

LOWES COMPANIES INC

Form DEF 14A

April 15, 2005

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
SCHEDULE 14A**

Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934 (Amendment No.)

Filed by the Registrant x

Filed by a Party other than the Registrant o

Check the appropriate box:

o Preliminary Proxy Statement

o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

x Definitive Proxy Statement

o Definitive Additional Materials

o Soliciting Material Pursuant to §240.14a-12

LOWE S COMPANIES, INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required.

o Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

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o Fee paid previously with preliminary materials:

o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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Lowe s Companies, Inc.

**Notice of
Annual Meeting
and
Proxy Statement**

2005

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Corporate Offices

1000 Lowe's Boulevard
 Mooresville, North Carolina 28117

**LOWE'S
COMPANIES,
INC.**

April 15, 2005

TO LOWE'S SHAREHOLDERS:

It is my pleasure to invite you to our 2005 Annual Meeting to be held at The Park Hotel located at 2200 Rexford Road, Charlotte, North Carolina, on Friday, May 27, 2005 at 10:00 a.m. Directions to The Park Hotel are printed on the back of the Proxy Statement.

We intend to broadcast the meeting live on the Internet. To access the webcast, visit Lowe's website (www.Lowes.com/investor) where a link will be posted a few days before the meeting. A replay will also be available beginning approximately three hours after the conclusion of the meeting and running until June 3, 2005.

The formal Notice of Annual Meeting of Shareholders and Proxy Statement are enclosed with this letter. The Proxy Statement tells you about the agenda and the procedures for the meeting. There are three items of business on this year's agenda, as described in detail in the Proxy Statement. Your vote by proxy or in person at the meeting is important.

Yours cordially,

Robert A. Niblock

Chairman of the Board,

President and Chief Executive Officer

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**Notice of
Annual Meeting of Shareholders
of Lowe's Companies, Inc.**

Date: May 27, 2005

Time: 10:00 a.m.

Place: The Park Hotel
2200 Rexford Road
Charlotte, North Carolina

Purpose: To elect three Class I directors to a term of three years.
To approve an amendment to the Lowe's Companies, Inc. Directors' Stock Option Plan.
To ratify the appointment of Deloitte & Touche LLP as the independent accountants of the Company for the 2005 Fiscal Year.
To transact such other business as may be properly brought before the Annual Meeting of Shareholders.

Only shareholders of record at the close of business on April 1, 2005 will be entitled to notice of and to vote at the Annual Meeting of Shareholders and any adjournments thereof.

The Company's Proxy Statement is attached hereto. Financial and other information is contained in the Company's Annual Report to Shareholders for the fiscal year ended January 28, 2005, which accompanies this Notice of Annual Meeting of Shareholders.

By Order of the Board of Directors,

Ross W. McCanless
Senior Vice President,
General Counsel & Secretary
Mooresville, North Carolina

April 15, 2005

YOUR VOTE IS IMPORTANT. TO VOTE YOUR SHARES YOU MAY: VOTE AT THE INTERNET SITE ADDRESS LISTED ON YOUR PROXY CARD; CALL THE TOLL-FREE NUMBER SET FORTH ON YOUR PROXY CARD; OR SIGN, DATE AND RETURN THE ENCLOSED PROXY CARD PROMPTLY TO ENSURE ITS ARRIVAL IN TIME FOR THE MEETING.

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Lowe s Companies, Inc.

**Proxy Statement
for
Annual Meeting of Shareholders
May 27, 2005**

GENERAL INFORMATION

This Proxy Statement is being furnished in connection with the solicitation by the Board of Directors (Board of Directors or Board) of Lowe s Companies, Inc. (Company or Lowe s) of proxies to be voted at the Annual Meeting Shareholders to be held at The Park Hotel, 2200 Rexford Road, Charlotte, North Carolina on Friday, May 27, 2005 at 10:00 a.m. It is anticipated that this Proxy Statement and the enclosed form of proxy will first be sent to shareholders on or about April 15, 2005.

Outstanding Shares

On April 1, 2005, there were 774,421,813 shares of Company common stock (Common Stock) outstanding and entitled to vote. Shareholders are entitled to one vote for each share held on all matters to come before the meeting.

Who May Vote

Only shareholders of record at the close of business on April 1, 2005 are entitled to notice of and to vote at the meeting or any adjournment thereof.

How To Vote

You may vote by proxy or in person at the meeting. To vote by proxy, you may: vote at the Internet site address listed on your proxy card; call the toll-free number set forth on your proxy card; or mail your signed and dated proxy card to our tabulator in the envelope provided. Even if you plan to attend the meeting, we recommend that you vote by proxy prior to the meeting. You can always change your vote as described below.

