performing the transfer for you.

N-O When endorsing the certificates, the shareholder (or shareholders) must sign on the reverse side at "N" exactly as the registration appears at "A" on the face, and the signature must be "guaranteed" at "O" in order for a certificate to be accepted for transfer.

*Reprinted from the Lowe's Companies, Inc. Fiscal 1975 Third Quarter Report.

What You Should Know About Being a Lowe's Shareholder

"Customer Name" Or "Street Name?" When you purchase stock you have a choice between having your shares registered in your name, called "Customer Name," and the certificates sent to you to keep, or leaving your shares in safekeeping with your broker, in which case the certificates are registered in the broker's name, called "Street Name." There are merits to both plans, and your choice really depends on your personal requirements or preferences in owning stock. However, you should know that if you have your shares registered in your name in Lowe's shareholder records, you will receive all regular quarterly dividends and corporate communications—Annual and Quarterly Reports, etc.—unless you indicate otherwise in writing. (For example, you may elect to participate in Lowe's Automatic Dividend Reinvestment Service, in which case, your dividends would be forwarded to our Dividend Reinvesting Agent; see page 51.) If you choose to leave your stock certificates with your broker registered in "Street Name," your name will not appear in Lowe's shareholder record file, and you will not receive dividends or corporate mailings directly. Instead, your broker will receive them and forward them to you according to the arrangements you make in setting up your account. And, if you wish to have stock transferred to someone else, you will have to give instructions to your broker. You may change your mind about "Customer Name" or "Street Name" at any time and more than once.

Protection Of Stock Certificates: If you do decide to register your Lowe's shares in your name, it is extremely important to safeguard your stock certificates as you would any valuable or legal document. In addition to the market value they represent, your stock certificates are tangible evidence of your authenticated share ownership in Lowe's Companies, Inc. or in any company whose stock certificates you hold. It is recommended that you keep your stock certificates in a safe place such as a bank safety deposit box, and that you keep a separate record of each certificate including the certificate number, the date of issuance, and the registration.

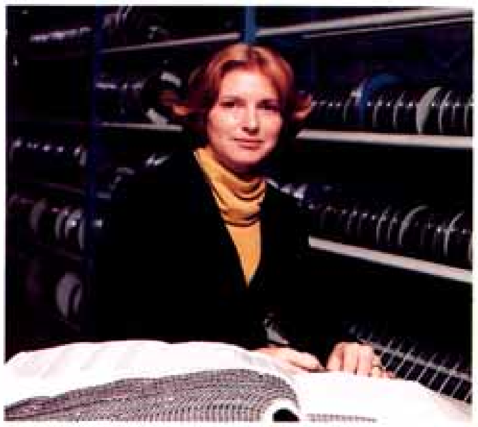
What To Do If Stock Certificates Are Lost Or Stolen: Though you may take all of the recommended precautions, stock certificates are lost and can be stolen. If a certificate is lost or stolen, you should write immediately to Wachovia Bank & Trust Company, Stock Transfer Dept., so a "stop" can be placed on the missing stock certificate. (This is similar to a "stop payment" on a check.) Your letter should include as much information as possible describing the certificate; in particular, the certificate number ("B" on page 49), the date the certificate was issued ("H"), and the registration ("A"). (The possible loss of stock certificates is one reason why it is recommended that you keep a separate record of this information.) Once a "stop" has been placed on the missing certificate, Wachovia will send you an affidavit which must be filled out, signed, notarized, and returned in order for a replacement certificate to be issued to you. You will also be required to purchase an indemnity bond for the lost certificate at a cost to you of about three percent of the current market value of the missing certificate, calculated at the time the bond is issued.

How To Eliminate Duplicate Mailings: Annual and Quarterly Reports and other corporate correspondence are automatically sent to each registered Lowe's shareholder. However, if more than one member of your family has Lowe's stock registered in his name, your family may be receiving multiple copies of these corporate mailings. If you so desire, you may eliminate some or all of these extra copies by writing to Wachovia Bank & Trust Company, N.A., and specifying which registered shareholder account names you would like deleted from the Annual and Quarterly Report mailing list. This will not in any way affect dividend checks. Each registered shareholder will continue to receive regular quarterly dividends unless he or she is a participant in Lowe's Automatic Dividend Reinvestment Service. This procedure achieves a significant cost reduction in production and mailing of the reports, while it saves you the annoyance of receiving unwanted mail.

Change Of Address? If you move, you should write to Wachovia Bank & Trust Company, N.A., with your new address as soon as possible so you will not miss any dividend checks or other corporate correspondence from Lowe's. Also, if you have shares of Lowe's common stock registered in your name and you are not receiving dividends or Quarterlies, and you should be, please notify Wachovia. Correspondence should be sent in care of the Stock Transfer Department, Wachovia Bank & Trust Company, N.A., Box 3001, Winston-Salem, North Carolina.

Dividends: Lowe's Companies, Inc. has paid cash dividends on its common stock on a consecutive quarterly basis since June, 1961. And, these quarterly dividends are usually declared payable on or about the first of August, November, February, and May to all shareholders of record. "Shareholder of record" means that you are entitled to receive a dividend on the "payable date" if you were listed as a Lowe's shareholder on the "record date," approximately fifteen days before the payable date. In the past, the record date has been on or about the fifteenth of July, October, January, and April. Lowe's 65th quarterly cash dividend was paid on July 29, 1977, to shareholders of record July 14, and this cash dividend payment represented an increase in the quarterly rate from 6¢ per share to 7¢ per share. In fact, Lowe's quarterly dividend rate has been increased in each of five out of the last six quarters. For a review of these quarterly cash dividend payments over the last five years, please refer to Chart 4 on page 36.

