1986 ANNUAL REPORT

IN 1986 . . .

SALES INCREASED 44%

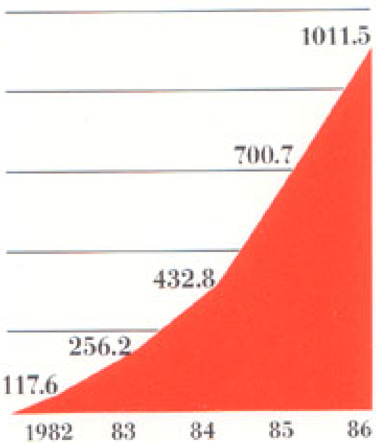
NET EARNINGS INCREASED 190%

EARNINGS PER SHARE INCREASED 173%

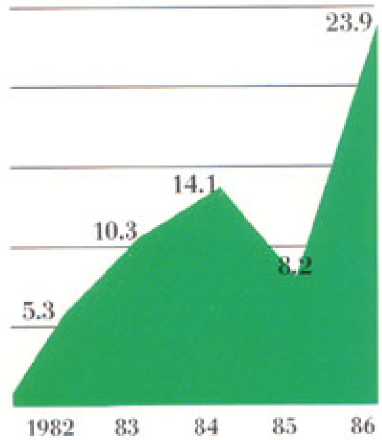
OUR PEOPLE MADE THE DIFFERENCE

THE HOME DEPOT®

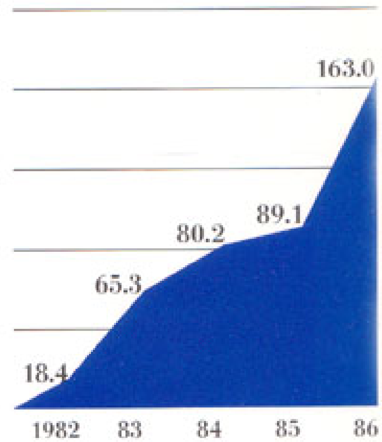
NET SALES
$ in millions



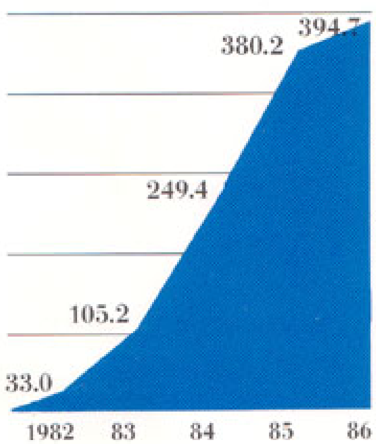
NET EARNINGS
$ in millions



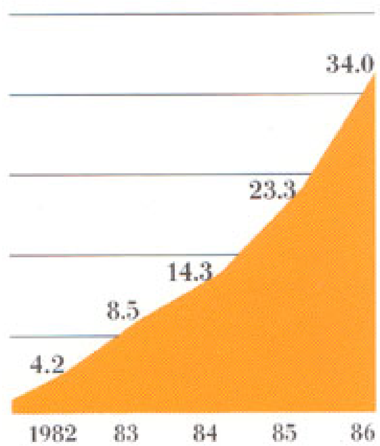
STOCKHOLDERS EQUITY
$ in millions



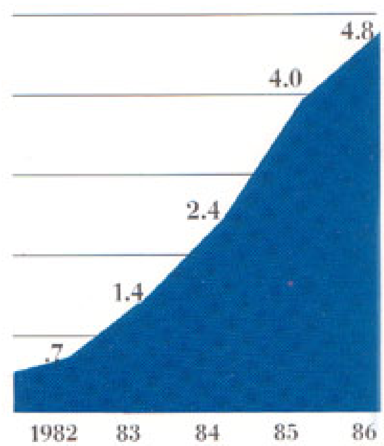
TOTAL ASSETS
$ in millions



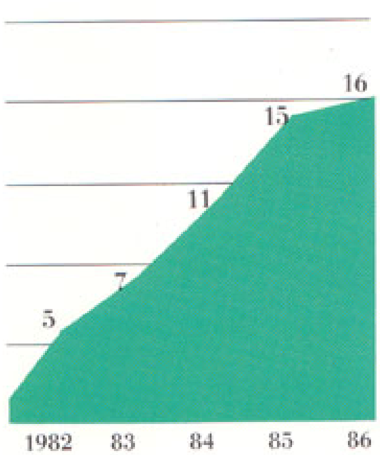
CUSTOMER COUNT
in millions



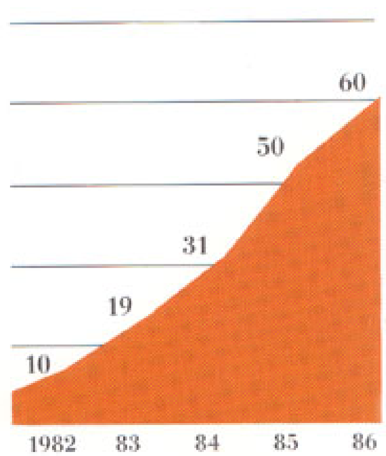
STORE SQUARE FOOTAGE
in millions



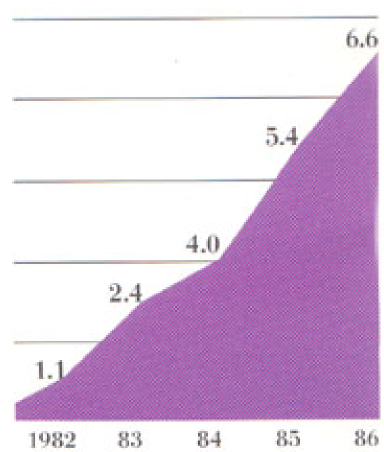
NUMBER OF MARKETS



NUMBER OF STORES



NUMBER OF EMPLOYEES
in thousands



THE COMPANY

The Home Depot, Inc. operates retail "warehouse" stores selling a wide assortment of building materials and home improvement products primarily to the "do-it-yourself" and home remodeling markets. Stores are clustered in the Atlanta, Orlando, Tampa Bay, Jacksonville, Southern Florida, Phoenix, Tucson, Houston, Los Angeles, San Diego, San Francisco Bay, New Orleans, and Dallas/Ft. Worth markets, as well as individual stores in Baton Rouge, Shreveport and Mobile.