How Proxies Work

The Board of Directors is asking for your proxy. By giving us your proxy, you authorize the proxyholders (members of Lowe s management) to vote your shares at the meeting in the manner you direct. If you do not specify how you wish the proxyholders to vote your shares, they will vote your shares **FOR ALL** director nominees, **FOR** approval of the amendment to the Lowe s Companies, Inc. Directors Stock Option Plan, and **FOR** ratification of appointment of Deloitte & Touche LLP (Deloitte) as the Company s independent accountants. The proxyholders also will vote shares according to their discretion on any other matter properly brought before the meeting.

You may receive more than one proxy card depending on how you hold your shares. Generally, in order to vote all of your shares, you need to vote on the Internet, call the toll-free number set forth on your proxy card, or sign, date and return all of your proxy cards. For example, if you hold shares through someone else, such as a stockbroker, you may get proxy material from that person. Shares registered in your name are covered by a separate proxy card.

If for any reason any of the nominees for election as director becomes unavailable for election, discretionary authority may be exercised by the proxyholders to vote for substitutes proposed by the Board of Directors.

Abstentions and shares held of record by a broker or its nominee (broker shares) that are voted on any matter are included in determining the number of votes present or represented at the meeting. Broker shares that are not voted on any matter at the meeting are not included in determining whether a quorum is present. The vote required to approve each of the matters to be considered at the meeting is disclosed under the caption for such matters. Votes that are withheld are not included in determining the number of votes cast in the election of directors or on other matters.

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Under New York Stock Exchange (NYSE) rules, the proposals to elect directors and ratify the appointment of the independent accountants are considered discretionary items. This means that brokerage firms may vote in their discretion on these matters on behalf of clients who have not furnished voting instructions. In contrast, the proposal to amend the Lowe s Companies, Inc. Directors Stock Option Plan is considered a non-discretionary item. This means brokerage firms that have not received voting instructions from their clients on this matter may not vote on this proposal. These broker non-votes will not be considered in determining the number of votes necessary for approval, and, therefore, will have no effect on the outcome of the vote for these proposals.

Quorum

In order to carry out the business of the meeting, we must have a quorum. This means that at least a majority of the outstanding shares eligible to vote must be represented at the meeting, either by proxy or in person. Shares owned by the Company are not voted and do not count for this purpose.

Revoking Your Proxy

The shares represented by a proxy will be voted as directed unless the proxy is revoked. Any proxy may be revoked before it is exercised by filing with the Secretary of the Company an instrument revoking the proxy or a proxy bearing a later date. A proxy is revoked if the person who executed the proxy is present at the meeting and elects to vote in person.

Votes Needed

Director nominees receiving the largest number of votes cast are elected. As a result, any shares not voted (whether by abstention, broker non-vote or otherwise) have no impact on the election of directors, except to the extent that the failure to vote for a particular nominee may result in another nominee receiving a larger number of votes. Approval of the other proposals and any other matter properly brought before the meeting requires the favorable vote of a majority of the votes cast.

Attending In Person

Only shareholders, their designated proxies and guests of the Company may attend the meeting.

**PROPOSAL ONE
ELECTION OF DIRECTORS**

The number of directors is currently fixed at 12 and there are no vacancies. On January 28, 2005, Robert L. Tillman retired from his position as Chairman and Chief Executive Officer of the Company. On the same date, the Board elected Robert L. Johnson to fill the Board vacancy created by Mr. Tillman s retirement. Mr. Johnson was also appointed to serve on the Audit Committee and the Governance Committee of the Board. Claudine B. Malone, who has served as a director since 1995 and is currently a member of both the Audit Committee and the Governance Committee of the Board, has informed the Company that she plans to retire when her current term as a director expires at this year s Annual Meeting of Shareholders. The Board has amended the Company s Amended and Restated Bylaws (Bylaws) so that, effective May 27, 2005 (the date of the Annual Meeting of Shareholders), the number of directors will be reduced from 12 to 11.

The Articles of Incorporation of the Company divide the Board into three classes, designated Class I, Class II and Class III, with one class standing for election each year for a three-year term. The three nominees standing for election as Class I directors at the 2005 Annual Meeting of Shareholders are: Robert A. Ingram; Richard K. Lochridge; and Robert L. Johnson. If elected, each Class I nominee will serve until his term expires in 2008 or until a successor is duly elected and qualified.

