

DYNAMIC DECADE

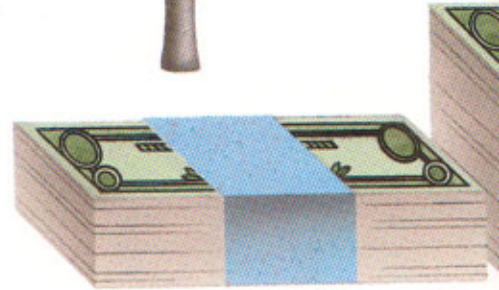
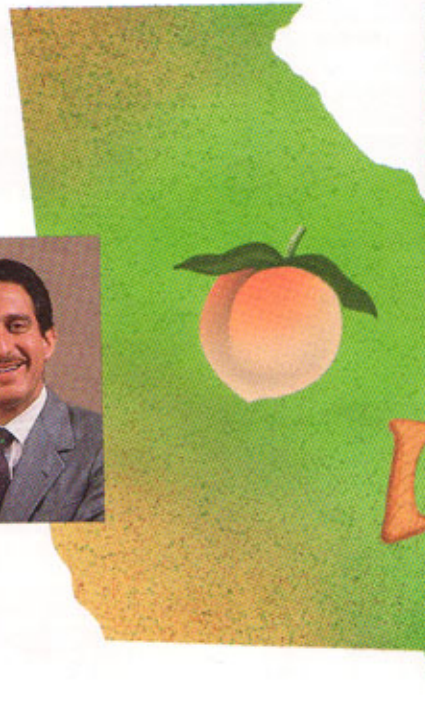
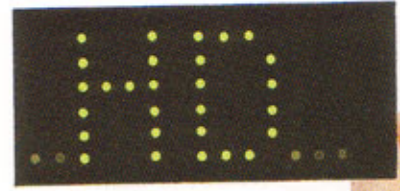
PERFORMANCE MEASUREMENT

This time line depicts many important milestones on The Home Depot's 10-year record of innovation and success in the do-it-yourself retailing market the company helped to create.

1978
The Home Depot do-it-yourself warehouse concept developed
Corporation founded

1979
First three stores opened in Atlanta, Georgia

1980
Fourth store opened in Atlanta, Georgia



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1981

Initial Public Stock Offering (September 22, 1981) raises \$4.093 million

Sales exceed \$50 million

Stock split of 3 for 2

Opened four stores in South Florida: first venture outside Atlanta

1982

Voted Retailer of the Year in the home center industry

Second Public Stock Offering raises \$7.697 million

Sales exceed \$100 million

Stock splits of 5 for 4 and 2 for 1

Further expansion in Florida: two stores opened in Orlando

1983

Chain expands into Louisiana and Arizona

One million square feet of selling space achieved

Third Public Stock Offering raises \$36.380 million

Sales exceed \$250 million

Computerized check-out systems installed—eliminates item pricing

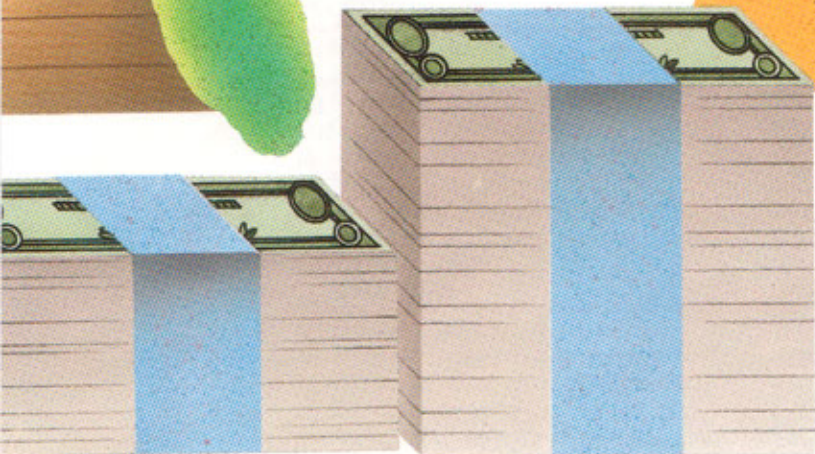
1984

Listed on New York Stock Exchange

Issued convertible debt for \$86.250 million

Acquired Bowater Home Centers with stores in Dallas, Shreveport, Mobile and Baton Rouge