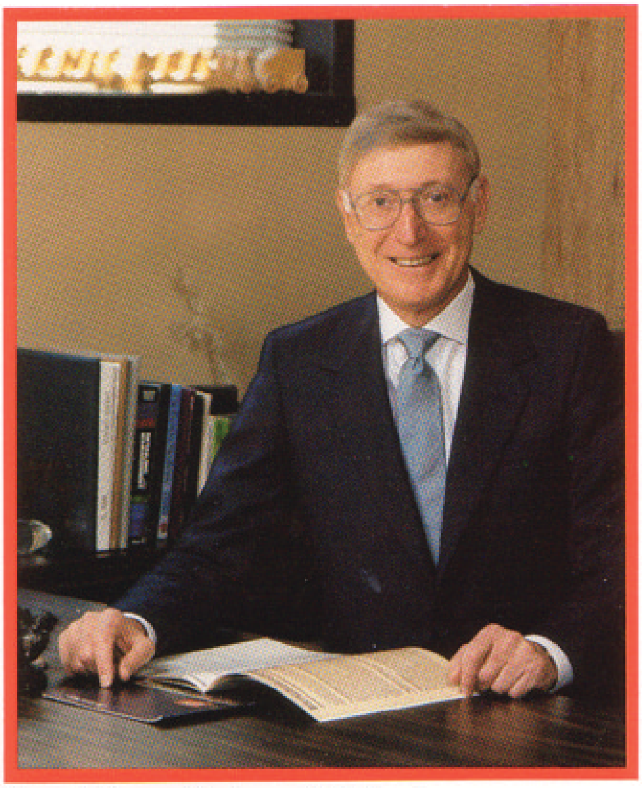
FINANCIAL HIGHLIGHTS

Dollars in thousands except per share data	Fiscal Year 1986	Fiscal Year 1985	% Increase (Decrease) 1986	% Increase (Decrease) 1985
Operating Results				
Net Sales	$ 1,011,462	$ 700,729	44.3%	61.9%
Gross Profit	278,160	181,457	53.3	58.7
Earnings Before Income Taxes	47,073	11,619	305.1	(55.7)
Net Earnings	23,873	8,219	190.5	(41.8)
Earnings Per Common and Common Equivalent Share	$ .90	$ .33	172.7	(41.1)
Financial Position				
Working Capital	$ 91,076	$ 106,451	(14.4)	6.3
Merchandise Inventories	167,115	152,700	9.4	81.7
Property and Equipment, net	168,981	160,816	5.1	118.6
Total Assets	394,741	380,193	3.8	52.5
Long-term Debt	116,907	199,943	(41.5)	69.5
Stockholders' Equity	$ 163,042	$ 89,092	83.0	11.1
Ratio of Current Assets to Current Liabilities	1.85:1	2.27:1		
Ratio of Long-term Debt to Stockholders' Equity	0.72:1	2.24:1		
Statistics[1]				
Number of Stores Open at Year End	60	50	20.0	61.3
Store Square Footage at Year End	4,828	3,989	21.0	67.3
Weighted Average Sales Per Square Foot	$ 229.65	$ 223.25	2.9	(9.6)
Number of Customer Transactions	34,020	23,324	45.9	63.6
Average Amount of Sale Per Transaction	$ 29.73	$ 30.04	(1.0)	(1.1)
Weighted Average Weekly Sales Per Operating Store	$ 355,400	$ 342,500	3.8	(6.3)
Average Inventory Per Store at Year End	$ 2,785	$ 3,054	(8.8)	12.7
Inventory Turnover[2]	4.6	4.1	12.0	(7.7)

(1) Number of square feet, customer transactions and average inventory per store are in thousands.

(2) Computed by dividing cost of merchandise sold by average inventory (beginning of year plus quarterly ending inventory divided by five).

TO OUR SHAREHOLDERS:



Bernard Marcus, Chairman of the Board

We entered 1986 with three primary objectives: to increase our profitability; to continue to deepen our penetration of the do-it-yourself retail market; and to rededicate ourselves to the successful do-it-yourself warehouse concept pioneered by us seven years ago. We are pleased to say that we achieved these goals.

As the financial data on the preceeding pages clearly demonstrate, fiscal 1986 was an outstanding year, highlighted by our surpassing one billion dollars in sales coupled with record earnings. What is not so readily apparent is that because of systemic improvements in several key areas, including merchandising, and through the training and re-training of personnel, we are operating the company more efficiently and effectively than ever before. Because of these factors, we believe The Home Depot is entering a new dynamic growth phase.

The backdrop for 1986 was the previous year's disappointing performance. In the 14 month period ended February 2, 1986, substantial time and dollars were spent to accelerate our growth from 22 to 50 stores and to increase our markets from seven to fifteen. In addition, there was increased competition from several Home Depot imitators.

Out of that experience, our plan for 1986 called for digesting our dramatic expansion, improving our operating systems, enhancing our merchandising and upgrading our personnel training programs. We also planned for continued expansion but at a more moderate rate and primarily in those markets where we already had a presence. The key to making our program work was our people. If they produced, we would succeed. They did! And because they made things happen, we were able to set a number of performance records.

Our history, short as it is, has demonstrated that just opening new stores is not the only path to increasing earnings. Furthermore, as our industry has certainly learned, opening large "warehouse-type" stores does not guarantee profits. The Home

"Because of systemic improvements in several key areas, including merchandising, and through the training and retraining of personnel, we are operating the company more efficiently and effectively than ever before."

Depot approach has always been predicated on a philosophy that says that only by meeting the needs of our customers can we prosper. And we can only serve our customers if we develop a bond with them—a bond based upon providing quality products, at competitive prices, by people trained to provide an "excellence in service".

We have even taken these basic retailing guidelines a step or two further. Since we try to develop markets by turning people into "do-it-yourselfers", special care is given to making our employees knowledgeable about the products they sell and increasing their concern for the home improvement projects our customers undertake.

In addition to our emphasis on returning our stores to the higher level of sales and profits we seek, The Home Depot continued its expansion program. Except for two stores in San Jose, California, the new stores we opened in 1986 were all in existing markets. As we stated, the objective of this strategy was to achieve further market penetration, thereby increasing our dominance in those regions.

Our plans for the coming year are to add approximately sixteen new stores, almost all of which will be in existing markets or in markets contiguous to Georgia, Florida, Arizona, Texas and California.

Finally, in 1986 we further strengthened our financial position. In July, we sold six of our stores under a sale/leaseback arrangement which generated cash of approximately $32,000,000. In October, we sold 2,990,000 new shares of The Home Depot common stock, adding approximately $48,000,000 to our treasury. These transactions improved our balance sheet by allowing us to lower our debt to equity ratio and provide the funds which will be used to finance our expansion programs.

By redirecting our efforts in these ways, we were, in 1986, able to regain our momentum and set the stage for our future growth.

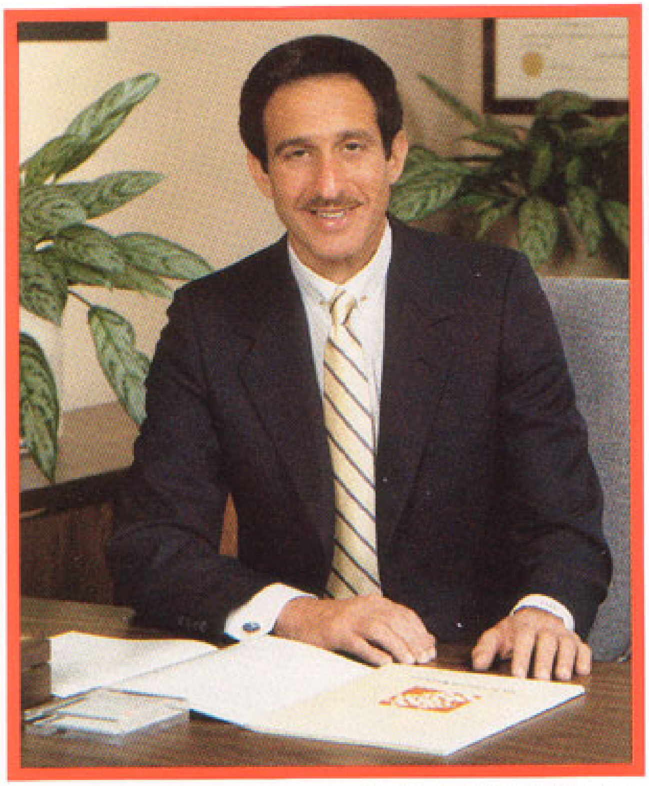
Very truly yours,

Bernard Marcus

Bernard Marcus

Arthur M. Blank

Arthur M. Blank



Arthur M. Blank, President

"The key to making our program work was our people. If they produced, we would succeed. They did!"

OUR PEOPLE MADE THE DIFFERENCE

From the very moment merchandise arrives at the store, our people are hard at work. They begin by stocking each item so that it can be easily located by our customers.

During the brief existence of The Home Depot, the key to our success has been our dedication to satisfying our customers' do-it-yourself home improvement needs. At every level throughout our organization, this basic commitment has guided us to create a system that can respond to our customers, quickly and effectively. Each and every business day you can see this philosophy in action on our sales floor where the commitment to understanding our customers, whether they be amateurs, professional do-it-yourselfers or small contractors, results in increasing sales and a growing number of customer transactions. This commitment extends beyond employees on the floor—to every member of The Home Depot team.

In the do-it-yourself home improvement warehouse business, we recognize that every man or woman who walks into one of our stores has a different project in mind. Some of them simply need to install a shelf or ceiling fan; others undertake complex and ambitious projects—as complicated as building an entire house from the ground up. Nevertheless, we understand that in many ways all our customers have the same basic requirements.

Having the right products available both in depth and breadth of assortment, is primary. Each of our stores carries approximately $4,500,000 of inventory, at retail, consisting of approximately

25,000 separate stock-keeping-units, which covers the range of almost all of the needs of those project doers. We must have a sufficient depth of merchandise to ensure that what our customers are seeking will be available—right then and there, when they want it.

Our customers also demand that the products we sell them be the best. They want to be assured that they are buying quality merchandise that they can rely upon. The Home Depot offers nationally advertised brands, which are recognizable, as well as lesser known brands that our merchants have carefully chosen. At The Home Depot, every product we sell is guaranteed by the manufacturer or by The Home Depot itself. This policy strengthens the bond between the consumer and ourselves.