Taxes On Dividends: Corporate cash dividends are considered taxable as ordinary income and, as such, must be included in reporting annual personal income for tax purposes. At the end of each calendar year, Wachovia Bank & Trust Company, on behalf of Lowe's, is required to report to the Internal Revenue Service total dividends paid to each registered Lowe's shareholder during that calendar year. Wachovia then sends each shareholder a copy of the "1099" form filed with the I.R.S. entitled, "Statement for Recipients of



Double checking the debits and credits of stock transfer is extra protection for shareholders and for Lowe's.

The annual shareholders meeting wherein our shareholders have an opportunity to vote and come forward with their questions and comments.

Lowe's Automatic Dividend Reinvestment Service, an alternative to cash dividends.

Dividends and Distributions," which may be used as a convenient reference and record when personal income taxes are filed. Since Lowe's last dividend in the calendar year is paid around November 1st, most shareholders receive the "1099" statement along with that dividend check. If a shareholder has sold or transferred stock during the calendar year, the dividend statement will still be mailed early in November. Shareholders whose stock is registered in "Street Name" will receive a similar statement (form "1087") from their broker. Shareholders participating in Lowe's Automatic Dividend Reinvestment Service should refer to the ensuing discussion of the plan and related tax information.

An Alternative To Cash Dividends—Lowe's Automatic Dividend Reinvestment Service: As you know, Lowe's has long maintained a policy of plowing back into the company the major portion of earnings in order to meet the needs of expansion and growth. Earnings reinvestment is consistent with and necessary for Lowe's stated long-term objective of growth. Shareholders wishing to pursue further the financial objective of capital appreciation through equity have an opportunity to plow back or reinvest their Lowe's quarterly cash dividends, and up to $1,000 per month in optional cash investment, in Lowe's common stock with the company paying all transaction and service fees. This alternative is possible through participation in Lowe's Automatic Dividend Reinvestment Service, a completely voluntary plan administered by Citibank as shareholder agent.

The way the plan works is simple. If you decide to participate, your dividends are paid directly to Citibank. The Bank combines your dividend payment with those of other member shareholders to purchase Lowe's stock, and then credits your share of the purchase to your personal account. Once you have reinvested your first dividend and received a statement of account, you have the option to send to Citibank from $10 to $1,000 monthly to be applied toward similar interim purchases of Lowe's stock. Citibank will hold the reinvestment and optional cash investment shares in safekeeping for you, or you may request withdrawal of certificates for full shares credited to your account at any time. Benefits of the plan to participating shareholders include the following:

* No cost to participants for bank services or brokerage commissions on any purchases through the plan;
* Member shareholders are credited with fractional shares so the entire dividend, plus any additional cash you invest, is put to work;
* Increased holdings of Lowe's stock, including fractional shares, generate dividend income;
* Since purchases are made regularly, participating shareholders benefit from dollar-cost averaging.

Please remember that if you do decide to use the plan, you will no longer receive dividend checks. However, dividends which are being reinvested, as well as any dividends paid on new shares purchased through the plan, continue to be taxable as ordinary income. Therefore, participating shareholders will receive two dividend statements for tax purposes: the regular "1099" statement of dividends paid on the original holding, from Wachovia; and a "1087" statement of dividends paid on shares purchased through reinvestment and held by Citibank. Participation in the plan is completely voluntary, and a shareholder may join or withdraw at any time. However, it is necessary for your Lowe's shares to be registered in your name in order to participate. If you would like to know more about Lowe's Automatic Dividend Reinvestment Service, we will be happy to send you a copy of the brochure pictured at left which fully describes the plan, its features, and terms of membership, as well as an authorization card for you to sign and return to Citibank if you decide to join. Please address your letters in care of:

Dividend Reinvestment
Lowe's Companies, Inc.
Highway 268 East, Box 1111
North Wilkesboro, N. C. 28656

Corporate Information

Directors

PETRO KULYNYCH
EXECUTIVE VICE PRESIDENT, LOWE'S
Appointed 1961

JOHN A. WALKER
EXECUTIVE VICE PRESIDENT, LOWE'S
Appointed 1961

LEONARD G. HERRING
EXECUTIVE VICE PRESIDENT, LOWE'S
Appointed 1961

ROBERT L. STRICKLAND
EXECUTIVE VICE PRESIDENT, LOWE'S
Appointed 1961

WILLIAM H. McELWEE
PARTNER, McELWEE, HALL, AND McELWEE
SENIOR VICE PRESIDENT, LOWE'S
Appointed 1961
Member, Audit Committee

GORDON E. CADWGAN
VICE PRESIDENT, WHITE, WELD & CO. INC.
Appointed 1961
Member, Audit Committee

ROBERT G. SCHWARTZ
SENIOR VICE PRESIDENT, METROPOLITAN LIFE INSURANCE CO.
Appointed 1973
Member, Audit Committee

*Officers**

PETRO KULYNYCH, 56
OFFICE OF THE PRESIDENT
EXECUTIVE VICE PRESIDENT
MEMBER, EXECUTIVE COMMITTEE
30 Years with Lowe's
Appointed 1961

JOHN A. WALKER, 55
OFFICE OF THE PRESIDENT
EXECUTIVE VICE PRESIDENT
MEMBER, EXECUTIVE COMMITTEE
18 Years with Lowe's
Appointed 1961

LEONARD G. HERRING, 50
OFFICE OF THE PRESIDENT
EXECUTIVE VICE PRESIDENT
CHAIRMAN, EXECUTIVE COMMITTEE
21 Years with Lowe's
Appointed 1961

ROBERT L. STRICKLAND, 46
OFFICE OF THE PRESIDENT
EXECUTIVE VICE PRESIDENT
MEMBER, EXECUTIVE COMMITTEE
19 Years with Lowe's
Appointed 1961

WILLIAM H. McELWEE, 70
SENIOR VICE PRESIDENT
GENERAL COUNSEL
PARTNER, McELWEE, HALL AND McELWEE
27 Years with Lowe's
Appointed 1961