All of the nominees are currently serving as directors. The election of each nominee requires the affirmative vote of the holders of a plurality of the shares of Common Stock cast in the election of directors. Unless authority to vote in the election of directors is withheld, it is the intention of the persons named as proxies to vote **FOR ALL** of the three nominees. If at the time of the meeting any of these nominees is unavailable for election as a director for any reason, which is not expected to occur, the proxyholders will vote for such substitute nominee or nominees, if any, as shall be designated by the Board of Directors.

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INFORMATION CONCERNING THE NOMINEES

Nominees For Election As Class I Directors Term to Expire in 2008

Robert A. Ingram

Director Since: 2001

Age: 62

Member of Compensation and Organization Committee and Governance Committee. Vice Chairman Pharmaceuticals, GlaxoSmithKline, a pharmaceutical research and development company, since January 2003. Chief Operating Officer and President, Pharmaceutical Operations of GlaxoSmithKline, January 2001-2002. Chief Executive Officer of Glaxo Wellcome plc, 1997-2000. Chairman of Glaxo Wellcome Inc. (Glaxo Wellcome plc's United States subsidiary), 1999-2000. Chairman, President and Chief Executive Officer of Glaxo Wellcome Inc., 1997-1999. He also serves on the board of directors of Allergan, Inc.; Edwards Lifesciences Corporation; Misys plc; Nortel Networks Corporation; OSI Pharmaceuticals, Inc.; Valeant Pharmaceuticals International; and Wachovia Corporation. Mr. Ingram is also a member of the Board of Advisors for the H. Lee Moffitt Cancer Center & Research Institute.

Robert L. Johnson

Director Since: 2005

Age: 59

Member of Audit Committee and Governance Committee. Founder and Chairman of BET Holdings, Inc., a subsidiary of Viacom Inc., a media-entertainment holding company, since 1980. Mr. Johnson is also the majority owner of the NBA Charlotte Bobcats. He also serves on the board of directors of Hilton Hotels Corporation; U.S. Airways Group, Inc.; and Strayer Education, Inc.

Richard K. Lochridge

Director Since: 1998

Age: 61

Chairman of Audit Committee, member of Executive Committee and Governance Committee. President, Lochridge & Company, Inc., a general management consulting firm, since 1986. He also serves on the board of directors of Dover Corporation; John H. Harland Company; and PetsMart, Inc.

INFORMATION CONCERNING CONTINUING DIRECTORS

Class II Directors Term to Expire in 2006

Peter C. Browning

Director Since: 1998

Age: 63

Chairman of Governance Committee, member of Compensation and Organization Committee and Executive Committee. Dean of the McColl Graduate School of Business at Queens University of Charlotte, since March 2002. Non-Executive Chairman, Nucor Corporation, a steel manufacturer, since September 2000. President and CEO of Sonoco Products Company, a manufacturer of industrial and consumer packaging products, 1998-2000. He also serves on the board of directors of Acuity Brands Inc.; EnPro Industries, Inc.; Nucor Corporation; The Phoenix Companies, Inc.; and Wachovia Corporation.

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Marshall O. Larsen

Director Since: 2004

Age: 56

Member of Compensation and Organization Committee and Governance Committee. Chairman of Goodrich Corporation, a supplier of systems and services to the aerospace and defense industry, since October 2003, and President and Chief Executive Officer since February 2002 and April 2003, respectively. Chief Operating Officer of Goodrich Corporation from February 2002 to April 2003. Executive Vice President of Goodrich Corporation and President and Chief Operating Officer of Goodrich Aerospace Corporation, a subsidiary of Goodrich Corporation, 1995-2002. He also serves on the board of directors of Goodrich Corporation.

Stephen F. Page

Director Since: 2003

Age: 65

Member of Audit Committee and Governance Committee. Served as Vice Chairman and Chief Financial Officer of United Technologies Corporation, manufacturer of high-technology products and services to the building systems and aerospace industries, from 2002 until his retirement in 2004. President and Chief Executive Officer of Otis Elevator Company, a subsidiary of United Technologies Corporation, from 1997 to 2002. He also serves on the board of directors of Liberty Mutual Holding Company, Inc. and PACCAR Inc.

O. Temple Sloan, Jr.

Director Since: 2004

Age: 66

Member of Audit Committee and Governance Committee. Chairman and Chief Executive Officer of The International Group, Inc., Raleigh, North Carolina, a distributor of automotive replacement parts. He also serves on the board of directors of Bank of America Corporation and Highwoods Properties, Inc.