Computer-assisted ordering put in place



HOME DEPOT

1985
First California stores opened
Stores opened in Jacksonville, Florida and Houston, Texas
50th store opened

1986
Surpass \$1 billion in sales
Fourth Public Stock Offering raises \$48.188 million
First super-sized store opened (140,000 square feet)

1987
Named High Growth Retailer sixth straight year by Management Horizons
75th store opened
Low Day-in, Day-out pricing policy established
Conversion of convertible debentures
Stores opened in Chattanooga and Knoxville, Tennessee
First dividend declared (June 8, 1987)
Development of UPC scanning system begun

1988
Selected for inclusion in S&P 500
Retailer of the Year in the home center industry for second time
First store opened in Northeast market and in Greenville, South Carolina and Savannah, Georgia
Implementation of satellite communications system in one third of the stores
96th store opened
Nearly \$2 billion in sales
Dividend increased



DECADE

TEN YEAR SELECTED FINANCIAL AND OPERATING DATA

THE HOME DEPOT, INC.

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Amounts in Thousands (except where noted)

	1988	1987	1986
STATEMENT OF EARNINGS DATA			
Net sales	\$ 1,999,514	\$ 1,453,657	\$ 1,011,462
Gross margin	539,652	403,739	278,160
Earnings (loss) before taxes	125,833	95,586	47,073
Net earnings (loss)	76,753	54,086	23,873
Net earnings (loss) per share (\$)	1.50	1.13	.60
Weighted average number of common and common equivalent shares	51,255	47,994	39,870
Gross margin — % to sales	27.0	27.8	27.5
Store selling and operating expenses — % to sales	17.8	18.1	18.7
Pre-opening expenses — % to sales	.4	.3	.3
General and administrative expenses — % to sales	2.4	2.6	2.7
Net interest expense (income) — % to sales	.1	.2	1.1
Earnings (loss) before taxes — % to sales	6.3	6.6	4.7
Net earnings (loss) — % to sales	3.8	3.7	2.4

BALANCE SHEET DATA

Total assets	\$ 699,179	\$ 528,270	\$ 394,741
Working capital	142,806	110,621	91,076
Merchandise inventories	294,274	211,421	167,115
Net property and equipment	332,416	244,503	168,981
Long-term debt	107,508	52,298	116,907
Stockholders' equity	382,938	320,559	163,042
Book value per share (\$)	7.62	6.49	3.83
Long-term debt to equity — %	28.1	16.3	71.7

STATEMENT OF CASH FLOWS DATA

Depreciation and amortization	\$ 14,673	\$ 10,646	\$ 8,697
Capital expenditures	105,123	89,235	52,363
Cash dividends per share (\$)	.11	.06	—

STRATEGIC PROFIT MODEL

Current ratio	1.74:1	1.75:1	1.85:1
Inventory turnover	5.8x	5.4x	4.6x
Asset turnover	3.3x	3.1x	2.7x
Return on assets — %	12.5	11.6	6.3
Return on equity — %	21.6	21.1	20.3

CUSTOMER AND STORE DATA

Number of markets	24	19	17
Number of stores	96	75	60
Square footage at year-end	8,216	6,161	4,828
Change in square footage — %	33.4	27.6	20.6
Average square footage per store	86	82	80
Number of customer transactions	64,227	48,073	34,020
Average sale per transaction (\$)	31.13	30.24	29.73
Number of employees	13,000	9,100	6,600

OTHER DATA

Average total company weekly sales	\$38,452	\$27,955	\$19,451
Weighted average weekly sales per operating store	464	418	355
Comparable store sales increase — %	13.4	18.0	7.0
Sales per employee	181	185	168
Average inventory per store at year-end	3,065	2,819	2,785
Advertising expense — % to sales	1.5	2.0	2.4

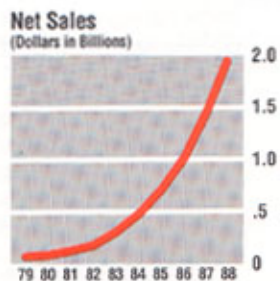
(1) Fiscal years 1984 and 1980 consisted of 53 weeks, all other years reported consisted of 52 weeks.