REX L. SHUMATE, 51
VICE PRESIDENT, TREASURER
21 Years with Lowe's
Appointed 1973

RICHARD ELLEDGE, 35
CONTROLLER
5 Years with Lowe's
Appointed 1973

General Information

HEADQUARTERS
Lowe's General Office
Highway 268 East, Box 1111
North Wilkesboro, N.C. 28656
Telephone (919) 667-3111

TRANSFER AGENTS
Wachovia Bank & Trust Co., N.A.
Box 3001
Winston-Salem, N.C. 27102

Morgan Guaranty Trust Co.
23 Wall Street
New York, N.Y. 10051

REGISTRARS
The Northwestern Bank
Box 85
Winston-Salem, N.C. 27102

The Chase Manhattan Bank
One Chase Manhattan Plaza
New York, N.Y. 10051

DIVIDEND DISBURSING AGENT
Wachovia Bank & Trust Co., N.A.
Box 3001
Winston-Salem, N.C. 27102

DIVIDEND REINVESTING AGENT
Citibank, N.A.
Box 5765 Grand Central Sta.
New York, N.Y. 10017

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

CERTIFIED PUBLIC ACCOUNTANT
J. A. Grisette & Co.
Box 759
Lenior, N.C. 28645

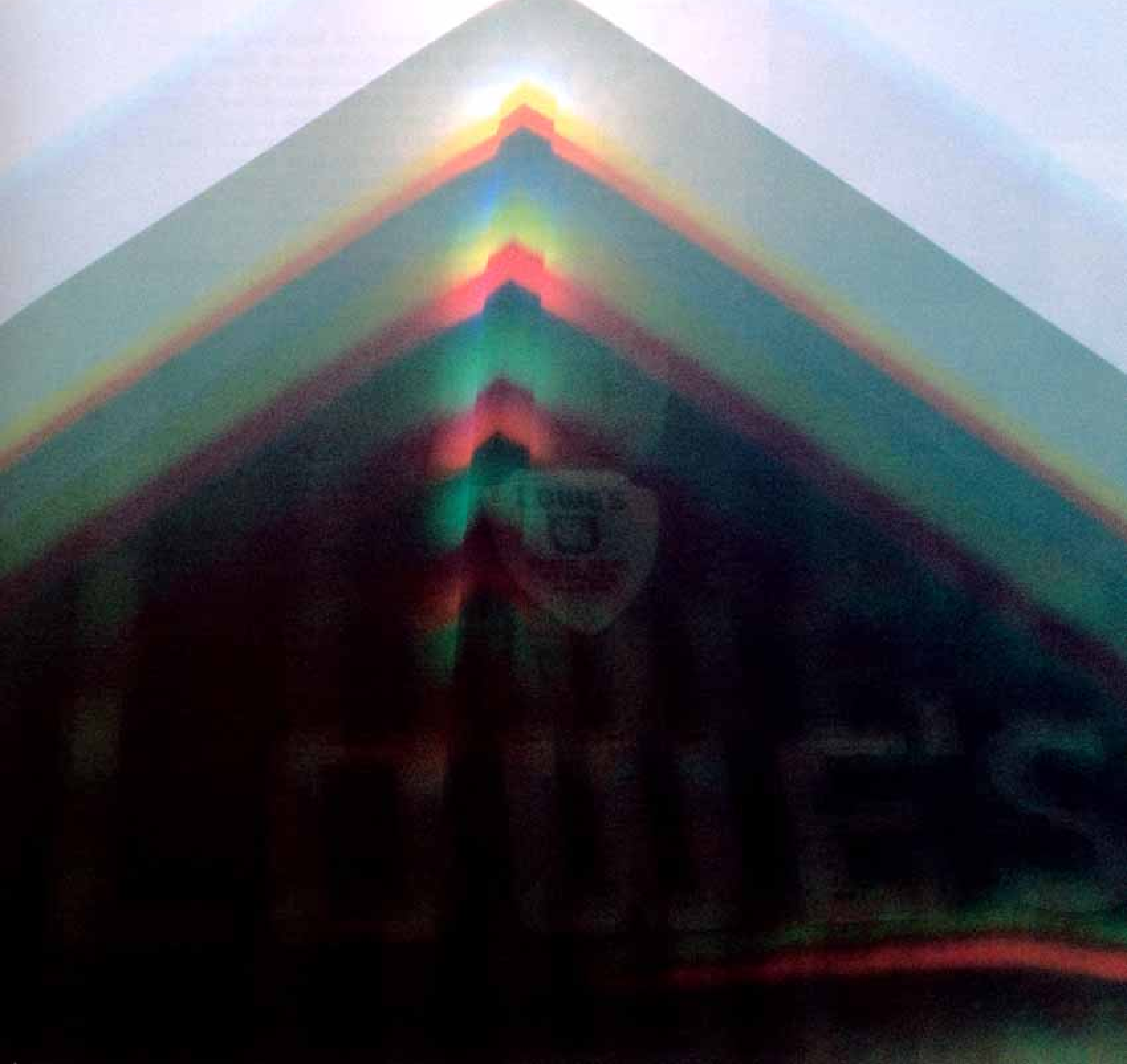
COMMON STOCK
Lowe's Common Stock price is quoted on NASDAQ, and published daily in National Over-The-Counter Market quotations.

INVESTOR RELATIONS
Security Analyst and Shareholder Inquiries Should Be Directed to:
Deborah E. Kelly
Vice President-Investor Relations
c/o Lowe's General Office

*Officers are appointed annually by the Board of Directors following the annual meeting of shareholders. There is no family relationship among these officers, nor any arrangement or understanding between any officer and any other person pursuant to which the officer was selected.