Class III Directors Term to Expire in 2007

Leonard L. Berry

Director Since: 1998

Age: 62

Member of Compensation and Organization Committee and Governance Committee. Distinguished Professor of Marketing, M.B. Zale Chair in Retailing and Marketing Leadership, and Professor of Humanities in Medicine, Texas A&M University, since 1982. He also serves on the board of directors of Darden Restaurants, Inc. and Genesco Inc.

Paul Fulton

Director Since: 1996

Age: 70

Chairman of Compensation and Organization Committee, member of Executive Committee and Governance Committee. Chairman of the Board of Bassett Furniture Industries, Inc., a furniture manufacturer, since 2000 and director since 1994, Chief Executive Officer of Bassett Furniture from 1997 until 2000. Dean, Kenan-Flagler Business School, University of North Carolina, Chapel Hill, NC, 1994-1997. He also serves on the board of directors of Bank of America Corporation; Bassett Furniture Industries, Inc.; Carter's, Inc.; and Sonoco Products Company.

Dawn E. Hudson

Director Since: 2001

Age: 47

Member of Compensation and Organization Committee and Governance Committee. President and Chief Executive Officer of Pepsi-Cola North America, a beverage maker and franchise company, since June 2002 and March 2005,

respectively. Senior Vice President, Strategy and Marketing for Pepsi-Cola North America, 1997-2002.

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Robert A. Niblock

Director Since: 2004

Age: 42

Chairman of Executive Committee. Chairman of the Board and Chief Executive Officer of Lowe's Companies, Inc. since January 2005 and President since March 2003. Executive Vice President and Chief Financial Officer, 2001-2003. Senior Vice President and Chief Financial Officer, 2000-2001. Senior Vice President Finance, 1999-2000. Vice President and Treasurer, 1997-1999.

INFORMATION ABOUT THE BOARD OF DIRECTORS AND COMMITTEES OF THE BOARD

Corporate Governance Guidelines

The Board of Directors has adopted Corporate Governance Guidelines setting forth guidelines and standards with respect to the role and composition of the Board, the functioning of the Board and its committees, the compensation of directors, succession planning and management development, the Board's and its committees' access to independent advisers and other matters. The Governance Committee of the Board of Directors periodically reviews and assesses the Corporate Governance Guidelines. The Corporate Governance Guidelines and Code of Business Conduct and Ethics are posted on the Company's website (www.Lowes.com). The information on our website is not a part of this Proxy Statement. You may also obtain a written copy of each of the Corporate Governance Guidelines and Code of Business Conduct and Ethics by contacting Ross W. McCanless, Senior Vice President, General Counsel and Secretary, at Lowe's Companies, Inc., 1000 Lowe's Boulevard, Mooresville, North Carolina 28117.

Director Independence

The Corporate Governance Guidelines provide that in accordance with Lowe's long-standing policy, a substantial majority of the members of the Board of Directors must qualify as independent directors. As permitted by NYSE rules, the Board, following a recommendation from the Governance Committee, adopted Categorical Standards for Determination of Director Independence (Categorical Standards) to assist the Board in making determinations of independence. A copy of the Categorical Standards is attached as Appendix A to this proxy statement.

The Governance Committee and the Board have evaluated the relationships between each director (and his or her immediate family members and related interests) and the Company. As a result of this evaluation, the Board has affirmatively determined, upon the recommendation of the Governance Committee, that currently each director, other than Robert A. Niblock, and all of the members of the Audit Committee, Compensation and Organization Committee, and Governance Committee, are independent within the Categorical Standards and the NYSE rules.

Compensation of Directors

Directors who are not employed by the Company are paid an annual retainer of \$75,000, and non-employee directors who serve as a committee chairman receive an additional \$15,000 annually for serving in such position. Directors who are employed by the Company receive no additional compensation for serving as directors.

In 1999, shareholders approved the Lowe's Companies, Inc. Directors' Stock Option Plan. This plan provides for each non-employee director to be awarded an option to purchase 4,000 shares of Common Stock at the first directors meeting following the Annual Meeting of Shareholders each year (Award Date). The Company reserved 500,000 shares of Common Stock for options to be granted under this plan, of which 89,341 option shares are currently exercisable. Each option becomes exercisable with respect to 1,333 of the shares of Common Stock on May 15 of each of the first and second calendar years following the Award Date and 1,334 shares on May 15 of the third calendar year following the Award Date. Each option has a seven-year term. The exercise price of options granted under the Directors' Stock Option Plan is equal to the closing price of a share of Common Stock as reported on the NYSE on the Award Date. Options for 4,000 shares were granted on May 28, 2004 to each of the following directors: Robert A. Ingram; Richard K. Lochridge;

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Claudine B. Malone; Peter C. Browning; O. Temple Sloan, Jr.; Leonard L. Berry; Stephen F. Page; Paul Fulton; Marshall O. Larsen; and Dawn E. Hudson. Mr. Niblock is not eligible to participate in this plan.