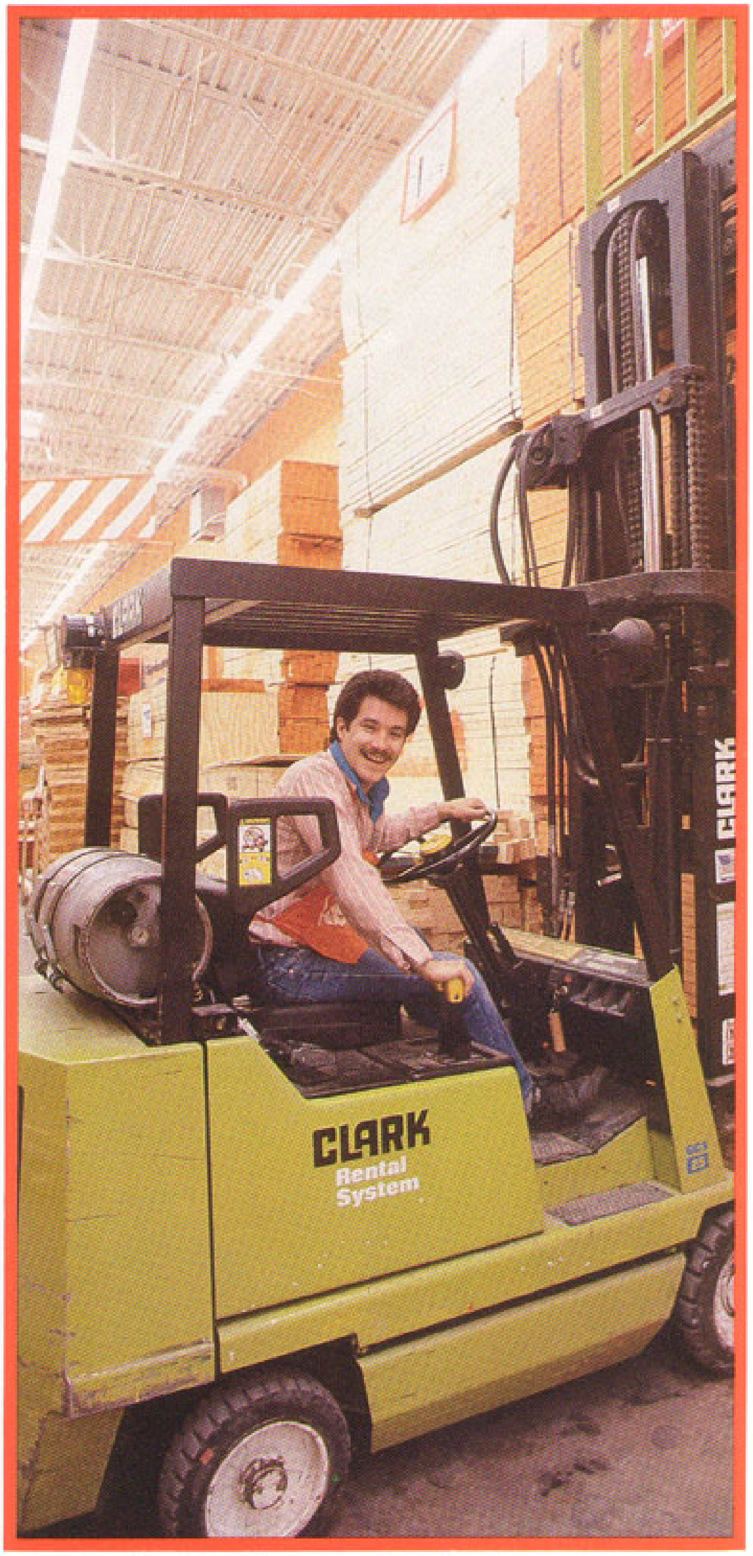
Receiving value for their dollar is another requirement of our customers. They want to know that the prices they pay are fair and competitive. At The Home Depot, we consistently attempt to keep our prices at the lowest possible level. Our warehouse format—buying direct from the manufacturer and shipping directly to the stores—keeps overhead low and allows us to pass those savings on to our customers. Furthermore, emphasizing higher volume and lower margins with a high inventory turnover ensures they will receive the best value for their dollar, day in and day out.

Those who work in our advertising department know the importance of a well thought out marketing program. Through effective direct mail and newspaper ads, and hard-hitting radio and television commercials, the word goes out to every Home Depot do-it-yourselfer.

From left to right: Marshall L. Day, Controller; Ronald M. Brill, Sr. Vice President/Treasurer—Chief Financial Officer; E. Dennis Ross, Sr. Vice President—Management Information Systems.

OUR PEOPLE MADE THE DIFFERENCE

It's the friendly manner in which we go about our business that our customers notice first. Whether we're helping with a complex do-it-yourself project, or assisting by pulling merchandise we're doing everything we can to make our customers happy and satisfied.



Beyond these considerations, our customers also want to be able to do their shopping in an environment that allows them to make their purchases in a timely fashion and with relative ease. At The Home Depot, we are constantly improving our systems, from the design of our stores to the check-out counters, thus facilitating an easier flow of merchandise even on the busiest of days. Our goal is to minimize the amount of time it takes our customers to purchase merchandise, no matter how large or bulky.

The backbone of our success is the intelligent and knowledgeable sales people at The Home Depot stores, men and women whose dedication to customer service is paramount. What makes them so special is their honest concern for their customers. We attempt to hire only those people who are naturally friendly, trainable and who will enjoy being involved in our customers' projects.

Home Depot salespeople know home improvement products and their basic applications. They can teach and demonstrate to our customers how to achieve success with their projects, whether simple or complex. They must know the types of tools and basic materials necessary and the quantities required to complete their customers' projects. Often, the expert advice they provide creates a bond that results in continuous contact with the customer throughout the duration of a project. Each merchandising area is headed by a team of people who are specially trained. Running a high volume Home Depot store encompasses the preparation of the merchandise orders, assisted by computerized systems, the receiving of the merchandise with the aid of computerized documentation, stocking and merchandising the products.

In order to attain the knowledge necessary to give our valued customers advice, every Home Depot store employee attends regular training sessions on the use of all products that we sell. In addition, they receive instructions on our basic philosophy of communication with the customer and with each other. Special training is also conducted with our cashiers and lot personnel so they can approach the customer with the same cheerfulness and efficiency that culminates in a positive shopping experience for all of our shoppers.

Indeed, behind each of our friendly and knowledgeable sales persons is a whole corps of others in our organization, the unsung heroes who make our philosophy work. At every level, the drive to service our customers translates into superior retailing performance.

Our enthusiasm and desire to help our customers doesn't stop with the selection of merchandise. Specially trained cashiers display the same cheerfulness and efficiency found throughout each Home Depot. It's an attitude that permeates every employee, every manager, every member of The Home Depot team.

From left to right: William J. Salyer, Vice President—Construction and Store Planning; William E. Harris, Sr. Vice President—Corporate Development; Larry Mercer, Vice President—Store Operations, East Coast; Nathan Morton, Sr. Vice President—Operations.

OUR PEOPLE MADE THE DIFFERENCE

All our salespersons have at their fingertips the kind of help only a state-of-the-art computerized inventory control system can provide. Ours is a system designed to maintain a wide selection of products at all times.

Our merchandisers, for example, are continuously looking for new products and are sensitive to new trends. These creative people work with manufacturers, determining which products can best serve the needs of our customers. In fact, our merchants often help design packaging and set quality standards for many new products introduced throughout our stores. The advertising department is continually developing new ideas and promotions to help stimulate the new shopper to visit our stores and create further excitement for our loyal patrons. In fact, The Home Depot people within all other areas of the company—from accounting, personnel and security to data processing, real estate and all of the other administrative areas—make The Home Depot's philosophy of satisfying the customer's needs a reality.

Since The Home Depot understands the high priority of servicing the needs of customers, we take the time and effort necessary to ensure that every employee within our organization remains fully aware of the importance of satisfying customers' needs. Every Home Depot employee attends regular training sessions—on products, merchandising, finance, etc. But most important, we emphasize our basic philosophy of servicing consumers and satisfying their needs.

From the moment a customer selects an item from The Home Depot, to the time it's picked up at our loading dock, it's our people, indeed, who make the difference—every year, all year long.