Corporate History

Fiscal 1976 was Lowe's 15th anniversary year as a publicly-owned company. As detailed in the "16 Year Review," fold-out of the front cover, these were years of growth and progress. Over the years from 1961 to 1976, our number of stores was multiplied 10 times, from 15 to 150. Our sales volume grew 15 times, from $31,000,000 to $465,000,000. And our earnings after taxes increased 19 times, from $900,000 to $17,300,000. 1976 was also a 30th anniversary year for Lowe's, for it was in 1946 that Lowe's founder decided to begin mass merchandising of building supplies at "Lowe's Low Prices." In those 15 years of private ownership, strategies were created, strengths built, decisions made, and actions taken that made possible the results of the next 15 years of public ownership. We celebrated both occasions in fiscal 1977, by putting together six pages of corporate history that highlight the years that made 1976 a double anniversary year. So as we begin our next 15 years of growth, we ask that you pause with us to look back to Lowe's beginnings. For if you believe that the past is prologue to the future, then you'll know that corporate history is vitally linked to corporate capability.




A

B


C


D


E

The 50's

Ike was in. Mantle and Berra were tearing up American League pitching. Pat Boone was wowing millions of teenagers. Gas was 29.9¢ down at the corner Esso station. And in quiet North Wilkesboro, North Carolina, a fuss was brewing.

Carl Buchan owned Lowe's North Wilkesboro Hardware, and he wasn't content to run a one-store business. He wanted to expand. He looked. He saw opportunity. He wanted to seize it.

For then, virtually all residential building materials in the country were sold through a rigidly-controlled distribution system running from manufacturer, to wholesaler, to retailer, to builder, then finally to the consumer. Each level added its own mark-up . . . mark-ups ultimately paid for by the consumer.

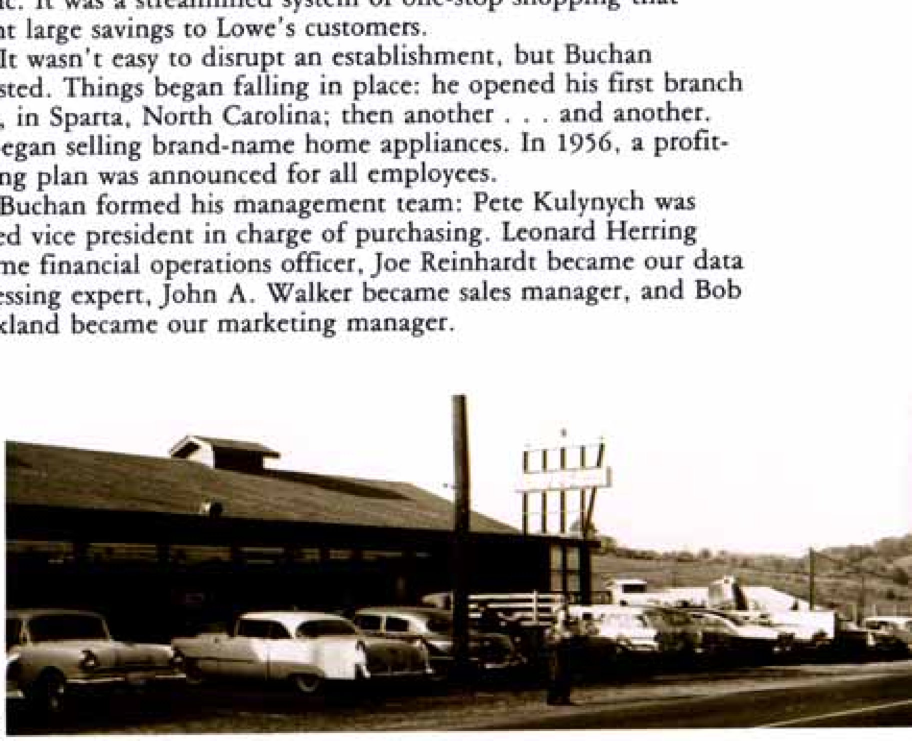
In addition, heating, plumbing, and electrical materials were not sold by most building material dealers. Instead, they were sold by specialized retailers.

Buchan wanted to change that. He planned to buy direct from the manufacturers at the same prices the wholesalers were paying, carry a full line of building materials, including plumbing, heating, and electrical supplies, and sell directly to the public. It was a streamlined system of one-stop shopping that meant large savings to Lowe's customers.

It wasn't easy to disrupt an establishment, but Buchan persisted. Things began falling in place: he opened his first branch store, in Sparta, North Carolina; then another . . . and another. He began selling brand-name home appliances. In 1956, a profit-sharing plan was announced for all employees.

Buchan formed his management team: Pete Kulynych was named vice president in charge of purchasing. Leonard Herring became financial operations officer, Joe Reinhardt became our data processing expert, John A. Walker became sales manager, and Bob Strickland became our marketing manager.

A. H. C. Buchan, Jr., Lowe's Founder.
B. Lowe's original store.
C. Motivating people - a Lowe's tradition.
D. Lowe's managers and sales force - 1958.
E. Customers, products, services, strategies the Lowe's revolution of the '50's.
F. Expansion - Lowe's Knoxville store, #12.


F


A


B

We continued our store expansion in North Carolina, then Virginia, then Tennessee. We found that we could take over existing physical facilities, convert them to a Lowe's store and, in short order, ring up the sales and make money.

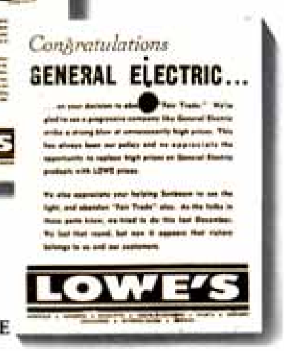
In 1959, we targeted the professional builder as a primary customer. We abandoned our long-standing cash-and-carry policy, and began to extend credit to reliable builders. We relocated the North Wilkesboro store and converted the old building into a central warehouse. This was a major step in developing a product distribution system of unique significance to Lowe's future. We acquired a fleet of trucks and began delivery of materials direct to a builder's job site.

Based on the recognition that continued success demanded dedicated, aggressive people, in 1959 we began an annual cash bonus program which gave key employees specific goals against which to measure their own performance, and to benefit directly when those goals were achieved.