The following table summarizes the compensation paid to non-employee directors during Fiscal Year 2004:

Name	Annual Retainer (\$)	Chairman Fees (\$)	Securities Underlying Options (#) ⁽¹⁾
Leonard L. Berry	75,000		4,000
Peter C. Browning	75,000	15,000	4,000
Paul Fulton	75,000	15,000	4,000
Dawn E. Hudson	75,000		4,000
Robert A. Ingram	75,000		4,000
Marshall O. Larsen	75,000		4,000
Richard K. Lochridge	75,000	15,000	4,000
Claudine B. Malone	75,000		4,000
Stephen F. Page	75,000		4,000
O. Temple Sloan, Jr.	75,000		4,000

⁽¹⁾ Stock options were granted on May 28, 2004 with an exercise price of \$53.57 per share on the grant date.

The Board has approved, subject to shareholder approval, an amendment and restatement of the Directors' Stock Option Plan. See Proposal Two on pages 22 through 25 of this Proxy Statement. If the amended and restated plan is approved by the shareholders, the Board may elect to grant deferred stock units on the Award Date to non-employee directors in lieu of options to purchase Common Stock. Each unit would represent the right to receive one share of Common Stock. The number of units to be awarded on an Award Date would be equal to \$85,000 divided by the fair market value of a share of Common Stock on the Award Date rounded up to the next 100 units. The deferred stock units would receive dividend equivalent credits, in the form of additional units, for any cash dividends paid with respect to Common Stock. All units credited to a director would be fully vested and would be paid in the form of Common Stock after the termination of the director's service.

In 1994, the Board adopted the Lowe's Companies, Inc. Directors' Deferred Compensation Plan. This plan allows each non-employee director to defer receipt of all, but not less than all, of the annual retainer and any committee chairman fees otherwise payable to the director in cash. Deferrals are credited to a bookkeeping account and account values are adjusted based on the investment measure selected by the director. One investment measure adjusts the account based on the Wachovia Bank, N.A. prime rate plus 1%, adjusted each quarter. The other investment measure assumes that the deferrals are invested in Common Stock with reinvestment of all dividends. A director may allocate deferrals between the two investment measures in 25% multiples. Account balances may not be reallocated between the investment measures. Account balances are paid in cash in a single sum payment following the termination of a director's service.

Board Meetings and Committees of the Board

Attendance at Board and Committee Meetings. During Fiscal Year 2004, the Board of Directors held five meetings. All incumbent directors attended at least 75% of the aggregate of all meetings of the Board and the committees on which they served, with the exception of Mr. Larsen, who attended 70% of the meetings of the Board and the committees on which he served. This was the result of a change in the scheduled dates for the meetings of the Board of Directors and its committees that conflicted with a business commitment of Mr. Larsen, which he had informed the Governance Committee of prior to his election to the Board of Directors.

Executive Sessions of the Non-management Directors. The non-management directors, all of whom are independent, meet in regularly scheduled executive sessions. Mr. Browning, Chairman of the Governance Committee, presides over these executive sessions and in his absence, the non-management directors may select another non-management director present to preside.

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Attendance at Annual Meetings of Shareholders. Directors are expected to attend the Annual Meeting of Shareholders. All of the incumbent directors attended last year's Annual Meeting of Shareholders, except Mr. Johnson, who was not a director at that time.

Committees of the Board of Directors and their Charters. The Board has four standing committees: the Audit Committee; the Compensation and Organization Committee; the Executive Committee; and the Governance Committee. Each of these committees, other than the Executive Committee, acts pursuant to a written charter adopted by the Board of Directors. The Executive Committee operates in accordance with specific provisions of the Bylaws. A copy of each written committee charter is available on our website. You may also obtain a copy of each written committee charter by contacting Ross W. McCanless, Senior Vice President, General Counsel and Secretary, at Lowe's Companies, Inc., 1000 Lowe's Boulevard, Mooresville, North Carolina 28117.

How to Communicate with the Board of Directors and Independent Directors. Shareholders wishing to communicate with the Board of Directors may do so by sending a written communication addressed to the Board or to any member individually in care of Lowe's Companies, Inc., 1000 Lowe's Boulevard, Mooresville, North Carolina 28117. Shareholders wishing to communicate with the independent directors as a group, may do so by sending a written communication addressed to Peter C. Browning, as Chairman of the Governance Committee, in care of Lowe's Companies, Inc., 1000 Lowe's Boulevard, Mooresville, North Carolina 28117. Any communication addressed to a director that is received at Lowe's principal executive offices will be delivered or forwarded to the individual director as soon as practicable. Lowe's will forward all communications received from its shareholders that are addressed simply to the Board of Directors to the chairman of the committee of the Board of Directors whose purpose and function is most closely related to the subject matter of the communication.