N/A—Not applicable

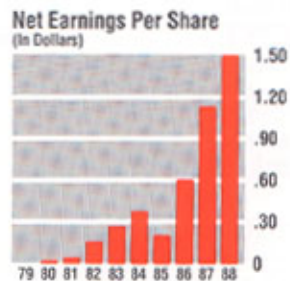
1985	1984 ⁽¹⁾	1983	1982	1981	1980 ⁽¹⁾	1979
\$700,729	\$432,779	\$256,184	\$ 117,645	\$51,542	\$22,318	\$ 7,025
181,457	114,319	70,014	33,358	14,735	6,855	2,025
11,619	26,252	18,986	9,870	1,963	856	(930)
8,219	14,122	10,261	5,315	1,211	453	(930)
.22	.37	.28	.16	.04	.01	(.03)
37,871	37,953	37,251	33,350	31,575	32,244	28,964
25.9	26.4	27.3	28.4	28.6	30.7	28.8
19.2	17.2	17.0	16.5	19.0	20.6	24.7
1.1	.4	.9	.4	1.5	.2	4.0
2.9	3.0	2.9	3.3	3.7	4.3	12.4
1.2	(.3)	(.9)	(.2)	.6	1.8	.9
1.7	6.1	7.4	8.4	3.8	3.8	(13.2)
1.2	3.3	4.0	4.5	2.3	2.0	(13.2)
\$380,193	\$249,364	\$105,230	\$ 33,014	\$16,906	\$ 4,507	\$ 3,507
106,451	100,110	49,318	12,901	5,502	1,399	1,218
152,700	84,046	58,712	17,575	11,263	2,881	2,080
160,816	73,577	21,129	5,954	3,503	1,246	1,186
199,943	117,942	4,384	236	3,738	1,013	1,635
89,092	80,214	65,278	18,354	5,204	(285)	(1,141)
2.36	2.13	1.75	1.08	.17	(.01)	(.05)
224.0	147.0	6.7	1.3	71.8	N/A	N/A
\$ 5,193	\$ 2,368	\$ 903	\$ 389	\$ 176	\$ 126	\$ 55
99,767	50,769	16,081	2,883	2,488	186	1,222
—	—	—	—	—	—	—
2.27:1	3.22:1	2.43:1	1.92:1	1.70:1	1.75:1	2.12:1
4.1x	4.2x	4.9x	5.8x	5.2x	6.2x	4.8x
2.2x	2.4x	3.7x	4.7x	4.8x	5.6x	3.8x
2.6	7.9	14.8	21.3	13.5	21.4	(49.7)
9.7	19.3	24.5	45.1	58.7	N/A	N/A
15	11	7	3	2	1	1
50	31	19	10	8	4	3
4,001	2,381	1,449	696	507	249	183
68.0	64.3	108.2	37.3	103.6	36.1	N/A
80	77	76	70	63	62	61
23,324	14,256	8,479	4,164	1,916	889	325
30.04	30.36	30.21	28.25	26.90	25.11	21.57
5,400	4,000	2,400	1,100	650	300	200
\$13,476	\$8,166	\$4,927	\$2,262	\$991	\$421	\$220
343	366	360	281	187	107	82
2.3	14.0	31.0	46.8	57.5	55.4	N/A
149	135	146	134	109	89	70
3,054	2,711	3,090	1,758	1,408	720	693
3.2	2.5	2.9	2.6	3.4	3.2	4.1

CHARTING PROGRESS

These 10-year graphs indicate that the dramatic historical growth of The Home Depot has built a solid foundation for further expansion in the company's second decade.