The 50s were watershed years for us. Growth was fast and furious, from one store to thirteen. But we took time to develop a clearer idea of who we were and where we wanted to go. In the execution of that idea, we developed people, systems, and concepts that are still with us. To some people, the 50s may have seemed placid. But to us, they were formative and dynamic, and filled with a sense of mission.


C

D



E


F

A. Computer-based management control systems - even then.
B. Rapid transit management action systems - even then.
C. Twenty-four hour electronic management information systems - even then.
D. We made headline for cutting fixed retail prices and selling at Lowe's Low Prices - the reputation lingers.
E. We congratulated a fine supplier for abandoning "Fair Trade," and the unnecessarily high retail prices we felt that policy caused. Consumerism - even then.
F. Lowe's "Opportunities Unlimited" meeting with manufacturers to plan and prepare for our mutual growth in the '60's.

A

G

F

B

The 60's

Fast and frantic. Another dynamic decade. We moved from being a localized, privately-owned chain to become one of the Southeast's largest corporations. We did it through innovative approaches to both our customers and our product mix. In the process, we influenced a whole industry, making changes and starting trends that are continued today.

The pace was set when Carl Buchan stated publicly a dream he had privately cherished since the day he started in business. "I now desire," he wrote, "to build this business into the largest and most successful of its type in the world, owned and controlled by those who have built it."

But during the night of October 21, 1960, Carl Buchan died in his sleep. He was only 44 years old.

It was fitting that Buchan's plans had provided for the continued growth of the company he had begun: he had given Lowe's Profit-Sharing Plan and Trust an option to buy his stock from his estate upon his death. In the subsequent year, a satisfactory plan was developed to continue Lowe's growth.

On October 10, 1961, we officially became Lowe's Companies, Inc. We "went public," and began trading over the counter at a price of $12.25 per share. After a succession of stock splits, the purchaser of one share in 1961 now owns 12 shares with a cost of $1.02 each.

So one era ended, and another began. And Lowe's new management group decided to do a lot in a hurry. We reemphasized selling consumer durables in volume and expanded our product lines. We made a major commitment to the lumber business. Today, every Lowe's store is also a modern lumber yard.

C

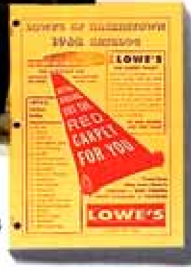

LOWE'S COMPANIES, INC.
Common Stock
Price $12.25 per Share*

D

A. A decision-event, recognizing the growing economic power of the Sunbelt, and the growing merchandising power of Lowe's.
B. Our first delivery of West Cost lumber, the beginning of a multi-million dollar enterprise.
C. We continued our development of systems and controls and management information.
D. New dimensions for Lowe's: Public ownership in 1961 brought both new responsibilities and fresh motivation.
E. Shareholders at Annual Meeting.
F. Three Members of Lowe's Board of Directors, with financial and legal advisers.
G. Three Members of Lowe's Executive Committee, reviewing store expansion planning.

E

A



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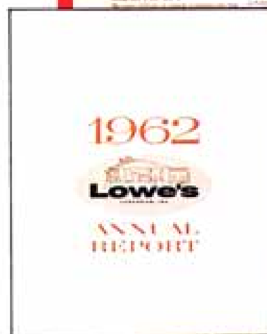

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F

To keep a grasp on our mushrooming business activity, we continued our use of electronic communications systems that were the most advanced available. In 1963, for example, we put IBM computers on our retail sales floors. They gave us a significant new inventory control tool, reduced our sales processing costs, and sharply reduced losses due to inaccurately computed sales tickets.

During this decade, we selected merchandise managers to be responsible for our major product categories, thereby establishing a pool of product management talent to assure our balanced growth in the years to come.

In 1968, we divided our sales force into builder and consumer segments, with specialized training for each, for better service to each of our two major customer groups. We wanted our entire sales force to be resident experts about home building and improvements, and our entire product line, for our customers' benefit. It's a policy we follow today.

As the 60s drew to a close, 13 stores had grown to 58. From 344 employees in 1959, we had 1,450 ten years later. The 344 employees served 514,000 customers—those 1,450 served 2,290,000. Our $27,000,000 sales volume had grown to $119,000,000. Along with that growth came experience, and we thought we were ready for the 70s.

G

H

A. Training our people for growth, so we can continue to promote from within.

B. Lowe's first Catalog, published in 1962 for the opening of Hagerstown, our 16th store.

C. Specialized delivery equipment, in response to customers' desires for better service.

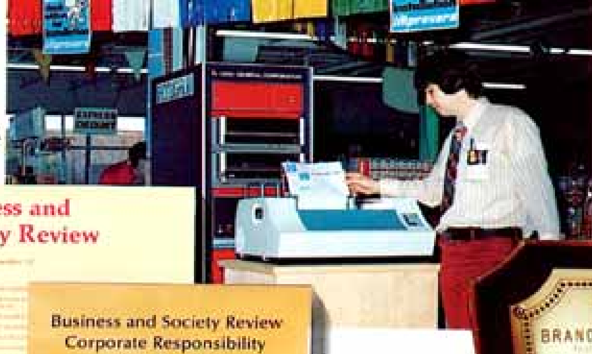
D. One of our first series of magazine advertisements, emphasizing the basic value of our prices and our products.

E. This first report to shareholders stated, "We expect to be held accountable for the successful accomplishment of our goals."

F. Our first "Hootenanny" in 1963, has grown to become a company-wide annual "gathering of the clan," for motivation, inspiration, and leadership.