Audit Committee

Number of Members: Five

Members: Richard K. Lochridge (Chairman), Robert L. Johnson, Claudine B. Malone, Stephen F. Page and O. Temple Sloan, Jr.

Number of Meetings in Fiscal Year 2004: Eight

Purpose and Functions: The primary purpose of the Audit Committee is to assist the Board of Directors in monitoring (A) the integrity of the financial statements, (B) compliance by the Company with its established internal controls and applicable legal and regulatory requirements, (C) the performance of the Company's internal audit function and independent accountants, and (D) the independent accountants' qualifications and independence. In addition, the Audit Committee is responsible for preparing the Report of the Audit Committee included in this Proxy Statement. The Audit Committee is directly responsible for the appointment, compensation and oversight of the work of the Company's independent accountants. In addition, the Audit Committee is solely responsible for pre-approving all engagements related to audit, review and attest reports required under the securities laws, as well as any other engagements permissible under the Securities Exchange Act of 1934, as amended (Exchange Act), for services to be performed for the Company by its independent accountants, including the fees and terms applicable thereto. The Audit Committee is also responsible for reviewing and approving the appointment, annual performance, replacement, reassignment or discharge of the Vice President of Internal Audit. The Audit Committee reviews the general scope of the Company's annual audit and the fees charged by the independent accountants for audit services, audit-related services, tax services and all other services; reviews with the Company's Vice President of Internal Audit the work of the Internal Audit Department; reviews financial statements and the accounting principles being applied thereto; and reviews audit results and

other matters relating to internal control and compliance with the Company's Code of Business Conduct and Ethics. The Audit Committee has

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established procedures for the receipt, retention and treatment of complaints received regarding accounting, internal accounting controls or auditing matters, and the confidential, anonymous submission by employees of concerns regarding accounting or auditing matters. Each member of the Audit Committee is financially literate, as that term is defined under NYSE rules, and qualified to review and assess financial statements. The Board of Directors has determined that more than one member of the Audit Committee qualifies as an audit committee financial expert as such term is defined by the Securities and Exchange Commission (SEC), and has designated Richard K. Lochridge, the Chairman of the Audit Committee, as the audit committee financial expert. Each member of the Audit Committee is also independent as that term is defined under Rule 10A-3(b)(1)(ii) of the Exchange Act, the Categorical Standards and the current listing standards of the NYSE. No changes have been made to the Audit Committee Charter previously approved by the Board of Directors, a copy of which is available on our website. The members of the Audit Committee annually review the Audit Committee Charter and conduct an annual performance evaluation of the Audit Committee performance with the assistance of the Governance Committee.

Compensation and Organization Committee

Number of Members: Six

Members: Paul Fulton (Chairman), Leonard L. Berry, Peter C. Browning, Dawn E. Hudson, Robert A. Ingram and Marshall O. Larsen

*Number of Meetings
In Fiscal Year 2004:* Six

*Purpose and
Functions:* The primary purpose of the Compensation and Organization Committee is to discharge the responsibilities of the Board of Directors relating to compensation, organization and succession planning for the Company's executives. The Compensation and Organization Committee annually reviews and approves the corporate goals and objectives relevant to the compensation of the Chief Executive Officer, evaluates the Chief Executive Officer's performance in light of these established goals and objectives and, based upon this evaluation, sets the Chief Executive Officer's annual compensation. The Compensation and Organization Committee also reviews and recommends the compensation of all other executive officers of the Company, and reviews and approves all annual management incentive plans and all awards under multi-year incentive plans, including equity-based incentive arrangements authorized under the Company's equity incentive compensation plans. In addition, the Compensation and Organization Committee is responsible for preparing the Report of the Compensation and Organization Committee included in this Proxy Statement. The Compensation and Organization Committee is also charged with assuring that a succession plan is maintained for the Chief Executive Officer. The Compensation and Organization Committee conducts an annual performance evaluation of its performance with the assistance of the Governance Committee. Each member of the Compensation and Organization Committee is independent within the meaning of the Categorical Standards and the current listing standards of the NYSE.