By adhering to this philosophy, The Home Depot has actually expanded the market of do-it-yourselfers. We have instilled in our patrons the know-how and confidence to undertake home improvement projects that are increasingly complex. In doing so, we have increased the ranks of do-it-yourselfers while creating a loyalty to our company. Once our customers experience our prices, our assortment and the friendly, high-quality service that The Home Depot offers, they find that they have no reason to shop at any other home improvement store.

Over the years, The Home Depot's customer base has grown to include amateurs, home improvement professionals, and contractors. In every case, the key to our success has been service, and this is what has made us a company with the potential to continue to grow in any economic climate and in any region of the country.

From left to right: James Inglis, Vice President—Merchandising; Bruce Berg, Vice President—Merchandising; Steve Burrows, Vice President—Advertising; William G. Kelly, Executive Vice President.

SELECTED FINANCIAL DATA

Amounts in thousands except per share data	**Fiscal Year Ended** **February 1, 1987**	February 2, 1986	February 3, 1985[1]	January 29, 1984	January 30, 1983
Selected Consolidated Statement of Earnings Data					
Net Sales	**$1,011,462**	$700,729	$432,779	$256,184	$117,645
Gross Profit	**278,160**	181,457	114,319	70,014	33,358
Earnings Before Income Taxes	**47,073**	11,619	26,252	18,986	9,870
Net Earnings	**$ 23,873**	$ 8,219	$ 14,122	$ 10,261	$ 5,315
Earnings Per Common and Common Equivalent Share					
Net Earnings	**$ .90**	$ .33	$ .56	$ .41	$ .24
Weighted Average Number of Common and Common Equivalent Shares	**26,580**	25,247	25,302	24,834	22,233
Selected Consolidated Balance Sheet Data					
Working Capital	**$ 91,076**	$106,451	$100,110	$ 49,318	$ 12,901
Total Assets	**394,741**	380,193	249,364	105,230	33,014
Long-term Debt	**116,907**	199,943	117,942	4,384	236
Stockholders' Equity	**$ 163,042**	$ 89,092	$ 80,214	$ 65,278	$ 18,354

(1) 53 week fiscal year, all others were 52 week fiscal years.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

The data below reflect the percentage relationship between sales and major categories in the Consolidated Statements of Earnings and selected sales data and the percentage change in the dollar amounts of each of the items.

	Fiscal Year[1]			Percentage Increase (Decrease) of Dollar Amounts	
	1986	1985	1984	**1986 v 1985**	1985 v 1984
Selected Consolidated Statements of Earnings Data					
Net Sales	**100.0%**	100.0%	100.0%	**44.3%**	61.9%
Gross Profit	**27.5**	25.9	26.4	**53.3**	58.7
Costs and Expenses:					
Selling and Store Operating	**18.7**	19.2	17.2	**40.9**	80.5
Preopening	**.3**	1.1	.4	**(57.5)**	292.3
General and Administrative	**2.7**	2.9	3.0	**33.2**	60.4
Net Gain on Disposition of Property and Equipment	**—**	(.2)	—	**—**	—
Interest Income	**(.1)**	(.2)	(1.2)	**(30.7)**	(71.7)
Interest Expense	**1.2**	1.4	.9	**20.0**	147.6
	22.8	24.2	20.3	**36.1**	92.9
Earnings Before Income Taxes	**4.7**	1.7	6.1	**305.1**	(55.7)
Income Taxes	**2.3**	.5	2.8	**582.4**	(72.0)
Net Earnings	**2.4%**	1.2%	3.3%	**190.5%**	(41.8%)
Selected Consolidated Sales Data					
Number of Customer Transactions	**34,020,000**	23,324,000	14,256,000	**45.9%**	63.6%
Average Amount of Sale Per Transaction	**$ 29.73**	$ 30.04	$ 30.36	**(1.0)**	(1.1)
Weighted Average Weekly Sales Per Operating Store	**$ 355,400**	$ 342,500	$ 365,500	**3.8**	(6.3)
Weighted Average Sales Per Square Foot	**$ 229.65**	$ 223.25	$ 247.03	**2.9**	(9.6)

(1) Fiscal years 1986, 1985 and 1984 refer to the fiscal years ended February 1, 1987, February 2, 1986 and February 3, 1985, respectively. Fiscal 1984 consisted of 53 weeks while 1986 and 1985 each consisted of 52 weeks.

Results of Operations

For an understanding of the significant factors that influenced the Company's performance during the past three fiscal years, the following discussion should be read in conjunction with the consolidated financial statements appearing elsewhere in this annual report.

Fiscal Year Ended February 1, 1987 Compared to February 2, 1986

Sales for fiscal year 1986 increased 44% from $700,729,000 to $1,011,462,000. The increase in sales is attributable to 10 new stores opened during the year, full year sales for the 20 new stores which were opened in 1985, the comparable store-for-store sales increase of 7% and the success of new marketing and promotional activities. Included in the comparable store-for-store sales calculation are stores in existing markets which have been open at least 12 months and stores in new markets which have been open at least 15 months.

Gross profit as a percent of sales increased in 1986 to 27.5% from 25.9%. During the year we enhanced our merchandising through the addition of new product lines, stricter quality standards than ever before and by an ongoing review of the pricing and promotional structure on an item by item basis in all of our markets. Improved store operating systems supplied timely and more accurate information which helped to control inventory shrinkage. In addition, new training programs geared toward store managers, assistant managers and department heads enabled our personnel to increase sales on a comparable store basis while increasing margins at the same time.

Costs and expenses as a percent of sales decreased in 1986 to 22.8% from 24.2% primarily because higher sales volume from maturing stores and from new stores opened within mature markets enabled us to achieve certain economies of scale in our selling and store operating expenses. In addition, preopening expenses decreased as a result of opening 10 new stores in 1986 versus 20 in 1985. Net interest expense, although less as a percent of sales, increased in dollar amount due to higher average outstanding borrowings during 1986.

As a result of the enactment of the Tax Reform Act of 1986, which retroactively repealed the investment tax credit, the Company's combined Federal and state effective income tax rate was increased to 49.3% during 1986. The effective tax rate in 1985 was 29.3%, which resulted from a high amount of investment and other tax credits as a percentage of the total tax provision. The corporate tax rates enacted by this new legislation are expected to decrease the Company's combined effective tax rate for the fiscal years ending 1988 and 1989 to approximately 43% and 38%,

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION *(continued)*

respectively. In addition, the Financial Accounting Standards Board has issued an exposure draft dealing with accounting for income taxes. If enacted, this pronouncement would require the Company to revalue its deferred tax liability to reflect changes in current corporate tax rates. Although the exposure draft is subject to revision, its effect on the Company is anticipated to yield a reduction in its outstanding deferred tax liability in recognition of the decrease in corporate tax rates enacted by the Tax Reform Act of 1986.

Net earnings as a percent of sales increased to 2.4% from 1.2% in 1985 due to improved gross margin and lower operating expenses partially offset by the increase in the Company's effective income tax rate, as described above.

Fiscal Year Ended February 2, 1986 Compared to February 3, 1985

Sales for fiscal year 1985 increased 62% from $432,779,000 to $700,729,000. The growth was attributable to the opening of 20 new stores (one closing), second year sales increases from the three new stores opened and the nine former Bowater Home Center stores acquired in 1984, and comparable store increases of 2.3% achieved despite a 52 week year in fiscal 1985 versus a 53 week year in fiscal 1984. In addition, the weighted average weekly sales per operating store declined 6% in 1985 due to the significant increase in the ratio of the number of new stores to total stores in operation because new stores have a lower sales rate than mature stores until they establish market share.

Gross profit in 1985 increased 59% from $114,319,000 to $181,457,000. This increase was due to the increased sales and was partially offset by a reduction in the gross profit margin from 26.4% to 25.9%. The reduction is primarily due to lower margins achieved while establishing market presence in new markets.

Costs and expenses increased 93% during 1985 and as a percent of sales, from 20.3% to 24.2%. The increase in selling and store operating expenses, preopening expenses and net interest expense is due to the opening of 20 new stores, the costs associated with the former Bowater Home Center stores, and the related cost of building market share. The large percentage of new stores which have lower sales but fixed occupancy and certain minimum operating expenses tends to cause the percentage of selling and store operating costs to increase as a percentage of sales. The net gain on disposition of property and equipment is discussed fully in note 7 to the financial statements.