G. Lowe's evolution of the 60's—more stores, customers, products, services, and opportunities.

H. One of forty-five new store openings in ten states in the '60's.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H

The 70's

We don't believe that anyone was completely ready for the seventies, with price controls, wars, oil embargoes, domestic political upheaval, inflation, recession, and shortages. Housing acted like a roller coaster—up 62% in two years from 1970's 1,469,000 starts to 1972's 2,379,000. Many people believed that 2,000,000 new homes per year in America was a normal, sustainable rate, only to see starts plunge in 1975 to 1,171,000. The ebullience of the consumer in 1973 was shattered by the deep recession of 1974 and 1975, and by the relentless upward climb of prices. During 1976, things improved, but the buying public hasn't forgotten, and they are more price and value conscious today than they have been since the 1950's.

As we have stated in previous reports to shareholders, it is the mission of Lowe's management to function and perform in changing business environments, and this we did during the '70's.

Among some important actions were changes in our management structure itself. Our growth and management style has always seemed organic to us—more like a tree with roots, trunk, branches, and concentric growth pattern, than like a machine with no inherent vitality. We want to maintain the personal touch that accompanies the organic description, but at the same time we recognize that span-of-control is more critical with each succeeding year of growth. Consequently, in 1970, we made two significant changes in our management—the first was more organic, and the second was more structural.

We established the Office of the President, consisting of five members of the Board of Directors, to bring joint efforts and complementing talents to the job of proper policy formation and

C


D


E


G

F

A. Minicomputers in our stores, with many advantages for better customer service.
B. Lowe's, the only company reviewed in 1974 to receive two different awards for good corporate citizenship by Business and Society Review.
C. Richard Petty, stock car racing's all time winner, tells prospective buyers they can "Be a Winner at Lowe's."
D. Larger sales floors for mass display of merchandise with both self-selection and trained salespeople.
E. Financial World's "Oscar," for our 1976 Quarterly Report series: The Artwork of Lowe's.
F. Financial World's "Oscar," for our 1971 Annual Report: Ten Years of Growth.
G. Lowe's Supplier of the Year trophies, awarded annually to service-minded manufacturers.
H. Our new standard Lowe's-built store, 1976 model.
I. One of three national championship awards to Lowe's for retailing by the Brand Names Foundation.

A

C

B

execution. Although this arrangement was not then a familiar one, when Sears and TWA subsequently adopted the idea of sharing leadership responsibility, it was obviously catching on.

We also selected two Regional Managers as the first step in a formal decentralization of field leadership. This move has been most successful, and now Bill White, Ben Phillips, Vernon McGimsey, Wendell Emerine, and Jack Segraves are Regional Vice Presidents, supervising from 24 to 40 stores each, with the help of Regional Supervisors for Sales, Warehouses, and Offices. And we have continued to evolve our management structure for more professional control and better service to our stores.

In 1970, we decided to build all our new stores in a standard design and format, in better retail locations, and with a sales-display area double our previous average. Today more than half our stores are of this standard design. And we gave renewed emphasis to the growing consumer market, with expanded product lines, more convenient credit, shopping hours, and a Lowe's-created Consumer Reference Library—an encyclopedia of product knowledge for our customers.

We also launched our most successful new product sales program to date—our Homestead line of single-family homes. They are architecturally designed, we furnish all materials in building-sequence deliveries, and we guarantee the price during construction. Its growing popularity with home builders and home buyers alike brought its sales to about 10% of our total volume.

Along with all this came vastly increased national recognition of the company and its people. Some of these awards are pictured on these pages. We feel their real significance is not just the recognition, but the statement they make about the quality of the work of all the people of Lowe's.

Our 58 stores grew to 150; our $119,000,000 sales grew to $465,000,000. Our 4,378 employees at year-end had served 7,033,000 customers. We made plans for 300 stores, and a billion dollar sales volume was in sight. So we're looking forward to the rest of this decade—the turbulent, exciting Seventies.

D

E

F

A. Don Davis and his team from Lowe's of Nashville, motivating at our 1970 Hootenanny.
B. Pete Kulynych was honored by Wake Forest University for his work as Trustee.
C. Robert Schwartz's expertise in finance and corporate affairs has augmented our Board of Directors significantly.
D. We coined and copyrighted the word "Unflation" to tell our customers that Lowe's Low Prices are alive and well in the '70's.
E. 16 states, 5 regions, 150 stores, new systems, new products, new customers, new challenges, and still new opportunities.
F. John Walker's award as Home Center Man of the Half-Century.


Bob Tillman


Linda Johnson


Wade Dupree


Byrnal Wade


Buddy Minter

Bob Tillman, 34,
Manager of Lowe's of Wilmington, N. C.

"I'm a Lowe's Baby, a product of Lowe's Companies, Inc. I came here right out of college; it's the only company where I've ever had a full-time job. At age 26, I was the youngest store manager in the company. The reason people like store management is the freedom, the flexibility, and the ability to mature. Every Lowe's store manager is different. We're not made out of the same mold. You have complete control over your operation on a day-to-day basis. It's like running your own business, but being fully aware that you're doing it with someone else's money. You have the flexibility to customize your business to the market; to hire the right people and get the right product mix. One of the reasons Lowe's is so successful is that it has never stifled the development of its people. Another is that store managers are given so much authority. The future growth of Lowe's is going to be just outstanding, because the idea, the dream of everybody being part of something big, the enthusiasm—it's all still there."

Linda Johnson, 30,
Manager of Incentive Programs

"I plan the contest award trips, the meetings, maintain records on the contests, and work on special promotions. Before taking a group of people to a particular location, I often make an inspection—check the appearance of the hotel, the meeting facilities, meet the staff, and work out the tours. It all sounds very glamorous and exciting, but there are a lot of long hours involved, and of course, some time away from home. It's hard though, for me to see the bad parts of my job—I love it. Anything else would be pretty boring after doing this kind of work for 12 years. Right now, we have 16 different incentive contests going on. In one contest alone, we're awarding $25,000 to the winners. I think my work has real value. For instance, within the company there are some groups who over the years had been neglected as far as incentive programs and contests are concerned, and as a result, some of them were beginning to feel sort of like 'second-class citizens.' So we've concentrated on some of these groups, put together some programs for them, and already you can see a world of difference in their attitudes toward themselves and their jobs. When people are excited and proud of the work they do for Lowe's, and you know you've played a small part in that, of course it gives you satisfaction. I think the incentive programs—the cars, the money, the trips, etc. have helped make Lowe's the kind of company it is."