Executive Committee

Number of Members: Four

Members: Robert A. Niblock (Chairman), Peter C. Browning, Paul Fulton and Richard K. Lochridge
None

*Number of Meetings
In Fiscal Year 2004:*

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Purpose and Functions: The Executive Committee functions in the intervals between meetings of the Board to approve matters which require formal action by or on behalf of the Board on an interim basis. The Executive Committee is generally authorized to have and to exercise all powers of the Board, except those reserved to the Board of Directors by the North Carolina Business Corporation Act or the Bylaws.

Governance Committee

Number of Members: Eleven

Members: Peter C. Browning (Chairman), Leonard L. Berry, Paul Fulton, Dawn E. Hudson, Robert A. Ingram, Robert L. Johnson, Richard K. Lochridge, Marshall O. Larsen, Claudine B. Malone, Stephen F. Page and O. Temple Sloan, Jr.

Number of Meetings In Fiscal Year 2004: Six

Purpose and Functions: The purpose of the Governance Committee, which functions both as a governance and as a nominating committee, is to (A) identify and recommend individuals to the Board for nomination as members of the Board and its committees consistent with the criteria approved by the Board, (B) develop and recommend to the Board the Corporate Governance Guidelines applicable to the Company, and (C) oversee the evaluation of the Board, its committees and management of the Company. The Governance Committee's nominating responsibilities include (1) developing criteria for evaluation of candidates for the Board and its committees, (2) screening and reviewing candidates for election to the Board, (3) recommending to the Board the nominees for directors to be appointed to fill vacancies or to be elected at the next Annual Meeting of Shareholders, (4) assisting the Board in determining and monitoring whether or not each director and nominee is independent within the meaning of the Categorical Standards and applicable rules and laws, (5) recommending to the Board for its approval the membership and chairperson of each committee of the Board, and (6) assisting the Board in an annual performance evaluation of the Board and each of its committees.

The Governance Committee will consider nominees recommended by shareholders, and its process for doing so is no different than its process for screening and evaluating candidates suggested by directors, management of the Company or third parties. Effective January 28, 2005, the Board of Directors amended the Bylaws to increase the number of days any such recommendation should be submitted in writing to the Secretary of the Company to not less than 90 days nor more than 120 days prior to the first anniversary of the preceding year's Annual Meeting of Shareholders. If mailed, such notice shall be deemed to have been given when received by the Secretary. A shareholder's nomination for director shall set forth (i) as to each person whom the shareholder proposes to nominate for election or reelection as a director, (1) information relating to such person similar in substance to that required to be disclosed in solicitations of proxies for election of directors pursuant to Regulation 14A under the Exchange Act, (2) such person's written consent to being named as nominee and to serving as a director if elected, and (3) such person's written consent to provide information the Board of Directors reasonably requests to determine whether such person qualifies as an independent director under the Company's Corporate Governance Guidelines, and (ii) as to the shareholder giving the notice, (A) the name and address, as they appear on the Company's books, of such shareholder, and (B) the number of shares of Common Stock which are owned of record or beneficially by such shareholder. At the request of the Board of Directors, any person nominated by the Board for election as a director shall furnish to the Secretary that

information required to be set forth in a shareholder's notice of nomination which pertains to the nominee. The chairman of the meeting shall, if the facts warrant, determine and declare to the meeting that a nomination was not made in accordance with the provisions prescribed by the Bylaws

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and, if the chairman should so determine, the chairman shall so declare to the meeting and the defective nomination shall be disregarded.

The Governance Committee considers a variety of factors when determining whether to recommend a nominee for election to the Board of Directors, including those set forth in the Company's Corporate Governance Guidelines. In general, candidates nominated for election or re-election to the Board of Directors should possess the following qualifications:

high personal and professional ethics, integrity, practical wisdom and mature judgment;

broad training and experience in policy-making decisions in business, government, education or technology;

expertise that is useful to the Company and complementary to the background and experience of other directors;

willingness to devote the amount of time necessary to carry out the duties and responsibilities of Board membership;

commitment to serve on the Board over a period of several years in order to develop knowledge about the Company's principal operations; and

willingness to represent the best interests of all shareholders and objectively appraise management performance.

In 2004, the Governance Committee engaged an executive search firm to assist the committee on an ongoing basis in fulfilling its responsibility to identify and evaluate candidates for nomination and re-nomination by the Governance Committee for election to the Board of Directors. Members of the Governance Committee, in consultation with representatives of the executive search firm, nominated Robert L. Johnson for membership to the Board of Directors in December 2004, and he was subsequently elected as a director by the Board of Directors on January 28, 2005.

Robert A. Ingram has informed the Governance Committee that no later than December 31, 2005, he will be serving on no more than five other public company boards.