Earnings before income taxes decreased 56% from $26,252,000 to $11,619,000 resulting from the increase in operating expenses to support the Company's expansion program. The Company's effective income tax rate declined from 46.2% to 29.3% resulting from an increase in investment and other tax credits as a percentage of the total tax provision. As a percentage of sales, earnings decreased from 3.3% in 1984 to 1.2% in 1985 due to the increase in operating expenses as discussed above.

Liquidity and Capital Resources

Cash flow generated from store operations provides the Company with a significant source of liquidity since sales are on a cash-and-carry basis. In addition, a significant portion of the Company's inventory is financed under vendor credit terms. The Company has supplemented its operating cash flow from time to time with bank credit and equity and debt financing. During fiscal 1986, working capital of $48,188,000 was provided by the sale of 2,990,000 shares of common stock in a public offering, $33,809,000 generated from operations and $31,673,000 from the sale-and-leaseback of six store facilities. This cash flow enabled the Company to reduce borrowings under its revolving credit agreement with a group of banks by $88,000,000 during fiscal 1986 while funding $52,363,000 of capital expenditures.

The Company plans to open 16 new stores during fiscal 1987, of which it is anticipated that eight stores will be owned and seven will be leased with one site yet to be determined. The cost of new stores to be constructed and owned by the Company is expected to range from $4,500,000 to over $8,000,000 depending on location. The cost of stores to be leased ranges from approximately $800,000 to over $1,800,000. In addition, each new store will require $1,700,000 to finance inventories net of vendor financing.

The Company plans on opening approximately 20 new stores during fiscal 1988. In order to accomplish this it is planned that many of those locations will have to be acquired during 1987. This may include the purchase of land and construction of buildings or the purchase of leases with the appropriate improvements and construction commencing during this fiscal year.

Management believes that the availability of funds under its $200,000,000 revolving credit agreement and working capital generated by operations will enable the Company to complete its store expansion program through fiscal 1987 and 1988.

Impact of Inflation and Changing Prices

Although the Company cannot accurately determine the precise effect of inflation on its operations, it does not believe inflation has had a material effect on sales or results of operations.

CONSOLIDATED STATEMENTS OF EARNINGS

	Fiscal Year Ended		
	February 1, 1987 (52 weeks)	February 2, 1986 (52 weeks)	February 3, 1985 (53 weeks)
Net Sales (note 2)	**$1,011,462,000**	$700,729,000	$432,779,000
Cost of Merchandise Sold	**733,302,000**	519,272,000	318,460,000
Gross Profit	**278,160,000**	181,457,000	114,319,000
Operating Expenses:			
Selling and Store Operating Expenses	**189,290,000**	134,354,000	74,447,000
Preopening Expenses	**3,198,000**	7,521,000	1,917,000
General and Administrative Expenses	**27,376,000**	20,555,000	12,817,000
Total Operating Expenses	**219,864,000**	162,430,000	89,181,000
Operating Income	**58,296,000**	19,027,000	25,138,000
Other Income (Expense):			
Net Gain on Disposition of Property and Equipment (note 7)	**—**	1,317,000	—
Interest Income	**1,026,000**	1,481,000	5,236,000
Interest Expense (note 3)	**(12,249,000)**	(10,206,000)	(4,122,000)
	(11,223,000)	(7,408,000)	1,114,000
Earnings Before Income Taxes	**47,073,000**	11,619,000	26,252,000
Income Taxes (note 4)	**23,200,000**	3,400,000	12,130,000
Net Earnings	**$ 23,873,000**	$ 8,219,000	$ 14,122,000
Earnings Per Common and Common Equivalent Share (note 5)	**$ .90**	$ .33	$ .56
Weighted Average Number of Common and Common Equivalent Shares	**26,580,000**	25,247,000	25,302,000

See accompanying notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

Assets	February 1, 1987	February 2, 1986
Current Assets:		
Cash and Cash Equivalents	$ 17,124,000	$ 9,671,000
Accounts Receivable, Net (note 7)	9,937,000	21,505,000
Refundable Income Taxes	—	3,659,000
Merchandise Inventories	167,115,000	152,700,000
Prepaid Expenses	3,713,000	2,526,000
Total Current Assets	197,889,000	190,061,000
Property and Equipment, At Cost (note 3):		
Land	42,990,000	44,396,000
Buildings	48,190,000	38,005,000
Furniture, Fixtures, and Equipment	45,233,000	34,786,000
Leasehold Improvements	34,670,000	23,748,000
Construction in Progress	12,799,000	27,694,000
	183,882,000	168,629,000
Less Accumulated Depreciation and Amortization	14,901,000	7,813,000
Net Property and Equipment	168,981,000	160,816,000
Cost in Excess of the Fair Value of Net Assets Acquired, net of accumulated amortization of $1,363,000 at February 1, 1987 and $730,000 at February 2, 1986 (note 2)	23,928,000	24,561,000
Other	3,943,000	4,755,000
	$394,741,000	$380,193,000

CONSOLIDATED BALANCE SHEETS *(continued)*

Liabilities and Stockholders' Equity	February 1, 1987	February 2, 1986
Current Liabilities:		
Accounts Payable	$ 67,800,000	$ 53,881,000
Accrued Salaries and Related Expenses	11,039,000	5,397,000
Other Accrued Expenses	21,985,000	13,950,000
Income Taxes Payable (note 4)	5,751,000	—
Current Portion of Long-Term Debt (note 3)	238,000	10,382,000
Total Current Liabilities	106,813,000	83,610,000
Long-Term Debt, Excluding Current Installments (note 3):		
Convertible Subordinated Debentures	100,250,000	100,250,000
Other Long-Term Debt	16,657,000	99,693,000
	116,907,000	199,943,000
Other Long-Term Liabilities	991,000	861,000
Deferred Income Taxes (note 4)	6,988,000	6,687,000
Stockholders' Equity (note 5):		
Common stock, par value $.05. Authorized: 50,000,000 shares; issued and outstanding —28,380,609 shares at February 1, 1987 and 25,150,063 shares at February 2, 1986	1,419,000	1,258,000
Paid-in Capital	98,816,000	48,900,000
Retained Earnings	62,807,000	38,934,000
Total Stockholders' Equity	163,042,000	89,092,000
Commitments and Contingencies (notes 5, 6 and 8)		
	$394,741,000	$380,193,000

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Fiscal years ended February 1, 1987, February 2, 1986 and February 3, 1985

	Common Stock		Paid-in	Retained	Total Stockholders'
	Shares	Amount	Capital	Earnings	Equity
Balance, January 29, 1984	24,893,709	$1,245,000	$47,440,000	$16,593,000	$ 65,278,000
Shares Sold Under Employee Stock Purchase Plan (note 5)	29,972	1,000	396,000	—	397,000
Shares Sold Under Employee Incentive Stock Option Plan (note 5)	136,117	7,000	400,000	—	407,000
Repurchase and Retirement of Shares Acquired Pursuant to the Exercise of Stock Options	(4,610)	—	(80,000)	—	(80,000)
New York Stock Exchange Listing Expenses	—	—	(140,000)	—	(140,000)
Tax Effect of Sale of Option Shares by Employees	—	—	230,000	—	230,000
Net Earnings	—	—	—	14,122,000	14,122,000
Balance, February 3, 1985	25,055,188	1,253,000	48,246,000	30,715,000	80,214,000
Shares Sold Under Employee Stock Purchase Plan (note 5)	20,967	1,000	317,000	—	318,000
Shares Sold Under Employee Incentive Stock Option Plan (note 5)	78,431	4,000	157,000	—	161,000
Repurchase and Retirement of Shares Acquired Pursuant to the Exercise of Stock Options	(4,523)	—	(63,000)	—	(63,000)
Tax Effect of Sale of Option Shares by Employees	—	—	243,000	—	243,000
Net Earnings	—	—	—	8,219,000	8,219,000
Balance, February 2, 1986	25,150,063	1,258,000	48,900,000	38,934,000	89,092,000
Sale of Common Stock in a Public Offering, Net of Expenses of Sale	2,990,000	149,000	48,039,000	—	48,188,000
Shares Sold Under Employee Stock Purchase Plan (note 5)	78,125	4,000	782,000	—	786,000
Shares Sold Under Employee Incentive Stock Option Plan (note 5)	170,089	8,000	1,243,000	—	1,251,000
Repurchase and Retirement of Shares Acquired Pursuant to the Exercise of Stock Options	(7,668)	—	(128,000)	—	(128,000)
Tax Effect of Sale of Option Shares by Employees	—	—	(20,000)	—	(20,000)
Net Earnings	—	—	—	23,873,000	23,873,000
Balance, February 1, 1987	28,380,609	$1,419,000	$98,816,000	$62,807,000	$163,042,000