Wade Dupree, 36,
Vice President of Real Estate

"The Real Estate Department was reorganized on January 1, 1976. Now it has 24 employees in three divisions: Expansion, Engineering and Construction, and Safety and Security. Put simply, we're involved with putting Lowe's stores in the right locations at the right price. By the end of next fiscal year, we will have opened 25 new Lowe's stores—either by buying out existing businesses, taking over old locations, or constructing all new Lowe's stores. Company management has committed us to an expansion program that will take us through July 31, 1981. In this five-year program, we are charged with the responsibility of adding 150 stores—which would double the size of the company. The theory is that 300 stores will assure our corporate goal of a billion dollars in sales. Now, we're right on target. We have our own engineers, draftsmen, architects, and job superintendents; so we're able to do all the work ourselves, including physically building or remodeling a store. This saves us considerable money and time as opposed to subcontracting. For us, the culmination of all the efforts of a great many people is the day they 'saw the board' and open the store for business—that's the moment we all work for."

Byrnal Wade, 25,
Sales, Lowe's of Winston-Salem, N.C.

"I've got all the benefits you could ask for in a job: the pay is good, the job is challenging, it's rewarding, and there's security. Motivation is the key: it's going to get better if you just work toward it. I think I'm highly motivated, and have set goals for myself. Goals are very important for a salesman. A long-range goal of mine is to be a manager someday. I work 55-60 hours a week. Yes, I've thought about a regular job, with less hours, but I don't believe I could sit down; selling is just in my system. Obviously, selling brings some problems, but I work to get them straightened out. People like me are the ones who make it all pay off. The whole burden is on the salesmen's shoulders. Without us, the company couldn't prosper but it's a two-way street. I work hard for Lowe's, but they give it back to me through my pay, benefits, contests, and awards."

Buddy Minter, 32,
Manager, Accusale Department

"Accusale, our in-store data processing system, is a specialty department within Data Processing. Currently, 86 stores have it; eventually they all will. It's important to understand that Accusale is a concept more than a piece of equipment. The hardware for Accusale is Data General mini-computers in each store. Lowe's salespeople have a vid-screen with complete product and price information displayed, and each sale is rung up on these mini-computers. At the end of the sales day, our main-frame

Michael Willis

Ben Phillips

Rick Shores

Delores Henriques

Leslie Shell

computer here at the General Office, telephones the computer in each store, and all the day's information is electronically transmitted. It's very flexible and very sophisticated. We get complete sales and margin reports daily for each store, control inventory and accounts receivable, change selling prices electronically from the General Office, and so much more. And Lowe's people designed the system, installed it, maintain it, program it, and update it. To my knowledge, we were the first in the retail building materials industry to have a system like this. Now, there are a lot of point-of-sale computer systems—but Accusale is a great deal more. And we're extremely proud of that."

Michael Willis, 32,
Copywriter

"Stringing words together to communicate a thought is a challenge. Any form of communication is a challenge. But I love to write! I can't imagine myself doing anything else. At Lowe's we emphasize factual copy information in our ads, information that consumers need in order to make informed, intelligent buying decisions. I read a lot of competitors' copy, and a major distinction between our ads and many of theirs is that we don't insult our customers' intelligence. I try to explain a product to myself as I write, its uses and benefits—why it would make me happier than the money it costs. It's a continuing learning situation because we're always adding new products and seeking better ways to sell established ones. I know I'll never win any literary awards for writing storm door copy, but I get a great deal of satisfaction in doing a conscientious job for a company that's a fun place to work."

Ben Phillips, 35,
Regional Vice President

"I'm one of five Regional Vice Presidents, and I'm accountable for the sales and profits of 40 North and South Carolina stores. I do that through pricing programs and expense control measures. But primarily, my efforts are directed toward the progress and well-being of the more than 1,000 people in my Region. It's a very responsible job. The biggest challenge is to match the people with the jobs and the markets. You do that by providing an opportunity for their growth, giving people the chance to play a meaningful part in the growth of a dynamic company. Lowe's provides a creative environment where a person can feel a sense of accomplishment. There's a lot of competition among Lowe's Regions—we all want to be number one. But, we encourage this healthy kind of intramural competition. Our people are proud people—they strive to better themselves, and they like to be winners."

Rick Shores, 29,
Purchasing Supervisor

"Two other people and myself purchased $25 million of appliances in fiscal '77. Fighting price increases is one of our biggest hassles. For the past three years, manufacturers have tried to increase prices quarterly. We try to resist that, and I'd say we are successful about 50% of the time. You can't sell it right unless you buy it right. Day in and day out, I have to believe that nobody buys appliances as well as we do. How we buy is important. All of our sales and purchasing power is brought to bear on every deal. Many competitors put a lot of purchasing authority at the store level; Lowe's keeps it at the corporate level. You've got to give credit to our distribution system. Most of our competitors don't have the distribution systems we have. From the time the merchandise arrives at our central warehouse, we can normally stock every one of our stores in two weeks. We are constantly shopping for deals. We tell our suppliers 'We are going to buy 5,000 washers, and we'd like to buy them from you; if we can't deal, we will just buy them somewhere else.' "

Delores Henriquez, 40,
Architectural Designer in the Professional Services Department

"I am one of the designers of Lowe's new Homestead house plans. I designed the Spirit of '76 and the Sequoia. I studied at the School of Architecture in Havana; then, after the revolution, I studied at Columbia University. To me, designing homes is not just drawing a few straight lines. To me, it is an idea. I try to visualize the kind of people who would live in the house, the kind of life they live, and some of the problems they would have. You can't develop a useful product unless you've thought about how people are going to use it. Right now, we're trying to fill what we have a lack of: larger houses. We're considering houses of about 2,800 to 3,200 square feet simply because some people need and want big houses, and we want to offer them for sale. You know, it's really nice to be driving along and see a house that you've designed."