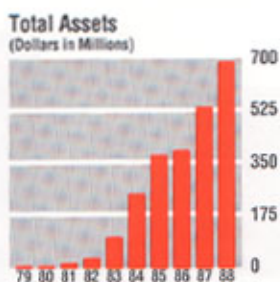
Net sales approached \$2 billion in 1988, up 38% from 1987



Earnings per share of \$1.50 reached an all-time high in fiscal 1988



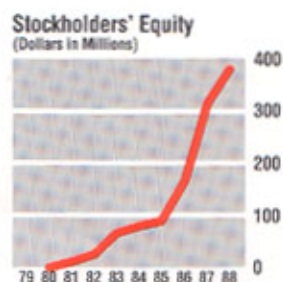
Net earnings advanced 42% in 1988 to a record \$76.8 million



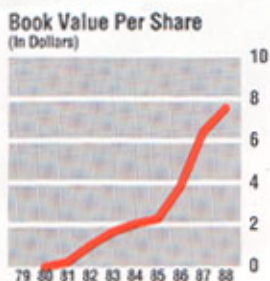
With the opening of 21 new stores, total assets increased nearly one-third in fiscal 1988



Long-term debt helped finance expansion in 1988, but is well below peak historical levels



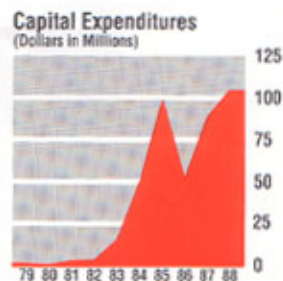
Stockholders' equity has more than doubled in two years



Book value per share was up 17% in the latest year



Low leverage gives the company significant borrowing capacity



1988 saw record levels of investment in The Home Depot's expansion

A DYNAMIC DECADE

The Home Depot, Inc. enjoyed another year of record financial performance in fiscal 1988, capping a dynamic decade during which your company grew from nothing more than a calculated, entrepreneurial idea to become one of the select companies included in the Standard & Poor's 500 index, and recognized by Fortune magazine as one of the top 10 fastest growing large corporations in America.

LETTER TO OUR STOCKHOLDERS:

Our 10th anniversary witnessed the continued rapid expansion of the do-it-yourself market The Home Depot helped create. With plans to open 24 new stores in fiscal 1989, and expand into the Northeast, we intend to continue aggressively taking advantage of DIY consumers' strong demand for our quality products and services.

Net sales in the fiscal year ended January 29, 1989 were a record \$2 billion, an increase of 38% over \$1.454 billion in fiscal 1987. Net earnings of \$76.8 million in fiscal 1988 improved 42% compared to \$54.1 million in the previous year, and earnings per share advanced 33% to a record \$1.50 from \$1.13 in fiscal 1987.

Our financial position has never been stronger than it is at the end of our first decade. Stockholders' equity was \$382.9 million on January 29, 1989, an increase of 19% from \$320.6 million a year earlier. Cash dividends paid to stockholders totalled \$5.5 million in fiscal 1988, representing the first full year of quarterly dividend payments. Our ratio of long-term debt to equity was a healthy 28% at fiscal year-end, giving us substantial borrowing capacity to take advantage of future opportunities. We have bank lines of credit totaling \$200 million.

Capital expenditures, related primarily to our strategic expansion program, were \$105.1 million in fiscal 1988, up from \$89.2 million in the prior fiscal year. Most of this investment was attributable to the opening of 21 new stores with a total of 1,952,000 square feet. Including expansions and remodelings completed during 1988 at existing Home Depot locations, we finished the fiscal year with 8,216,000 square feet of space in our 96 stores, an increase of 2,055,000 square feet over fiscal 1987.