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

	Fiscal Year Ended		
	February 1, 1987	February 2, 1986	February 3, 1985
Sources of Working Capital:			
Net Earnings	**$ 23,873,000**	$ 8,219,000	$ 14,122,000
Items Which Do Not Use Working Capital:			
Depreciation and Amortization of Property and Equipment	**7,776,000**	4,376,000	2,275,000
Deferred Income Taxes	**1,238,000**	3,612,000	1,508,000
Amortization of Cost in Excess of the Fair Value of Net Assets Acquired	**633,000**	637,000	93,000
Net Gain on Disposition of Property and Equipment	**—**	(1,317,000)	—
Other	**289,000**	180,000	77,000
Working Capital Provided by Operations	**33,809,000**	15,707,000	18,075,000
Proceeds from Sale-and-Leaseback of Property (note 6)	**31,673,000**	—	—
Proceeds from Disposition of Property and Equipment, Net	**4,749,000**	9,469,000	861,000
Increase in Revolving Line of Credit, Net	**—**	88,000,000	—
Proceeds from Long-Term Borrowings	**5,200,000**	4,400,000	120,350,000
Proceeds from Sale of Common Stock, Net	**50,077,000**	659,000	814,000
Decrease in Working Capital	**15,375,000**	—	—
	$140,883,000	$118,235,000	$140,100,000
Uses of Working Capital:			
Additions to Property and Equipment	**$ 52,363,000**	$ 99,767,000	$ 50,769,000
Current Installments and Repayments of Long-Term Debt	**236,000**	10,399,000	6,792,000
Decrease in Revolving Line of Credit, Net	**88,000,000**	—	—
Acquisition of Bowater Home Center, Inc., Net of Working Capital of $9,227,000 (note 2):			
Property and Equipment	**—**	—	4,815,000
Cost in Excess of the Fair Value of Net Assets Acquired	**—**	—	25,291,000
Other Assets, Net of Liabilities	**—**	—	(913,000)
Other, Net	**284,000**	1,728,000	2,554,000
Increase in Working Capital	**—**	6,341,000	50,792,000
	$140,883,000	$118,235,000	$140,100,000
Changes in Components of Working Capital:			
Increase (Decrease) in Current Assets:			
Cash and Cash Equivalents	**$ 7,453,000**	$ (42,391,000)	$ 29,894,000
Receivables, Net	**(15,227,000)**	15,799,000	7,170,000
Merchandise Inventories	**14,415,000**	68,654,000	25,334,000
Prepaid Expenses	**1,187,000**	587,000	1,206,000
	7,828,000	42,649,000	63,604,000
Increase (Decrease) in Current Liabilities:			
Accounts Payable	**13,919,000**	21,525,000	10,505,000
Accrued Salaries and Related Expenses	**5,642,000**	1,578,000	(93,000)
Other Accrued Expenses	**8,035,000**	3,736,000	2,824,000
Income Taxes Payable	**5,751,000**	(626,000)	(657,000)
Current Portion of Long-Term Debt	**(10,144,000)**	10,095,000	233,000
	23,203,000	36,308,000	12,812,000
Increase (Decrease) in Working Capital	**$ (15,375,000)**	$ 6,341,000	$ 50,792,000

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1-Summary of Significant Accounting Policies

Fiscal Year

The Company's fiscal year ends on the Sunday nearest to the last day of January and usually consists of 52 weeks. Every five or six years, however, there is a 53-week year. The fiscal years ended February 1, 1987 (1986) and February 2, 1986 (1985) consisted of 52 weeks while the fiscal year ended February 3, 1985 (1984) consisted of 53 weeks.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary. All significant intercompany transactions have been eliminated in consolidation.

Merchandise Inventories

Inventories are stated at the lower of cost (first-in, first-out) or market, as determined by the retail inventory method.

Depreciation and Amortization

The Company's buildings, furniture, fixtures and equipment are depreciated using the straight-line method over the estimated useful lives of the assets. Improvements to leased premises are amortized on the straight-line method over the life of the lease or the useful life of the improvement, whichever is shorter.

Investment Tax Credits

Investment tax credits have been recorded as a reduction of Federal income taxes in the year the credits were realized.

Store Preopening Costs

Non-capital expenditures associated with opening new stores are charged to expense as incurred.

Earnings Per Common and Common Equivalent Share

Earnings per common and common equivalent share are based on the weighted average number of shares and equivalents outstanding. Common equivalent shares used in the calculation of earnings per share represent shares granted under the Company's employee stock option plan and employee stock purchase plans.

Shares issuable upon conversion of the 8½% convertible subordinated debentures are also common stock equivalents. Shares issuable upon conversion of the 9% convertible subordinated debentures would only be included in the computation of fully diluted earnings per share. However, neither shares issuable upon conversion of the 8½% nor the 9% convertible debentures were materially dilutive in any year presented and thus neither were considered in the earnings per share computations.

2-Acquisition

On December 3, 1984 the Company acquired the outstanding capital stock of Bowater Home Center, Inc. (Bowater) for approximately \$38,420,000 including costs incurred in connection with the acquisition. Bowater operated nine retail home center stores six of which were in the Dallas, Texas metropolitan area. The acquisition was accounted for by the purchase method and accordingly, results of operations have been included with those of the Company from the date of acquisition. Cost in excess of the fair value of net assets acquired amounted to approximately \$25,291,000 which is being amortized over 40 years from date of acquisition using the straight-line method.

The combined results of operations, on a pro forma, unaudited basis, of the Company and Bowater for the year ended February 3, 1985 would have resulted in net sales of \$482,752,000, net earnings of \$9,009,000 and earnings per common and common equivalent share of \$.36. This pro forma information does not purport to be indicative of the results of operations which would have actually been obtained if the acquisition had been effective for the entire 1984 fiscal year.

3-Long-Term Debt and Line of Credit

Long-term debt consists of the following:

	February 1, 1987	February 2, 1986
8½% convertible subordinated debentures, due July 1, 2009, convertible into shares of common stock of the Company at a conversion price of $26.50 per share. The debentures are redeemable by the Company at a premium from July 1, 1986 to July 1, 1999. An annual mandatory sinking fund commencing July 1, 1995 will retire 70% of the issue prior to maturity. Interest is payable semi-annually.	$ 86,250,000	$ 86,250,000
9% convertible subordinated debentures, due December 15, 1999, convertible into shares of common stock of the Company at a conversion price of $16.90 per share. The debentures are redeemable by the Company at a premium from December 15, 1986 to December 15, 1994. An annual mandatory sinking fund of $2,000,000 per year is required from 1994 to 1998. Interest is payable semi-annually.	14,000,000	14,000,000
Total convertible subordinated debentures	100,250,000	100,250,000
Revolving credit agreement. Interest may be fixed for any portion outstanding for up to 180 days, at the Company's option, based on a CD rate plus ¾%, the LIBOR rate plus ½% or at the prime rate.	—	88,000,000
*Variable Rate Industrial Revenue Bonds (see note 7)	—	10,100,000
*Variable Rate Industrial Revenue Bond, secured by a letter of credit, payable October 1, 2011 with interest payable monthly.	5,200,000	—
*Variable Rate Industrial Revenue Bond secured by a letter of credit, payable in sinking fund installments from December 1, 1991 through December 1, 2010 with interest payable monthly.	4,400,000	4,400,000
9⅝% Industrial Revenue Bond secured by a letter of credit, payable on December 1, 1993, with interest payable semi-annually.	4,200,000	4,200,000
*Variable Rate Industrial Revenue Bond, secured by land, payable in 15 annual installments of $233,000, with interest payable semi-annually.	3,033,000	3,267,000
Other	62,000	108,000
Total long-term debt	117,145,000	210,325,000
Less current portion	238,000	10,382,000
Long-term debt, excluding current portion	$116,907,000	$199,943,000

**The interest rates on the variable rate industrial revenue bonds are related to various short term municipal money market composite rates.*

Maturities of long-term debt are approximately $238,000 for fiscal 1987 through fiscal 1990 and $334,000 for fiscal 1991.