Leslie Shell, 31,
Corporate Accounting Supervisor at Lowe's General Office

"Five years ago, my department didn't even exist. We used to have an outside firm do the work. But now we do all the internal audits, prepare all the internal controls, and oversee all the income tax work for each Lowe's store. Sometimes we work 40 hours, sometimes 60 hours—it varies, based on what we have to do. I've been here five years, and I get a lot of satisfaction out of my job. I hope to be an assistant controller in the relatively near future. There are six people in my group, all young. I like the way the group thinks and responds to

Charles Taylor


Annie Parks


Steve Rominger


Tom Lackey


Gregg Wessling

challenges. And the accessibility of top management is just amazing. They always make themselves available when you need them. That's always been a strong point of Lowe's."

Charles Taylor, 38,
Training Director at Lowe's Leadership School

"We train the future leaders of the company. We train salespeople, warehouse managers, store managers and potential store managers. For each group, the basic schedule is an intensive, one-week course that includes about 40 hours of classroom work and a lot of homework. Our goal is to improve the peoples' product knowledge, increase their selling and management skills, and most importantly, help them develop the right motivational attitudes about themselves, their customers, and their company. We've made a firm commitment to the growth and training of our people. We've had to, frankly. When Lowe's opens 25 stores in a year, it requires about 625 people in the new stores alone, plus support personnel in the General Office. So we have to meet the ever-increasing demand for qualified people. Based on what I've seen, we're going to continue to have capable, well-trained, and dedicated people leading and directing this company. One of the real rewards of my job is to see someone I have worked with succeed and move ahead. I feel good about it for the individual and for Lowe's."

Annie Parks, 21,
Consumer Sales, Lowe's of Birmingham, Alabama

"This job is a great learning experience—in two years, I've learned so much about building materials and selling. I work about 60 hours a week, standing on my feet all the time. It bothered me at first, but now I'm used to it, and it doesn't bother me at all. I find some resistance from the men customers, who feel that because I'm a woman, I won't know much. But after they talk to me a while, they're pleasantly surprised. And they come back to me. By now, I have a lot of regular customers, and it seems like I get new ones every day. So I can actually watch my career growing. I think for me, the future is going to be great. I know our business is growing; it seems like we've got all we can do, every day."

Steve Rominger, 27,
Contractor Sales, Lowe's of Orlando, Florida

"Everybody has to have a goal, and my main one is to service my accounts in the best possible manner. In doing this, you make good money for yourself and for your store. About three nights a week, I get home late—anywhere from 7 p.m. to 11 p.m. It takes a special woman to be married to somebody who works at Lowe's—and I've got one of them. But it's all worth it. This will be my first million dollar sales year, and I'm looking forward to getting my first Lowe's ring. People are what make this company. We work hard, but we play hard, too. We're opening a new store near here, and we're all fired up over it. I'm going to be the Operations Manager. The future? It's exciting!"

Tom Lackey, 25,
Office/Credit Manager, Lowe's of Hagerstown, Maryland

"As Office Manager, I'm responsible for the paperwork flow, plus hiring and training the necessary people. As Credit Manager, I'm more or less responsible for the financial well-being of this store. It's a lot of headaches, and I probably work about 60 hours a week—but I love what I'm doing. The personal satisfaction of doing a good job—and knowing that my work is noticed by the people I work for—overwhelms any bad parts. The various incentive awards and programs are great. I've won a trip to Jamaica, several hundred dollars in collection contests, a ring and several plaques. Those are all nice, of course, but what they really show is that somebody is watching me, caring about the job I'm doing, and recognizing that I'm doing it well. It also shows that the potential for growth is there. Six years ago, I started out in the warehouse in Martinsville, Virginia. Now look where I am—and I'm not ready to stop yet. I feel that our company has done well even in bad times; and in good times, the growth is just unlimited."

Gregg Wessling, 25,
Marketing Manager for Lumber and Building Commodities.

"Lumber and Building Commodities account for more than half of Lowe's total sales. I'm part of the team that helps the stores achieve this through merchandise selection, forecasting marketing trends, pricing suggestions, and working closely with purchasing, distribution, and advertising. I started at Lowe's when I was 16, working in the summer as a warehouseman. Between college years, I worked in sales, and upon graduation, came to work full time. I worked my way up on the sales floor, became an assistant manager, and then a store manager. I think what makes me qualified to do what I do now is that I have the field experience—I haven't always sat behind the desk. You'll find few people my age involved in marketing of lumber and commodities. The challenge now is to find new ways to market our materials. I think that Lowe's ability to grow corporately comes from the ability of Lowe's employees to grow personally. I think I'm a good case in point that Lowe's will never hold you back. As long as you're willing to work, Lowe's is going to open doors for you."

Lowe's Companies, Inc.

Index

*Included in 10-K Report to S.E.C., Part I
( ) Indicates: I — 10-K Item Number
F—, Financial Statements Filed (Item 13a) Including Notes to Financial Statements

Note: Part I, Items 1-12: Items 7, 8, and 10 are not applicable and are not included. The information required by Item 12—Indemnification of Officers and Directors—is unchanged from that given in the Fiscal 1976 10-K.

Part I, Item 13a1: Schedules V—Property, Plant, and Equipment; VI—Accumulated Depreciation; and IX—Bonds and Mortgages; and Item 13a2—Exhibit of Computation of Shares for Per Share Earnings; are available on request. The information required by Schedule XIII is given in the Balance Sheet, and that by Schedule XVI in Note 14 to the Financial Statements.

Part I, Item 13b: No reports on Form 8-K were filed for the three months ended July 31, 1977.

Part II: Items 14-18 are omitted since Lowe's has filed a definitive proxy statement pursuant to Regulation 14A including this information herein incorporated by reference.

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