We now operate in 24 market areas in 11 states. As one measure of how rapidly the DIY market has changed and grown during The Home Depot's first dynamic decade, the first warehouse home center we opened in Atlanta in 1979 had 60,000 square feet of store space. When we opened our 96th store in East Hanover, New Jersey in January, 1989, customers could choose quality merchandise in a warehouse covering more than 100,000 square feet.



Bernard Marcus



Arthur M. Blank

Comparable store sales grew an impressive 13% in fiscal 1988, indicating the strength of our approach to serving the vibrant DIY market. We believe this excellent performance in stores opened longer than one year reflects both new consumers getting started in do-it-yourself projects, as well as repeat customers "graduating" to bigger projects once they discover the many financial and personal rewards of DIY home improvements.

The increasing consumer response to The Home Depot's concept was reflected in improvements in five key statistics in fiscal 1988 compared to fiscal 1987: weighted average weekly sales per store (\$464,000 vs. \$418,000); weighted average sales per square foot (\$281.86 vs. \$264.71); average sale per transaction (\$31.13 vs. \$30.24); customer transactions (64.2 million vs. 48.1 million); and inventory turnover (5.8 vs. 5.4 times). Moreover, industry and national statistics show the DIY market continues to grow considerably faster than the total retailing sector, and at a rate far above the economy in general.

Our 10th anniversary annual report is devoted to a review of our first dynamic decade and a look at the strategies we have identified as crucial to continuing our superior growth record during the 1990's and beyond.

Because people are the key component of our future success—just as they have been since the first Home Depot opened in 1979—this report features three long-term employees who typify the entrepreneurial spirit and total dedication to customer service that is so important to success in the unique market it is our privilege to serve.

Finally, innovation will remain a vital part of the company's strategy as we enter our second decade. We will not lose sight of the commitment to customer service that helped The Home Depot become a force in meeting the needs of a thriving do-it-yourself marketplace in the 1980's. However, the needs of such a dynamic marketplace are bound to change in the 1990's. Innovations will be required throughout our organization, both to manage rapid growth and, more importantly, to respond to shifting conditions in a segment of the retailing industry that really is still in its infancy.

Let our competitors be imitators. The Home Depot will be innovators.

Bernard Marcus
Chairman and
Chief Executive Officer

Arthur M. Blank
President and
Chief Operating Officer

March 1, 1989

A great deal has changed since The Home Depot opened its first retail home center warehouse store in June, 1979. As the company grew during its first dynamic decade to become a dominant force in the do-it-yourself market, however, one thing did not change—The Home Depot's dedication to total customer satisfaction. As the do-it-yourself market expands toward a projected \$100 billion in annual sales by the early 1990's, customer service will continue to be the philosophy that drives The Home Depot's success in its second decade.

The Home Depot understands that a do-it-yourself home improvement project is not just a good investment in what is the single most important asset for most people—their home.

It is also a gratifying, creative venture with rewards that go far beyond any that are measured in dollars saved and property values enhanced. It is a great source of accomplishment—a feeling of pride that inspires people to “do-it-yourself” again and again.

Because The Home Depot is a company which is itself infused with an entrepreneurial spirit, our people naturally empathize with the homeowner who is willing to try something different to beautify his property, enhance its value and perfect his or her own abilities.

The foundation of The Home Depot's exceptional growth in its first decade comes down to the one-on-one relationship between a knowledgeable sales person and a customer in one of our stores.

Rising from that foundation are several factors that make the DIY market especially dynamic, and make The Home Depot the market leader. For example, significant changes in demographics, social attitudes, and the U.S. economy during the 1980's have contributed to dramatic growth in DIY sales. As the baby boom generation reached adulthood, an age group oriented toward DIY moved into the housing market for the first time. In addition, the increased mobility of Americans has had a favorable impact on home improvement expenditures. Fixing up a house in preparation for sale, as well as spending to get a new house “just the way we want it” after moving in, are important spin-off effects of housing turnover.