During fiscal 1985, the Company entered into a revolving line of credit agreement for a maximum of $200,000,000, subject to certain limitations. There is no outstanding balance at February 1, 1987. Commitment amounts under the agreement decrease by $15,000,000 on July 31, 1990, by $20,000,000 each six months from that date through January 31, 1993, and by $35,000,000 on July 31, 1993. The remaining $50,000,000 commitment expires on January 31, 1994. Maximum borrowings outstanding within the commitment limits may not exceed specified percentages of inventories, land and buildings, and fixtures and equipment, all as defined in the agreement. Under certain conditions, the commitment may be extended and/or increased. An annual commitment fee of ¼% to ⅜% is required to be paid on the unused portion of the revolving line of credit. Interest rates specified may be increased by a maximum of ⅜% based on specified ratios of interest rate coverage and debt to equity.

3-Long-Term Debt and Line of Credit (continued)

Under the revolving credit agreement, the Company was required, among other things, to maintain at the end of each fiscal quarter of 1986 a minimum tangible net worth (defined to include the convertible subordinated debentures) of $152,700,000, $155,400,000, $158,100,000, and $160,800,000, respectively (increasing quarterly to $213,160,000 by January 31, 1989), a debt to tangible net worth ratio of no more than 2 to 1, a current ratio of not less than 1.5 to 1 and a ratio of earnings before interest expense and income taxes to interest expense, net, of not less than 2 to 1. The Company was in compliance with all restrictive covenants as of February 1, 1987. The restrictive covenants related to the letter of credit agreements securing the industrial revenue bonds and the convertible subordinated debentures are no more restrictive than those under the revolving line of credit agreement.

Interest expense in the accompanying consolidated statements of earnings is net of interest capitalized of $2,808,000 in fiscal 1986, $3,429,000 in fiscal 1985, and $1,462,000 in fiscal 1984.

Subsequent to year end, on February 27, 1987, the holder of the Company's 9% convertible subordinated debentures converted the entire outstanding principal of $14,000,000 into 828,402 shares of the Company's common stock at $16.90 per share.

4-Income Taxes

The provision for income taxes consists of the following:

	Fiscal year ended		
	February 1, 1987	February 2, 1986	February 3, 1985
Current:			
Federal	**$ 19,131,000**	$ (578,000)	$ 9,083,000
State	**2,831,000**	366,000	539,000
	21,962,000	(212,000)	$ 622,000
			10
Deferred:			
Federal	**1,237,000**	3,306,000	1,464,000
State	**1,000**	306,000	44,000
	1,238,000	3,612,000	1,508,000
Total	**$ 23,200,000**	$ 3,400,000	$ 12,130,000

The effective tax rates for fiscal 1986, 1985, and 1984 were 49.3%, 29.3%, and 46.2%, respectively. A reconciliation of income tax expense at Federal statutory rates to actual tax expense for the applicable fiscal years follows:

	Fiscal year ended		
	February 1, 1987	February 2, 1986	February 3, 1985
Income taxes at Federal statutory rate, net of surtax exemption	**$ 21,654,000**	$ 5,345,000	$ 12,076,000
State income taxes, net of Federal income tax benefit	**1,529,000**	363,000	855,000
Investment and targeted jobs tax credits	**(263,000)**	(2,308,000)	(800,000)
Other, net	**280,000**	—	(1,000)
	$ 23,200,000	$ 3,400,000	$ 12,130,000

4-Income Taxes (continued)

Deferred income taxes result from differences in the timing of reporting income for financial statement and income tax purposes. The sources of these differences and the tax effect of each are as follows:

	Fiscal year ended		
	February 1, 1987	February 2, 1986	February 3, 1985
Accelerated depreciation	**$ 2,955,000**	$ 2,526,000	$ 1,159,000
Interest capitalization	**962,000**	855,000	349,000
Accrued self-insurance liabilities	**(1,632,000)**	—	—
Other accrued liabilities	**(488,000)**	—	—
Other, net	**(559,000)**	231,000	—
	$ 1,238,000	$ 3,612,000	$ 1,508,000

5-Employee Stock Plans

The Company has a qualified and nonqualified stock option plan that provide for the granting of options to purchase the Company's common stock to selected key employees, officers and directors. Under the Employee Incentive Stock Option Plan a maximum of 3,437,500 shares of common stock are authorized for grants at fair market value at date of grant. Such options may be exercised at the rate of 25% per year commencing with the first anniversary date of the grant and expire after five years. At February 1, 1987, options for 2,244,738 shares had been granted net of cancellations (of which 588,201 had been exercised) at $1.60 to $28.63 per share and 1,192,762 common shares were available for future grants under the plan.

Under the 1984 Nonqualified Stock Option Plan, a maximum of 500,000 shares are authorized for grants at fair market value at date of grant. Such options may be exercised at varying rates commencing on the third anniversary date of the grant and expire during 1994. At February 1, 1987 options for 79,550 shares had been granted net of cancellations (none of which had been exercised) at $15.50 to $19.00 per share and 420,450 common shares were available for future grants under the plan.

The following summarizes shares outstanding under the plans at February 1, 1987, February 2, 1986 and February 3, 1985 and changes during the fiscal years then ended.

	Fiscal year ended		
	February 1, 1987	February 2, 1986	February 3, 1985
Number of options			
At beginning of year			
Outstanding	**2,003,107**	1,055,543	930,820
Exercisable	**364,146**	251,750	145,126
During the year			
Issued	**137,950**	1,289,400	452,650
Cancelled	**234,881**	261,605	191,810
Became exercisable	**393,909**	192,627	242,741
Exercised	**170,089**	80,231	136,117
At end of year			
Outstanding	**1,736,087**	2,003,107	1,055,543
Exercisable	**587,966**	364,146	251,750
Average price per share			
Outstanding at the end of year	**$ 14.27**	$ 13.44	$ 14.33
Exercised during the year	**$ 7.35**	$ 2.07	$ 2.97

5-Employee Stock Plans (continued)

In addition, the Company has an Employee Stock Purchase Plan under which the Company may grant eligible employees options to purchase up to 500,000 shares at a price equal to 85% of the stock's fair market value at the date of grant. Shares purchased may not exceed the lesser of 20% of the employee's annual compensation, as defined, or $25,000 of the fair market value of such stock (determined at the time such option is granted) for any one calendar year. Employees pay for the shares ratably over a period of one year (the purchase period) through payroll deductions, and cannot exercise their option to purchase any of the shares until the conclusion of the purchase period. In the event an employee elects not to exercise such options, the full amount withheld is refundable. During fiscal 1986, options for 78,125 shares were exercised at an average price of $10.06, and at February 1, 1987, options for 50,219 shares were outstanding, net of cancellations, at an average price of $14.08 per share. At February 2, 1986, options for 36,420 shares were outstanding, net of cancellations, at an average price of $10.26 per share. At February 3, 1985, options for 100,682 shares were outstanding, net of cancellations, at an average price of $14.42 per share.

6-Leases

The Company leases certain retail locations, office, and warehouse and distribution space, equipment, and vehicles under operating leases. All leases will expire within the next 25 years; however, it can be expected that in the normal course of business, leases will be renewed or replaced. Total rent expense, net of minor sublease income for the fiscal years ended February 1, 1987, February 2, 1986 and February 3, 1985 amounted to approximately $19,314,000, $12,737,000, and $6,718,000, respectively. Under the building leases, real estate taxes, insurance, maintenance, and operating expenses applicable to the leased property are obligations of the Company. Certain of the store leases provide for contingent rentals based on percentages of sales in excess of specified minimums. Contingent rentals for fiscal years ended February 1, 1987, February 2, 1986 and February 3, 1985 were approximately $736,000, $650,000 and $545,000, respectively.

During the second quarter of fiscal year 1986, the Company concluded sale-and-leaseback agreements for six stores with total proceeds approximating $31,673,000. The leases are being accounted for as operating leases with initial terms of 25 years. The net gain on sale of $377,000 is deferred and being amortized over the lease term.