The Governance Committee has begun a review of the appropriate process to provide that director nominees be elected by an affirmative vote of the majority of shareholder votes cast, rather than the current plurality vote standard. Any required shareholder action to implement the majority vote standard will be submitted for shareholder approval at the 2006 Annual Meeting of Shareholders.

Each member of the Governance Committee is independent within the meaning of the Categorical Standards and the current listing standards of the NYSE. The Governance Committee annually reviews and evaluates its own performance.

Table of Contents**SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The following table shows the beneficial ownership of Common Stock as of April 1, 2005, except as otherwise noted, by each director, each nominee for election as a director, the named executive officers listed in the Summary Compensation Table, each shareholder known by the Company to be the beneficial owner of more than 5% of the Common Stock, and the incumbent directors, director nominees and executive officers as a group. Except as otherwise indicated below, each of the persons named in the table has sole voting and investment power with respect to the securities beneficially owned by them as set forth opposite their name, subject to community property laws where applicable.

Name or Number of Persons in Group	Number of Shares ⁽¹⁾ ⁽²⁾	Percent of Class
Leonard L. Berry	17,234	*
Gregory M. Bridgeford	475,455	*
Peter C. Browning	27,748	*
Paul Fulton	48,875	*
Dawn E. Hudson	12,401	*
Robert A. Ingram	12,001	*
Robert L. Johnson	0	*
Marshall O. Larsen	1,334	*
Richard K. Lochridge	29,113	*
Claudine B. Malone	24,001	*
Robert A. Niblock	541,811	*
Stephen F. Page	3,334	*
Dale C. Pond	431,020	*
O. Temple Sloan, Jr.	74,421	*
Larry D. Stone	843,271	*
Robert L. Tillman	2,137,420	*
Incumbent Directors, Director Nominees and Executive Officers as a Group (39 in total)	8,143,298	*
State Street Bank and Trust Company, Trustee 225 Franklin Street Boston, MA 02110	60,361,183 ⁽³⁾	7.8%
Capital Research and Management Company 333 South Hope Street Los Angeles, CA 90071	98,703,300 ⁽⁴⁾	12.7%

* Less than 1%

(1) Includes shares that may be acquired within 60 days under the Company's stock option plans as follows: Mr. Berry 9,334 shares; Mr. Bridgeford 276,451 shares; Mr. Browning 20,001 shares; Mr. Fulton 20,001 shares; Ms. Hudson 12,001 shares; Mr. Ingram 12,001 shares; Mr. Larsen 1,334 shares; Mr. Lochridge 20,001 shares; Ms. Malone 12,001 shares; Mr. Niblock 424,694 shares; Mr. Page 1,334 shares; Mr. Pond 348,700 shares; Mr. Sloan 1,334 shares; Mr. Stone 588,272 shares; Mr. Tillman 1,609,768 shares; and all executive officers and directors as a group 5,577,097 shares.

(2) Does not include phantom shares credited to the accounts of executive officers and directors under the Company's deferral plans as of April 1, 2005 as follows: Mr. Bridgeford 58,786 shares; Mr. Browning 4,444 shares;

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Mr. Fulton 4,512 shares; Mr. Ingram 6,361 shares; Mr. Page 1,364 shares; and all participating executive officers and directors as a group 94,983 shares.

- (3) Shares held at December 31, 2004, according to a Schedule 13G filed on February 22, 2005 with the SEC, which total includes 39,248,631 shares held in trust for the benefit of the Company's 401(k) Plan participants. Shares allocated to participants' 401(k) plan accounts are voted by the participants by giving voting instructions to State Street Bank. A fiduciary committee directs the Trustee in the manner in which shares not voted by participants are to be voted. This committee has seven members, including Mr. Stone.
- (4) Shares held at December 31, 2004, according to a Schedule 13G/A filed on February 14, 2005 with the SEC. That filing indicates that Capital Research and Management Company has sole dispositive power over all of the 98,703,300 shares shown.

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SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Based solely upon a review of Forms 3 and 4, and any amendments thereto, furnished to the Company pursuant to Rule 16a-3(e) of the Exchange Act during Fiscal Year 2004, Forms 5, and any amendments thereto, furnished to the Company with respect to Fiscal Year 2004, and other written representations from certain reporting persons, the Company believes that all filing requirements under Section 16(a) applicable to its officers, directors and greater than 10% beneficial owners have been complied with except that, due to an administrative oversight, Stephen F. Page and Robert A. Ingram were inadvertently late in filing one report each on Form 4 relating to their election to defer their annual retainers into phantom st