Another factor: Increased demand has driven up prices for carpenters, electricians, painters, plumbers, remodelers, roofers and other contractors. Many consumers also have found that availability and quality of specialized labor are a concern at any price. With two-income couples away from home all day, it is difficult to schedule work to be done in the home by tradesmen. After one or two bad experiences with hiring someone who is supposed to be an expert (including paying often exorbitant mark-ups for simple materials), many men—and women, who represent approximately 50% of The Home Depot's customers—try doing it themselves, only to learn they can become very good at it.

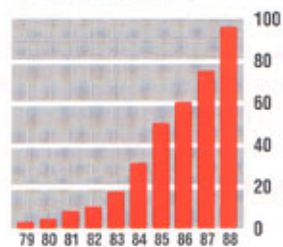


"We stress five things for people being successful and growing with The Home Depot. The first four are customer service. The fifth is everything else. Ultimately, customer service is what makes us different from all our imitators."

Larry Mercer
LARRY MERCER

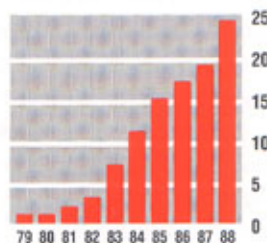
Starting in 1979 as an assistant manager trainee in Atlanta, Larry Mercer helped open the Orlando market in 1983 as a store manager, and became Regional Manager that same year. He was promoted to Vice-President—Store Operations East Coast in 1987, with responsibility for 46 stores.

Number Of Stores



The Home Depot began operations at 21 new stores in 1988, a record

Number Of Markets



The Home Depot is serving more markets in 1988 than ever before

The factors fueling the growth of the DIY market are not as vulnerable to a downturn in the economic cycle as other specialty retailing segments. While not completely immune to recessionary influences or slumps in residential construction or re-sales, DIY revenues have grown steadily during the decade since The Home Depot pioneered the low-price warehouse concept.

In fact, many analysts assert the DIY market is actually counter-cyclical. During periods of weak or negative real economic growth, cost-conscious consumers will save money by doing repairs themselves, and they will spend more readily to protect the value of the investment in their home, their foremost financial asset, than they will on other discretionary, consumable items.

It was into this changing consumer environment that The Home Depot introduced its cutting-edge concepts of DIY retailing a decade ago. Although they have been refined and modernized over the years—most notably through the application of state-of-the-art technology at both the in-store and corporate management levels—the basics of The Home Depot's formula for successfully serving customers has remained unchanged for 10 years.

PEOPLE The Home Depot selects people for its stores who relish the challenge of finding the right solution to the customer's needs. We want men and women who want the opportunity to grow with the company by building a career at The Home Depot. More than 90% of our 13,000 plus employees are full-time, roughly twice the norm in the retailing industry.

SERVICE The Home Depot goes beyond recommending the appropriate products, tools and materials, to teaching and demonstrating the methods and techniques of doing a job efficiently and safely. Customers are even encouraged to call our stores with questions while their projects are in progress, and many do. This unique aspect of The Home Depot's service also serves as a very personal form of market research. This on-the-job feedback keeps our people alert to helping the next customer learn from the problems and successes of the last one.

PRICE Our policy of Low Day-In, Day-Out Warehouse Pricing assures the customer that he or she is getting the full advantage of The Home Depot's lowest prices; it curtails the "let's wait for a sale" syndrome and avoids the aggravation of stock-outs on sale items. Because The Home Depot buys in very large quantities, the vast majority of merchandise is shipped directly from the manufacturer to the individual store. This eliminates the expense of central warehousing for most items, achieving savings that are passed on to the customer through the Low Day-In, Day-Out Warehouse Pricing policy. Professional shoppers in The Home Depot's consumer price watch program also keep our everyday prices competitive within their markets by monitoring prices at other retail operations.

QUALITY The Home Depot carries nationally advertised brands and stands behind the vast majority of items it sells. We also offer a limited assortment of our own controlled labels, manufactured to tough specifications. We unconditionally guarantee customer satisfaction. Full refunds are

cheerfully given... no questions asked, no hassles.