The approximate future minimum lease payments under operating leases at February 1, 1987 are as follows:

Fiscal Year	
1987	$22,300,000
1988	22,280,000
1989	22,190,000
1990	22,183,000
1991	21,603,000
Thereafter	245,880,000
	$356,436,000

7-Disposition of Property and Equipment

During the fourth quarter of fiscal year 1985, the Company disposed of certain properties and equipment at a net gain of $1,317,000. The properties represented real estate located in Detroit, Houston and Tucson, and the equipment represented the trade-in of cash registers for current generation point-of-sale equipment. Because the purchaser of the Detroit properties was unable to assume the Company's obligations under industrial revenue bonds associated with these properties, the terms of the transaction provided for prepayment of the $10,100,000 bond liability during 1986. Included in accounts receivable at February 2, 1986 is $13,800,000 related to these transactions.

8-Commitments and Contingencies

At February 1, 1987, the Company was contingently liable for approximately $16,320,000 under outstanding letters of credit issued in connection with purchase commitments.

The Company has litigation arising from the normal course of business. In management's opinion, this litigation will not materially affect the Company's financial condition.

9-Quarterly Financial Data (Unaudited)

The following is a summary of the unaudited quarterly results of operations for fiscal years ended February 1, 1987 and February 2, 1986:

	Net sales	Percent increase (decrease) in comparable store sales	Gross profit	Net earnings	Net earnings per common and common equivalent share
Fiscal year ended February 1, 1987:					
First Quarter	$ 222,619,000	2%	$ 62,672,000	$ 5,138,000	$.20
Second Quarter	263,433,000	5%	71,749,000	7,130,000	.28
Third Quarter	251,537,000	10%	67,631,000	3,921,000	.15
Fourth Quarter	273,873,000	8%	76,108,000	7,684,000	.27
	$1,011,462,000	7%	$278,160,000	$23,873,000	$.90
Fiscal year ended February 2, 1986:					
First Quarter	$ 145,048,000	9%	$ 36,380,000	$ 1,945,000	$.08
Second Quarter	174,239,000	(2%)	45,572,000	2,499,000	.10
Third Quarter	177,718,000	1%	46,764,000	1,188,000	.05
Fourth Quarter	203,724,000	2%	52,741,000	2,587,000	.10
	$ 700,729,000	2%	$181,457,000	$ 8,219,000	$.33

AUDITORS' REPORT

KPMG Peat Marwick

The Board of Directors and Stockholders
The Home Depot, Inc.:

We have examined the consolidated balance sheets of The Home Depot, Inc. and subsidiary as of February 1, 1987 and February 2, 1986, and the related consolidated statements of earnings, stockholders' equity, and changes in financial position for each of the years in the three-year period ended February 1, 1987. 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 aforementioned consolidated financial statements present fairly the financial position of The Home Depot, Inc. and subsidiary at February 1, 1987 and February 2, 1986, and the results of their operations and the changes in their financial position for each of the years in the three-year period ended February 1, 1987, in conformity with generally accepted accounting principles applied on a consistent basis.

PEAT MARWICK MAIN & CO.

Atlanta, Georgia
March 20, 1987

STORE LOCATIONS

■ **ATLANTA**
Decatur
Doraville
Forest Park
Marietta
Duluth
Kennesaw
*Douglasville**

■ **TENNESSEE**
*Chattanooga**

■ **SOUTHERN FLORIDA**
Hollywood
Lauderdale Lakes
Perrine
Hialeah
North Miami Beach
West Palm Beach
Deerfield Beach
Kendall
Midway Mall (Miami)
*North Palm Beach**

■ **ORLANDO**
E. Colonial
Altamonte Springs
South Orlando
Daytona

■ **TAMPA BAY**
Tampa
Clearwater
St. Petersburg
Ft. Myers
Brandon
*New Port Richey**
*Dale Mabry/Hillsborough**

■ **JACKSONVILLE**
Arlington
Orange Park

■ **NEW ORLEANS**
Elmwood
Gretna
East New Orleans

■ **BATON ROUGE**
Baton Rouge

■ **SHREVEPORT**
Shreveport

■ **MOBILE**
Mobile

■ **PHOENIX**
Cave Creek
Mesa
Camelback
Thomas Road

■ **TUCSON**
Tucson
Tucson/Oracle Road

■ **DALLAS/FT. WORTH**
Plano
Richardson
Arlington
Mesquite
Duncanville
North Richland Hills
White Settlement
Carrolton
*Northwest Highway**

■ **HOUSTON**
Sharpstown
Willowbrook
Gulf Freeway
North Freeway

■ **LOS ANGELES**
Huntington Beach
Fullerton
San Bernadino
Long Beach
*Pico Rivera**
*City of Industry**
*Cerritos**
*Van Nuys**
*La Mirada**

■ **SAN DIEGO**
Balboa & Genesee
Oceanside
La Mesa
Chula Vista
El Cajon

■ **SAN FRANCISCO BAY**
Sunnyvale
San Jose
*Colma**
Fremont
*Milpitas**

**Future Locations*

CORPORATE INFORMATION

DIRECTORS

Bernard Marcus*
Chairman of the Board
The Home Depot, Inc.

Arthur M. Blank*
President
The Home Depot, Inc.

Berry R. Cox**†
Private investor

Frederick DeMatteis**†
Chairman of the Board, The DeMatteis Organization

Milledge A. Hart, III**†
Chairman of the Board, Rmax, Inc.

Kenneth G. Langone*†
Chairman of the Board and President, Invemed Associates, Inc.

Frank Borman
Retired Chairman of the Board and Chief Executive Officer, Eastern Airlines, Inc.

Alan D. Schwartz**
Managing Director, Corporate Finance of Bear Stearns & Co.

*Member of the Executive Committee.
**Member of the Audit Committee.
†Member of the Compensation Committee.

OFFICERS

Bernard Marcus
Chairman of the Board, Chief Executive Officer, Secretary

Arthur M. Blank
President, Chief Operating Officer

William G. Kelley
Executive Vice President

Ronald M. Brill
Sr. Vice President/Treasurer—Chief Financial Officer

E. Dennis Ross
Sr. Vice President—Management Information Systems

Nathan Morton
Sr. Vice President—Operations

William E. Harris
Sr. Vice President—Corporate Development

James Inglis
Vice President—Merchandising

Bruce Berg
Vice President—Merchandising

Steve Burrows
Vice President—Advertising

William J. Salyer
Vice President—Construction and Store Planning

Larry Mercer
Vice President—Store Operations—East Coast

Donald P. McKenna*
Vice President—Human Resources

Lawrence A. Smith*
Vice President—Legal, Assistant Secretary

Marshall L. Day
Controller

*Appointed April 1, 1987

Corporate Headquarters

The Home Depot, Inc.
2727 Paces Ferry Rd.
Atlanta, Ga. 30339
Telephone: 404/433-8211

Transfer Agent and Registrar

Wachovia Bank and Trust Company, N.A.
P.O. Box 3001
Winston-Salem, N.C. 27102

Independent Auditors

Peat Marwick Main & Co.
Suite 1900
245 Peachtree Center Avenue
Atlanta, Georgia 30043

Stock Exchange Listing

New York Stock Exchange

Trading Symbol—HD

Annual Meeting

The Annual Meeting of Stockholders will be held at 10:00 A.M., Wednesday, May 27, 1987, at the Wyndham Hotel, 2857 Paces Ferry Rd., Atlanta, Ga.

Number of Stockholders

As of April 10, 1987, there were approximately 3500 stockholders of record. This number excludes individual stockholders holding stock under nominee security position listings.

Dividend Policy

No cash dividends have been declared or paid by the Company since its inception.

Form 10-K

A copy of the Company's Annual Report on Form 10-K for the fiscal year ended February 1, 1987 as filed with the Securities and Exchange Commission, will be sent to any stockholder upon request in writing to:

Ronald M. Brill
Sr. Vice President—Chief Financial Officer
The Home Depot, Inc.
2727 Paces Ferry Rd.
Atlanta, Ga. 30339

Quarterly Stock Price Range

	High	Low
Fiscal 1986:		
First Quarter	18¼	11⅞
Second Quarter	21¾	15⅞
Third Quarter	20½	16½
Fourth Quarter	22¾	17⅜
Fiscal 1985:		
First Quarter	19⅞	15
Second Quarter	20⅜	12⅝
Third Quarter	13¼	10½
Fourth Quarter	13¾	10½

THE HOME DEPOT ®

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