SELECTION Anything the do-it-yourselfer or independent contractor needs to build, beautify, repair, remodel, upgrade, improve, add-on to, or landscape a home is available—now, today, in quantity—at The Home Depot. Each warehouse store displays, literally floor-to-ceiling, some 30,000 different items, with particular attention paid to the local needs of customers in each area of the country. Up to 20% of the products in one of our California stores, for example, may differ from the broad selection of products offered



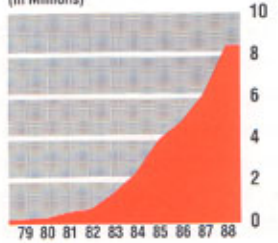
"The Home Depot allows you to take on new responsibilities as fast as you are able. The company goes out of its way to recognize people who work hard to make our stores a success. You have more than a job at The Home Depot—you have a career."

Katreena Haley
KATREENA HALEY



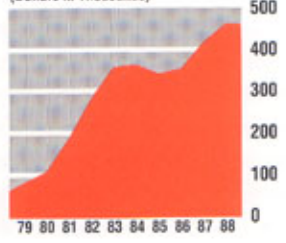
Katreena Haley and The Home Depot came together in Atlanta in 1979 when Katreena joined the Decatur, Georgia store as head cashier. Today, she is Manager of Merchandising Systems Support for the company. Her department designs and implements data systems to help The Home Depot respond to customers' product needs and competitors' pricing policies.

Square Footage At Year-End
(In Millions)



Square footage increased 33% in 1988 as new, larger stores went on-line

Weighted Average Weekly Sales Per Operating Store
(Dollars in Thousands)



Weekly sales increased more than 11% in 1988 on a weighted average basis

in the new Home Depot warehouses in Connecticut and New Jersey.

In addition, The Home Depot is a major impetus behind new product development in the DIY Industry. We listen intently to the needs of our customers, and we work with manufacturers to improve existing lines, introduce new ones and make products and instructions more user friendly.

RESPONSIVE MERCHANDISING

In addition to helpful, knowledgeable personnel, low everyday pricing, enormous selection and quality products, The Home Depot strives to make a visit to one of our stores just as pleasant for the browser as it is convenient and efficient for the professional pressed for time. For example, store hours were expanded to include earlier opening times to better serve these customers who need to purchase supplies before going to the job site. Expert sales staffs are specially trained to serve independent professionals. We employ experienced tradesmen at each location to assist customers with complex projects. Free classes are offered in a variety of subjects such as wallpapering, wiring, plumbing and carpentry to educate the consumers and motivate them to become dedicated do-it-yourselfers by discovering the many financial and personal rewards of a job well done. The Home Depot also is catering to consumers who are putting a new twist on do-it-yourself—buy-it-yourself (BIY). Economy-minded homeowners are purchasing materials and supplies needed for a home improvement project, then contracting for the labor. Not only does relying on The Home Depot's recommendations reduce the total

cost of the job, it also eliminates tradesmen's mark-ups for materials.

INVENTORY CONTROL Merchandise inventory is by far the single biggest asset on The Home Depot's balance sheet. The efficient management of this huge investment—measured by a financial ratio called inventory turnover—is critical to both profitability and the capacity to maintain the competitive edge we gain through our Low Day-In, Day-Out Warehouse prices. This is especially vital as The Home Depot continues to expand the number and size of its stores and their formidable array of products into regions of the country with more pronounced seasonal market conditions.

Our inventory management systems track merchandise from the time an order is placed, to delivery to the stores, through customer check-out. Daily computer reports highlight which products are selling and at what margins. Slow-moving items are indicated, and re-order quantities adjusted to match our inventory strategy. The Home Depot can quickly evaluate products on the basis of actual sales and profitability data; then take immediate action to make sure the right merchandise is in the right stores and in the right quantities.

HANDS-ON MANAGEMENT The Home Depot management continually reviews store operations in person, listening to customers and employees. Our senior people also visit competitors' operations. The Home Depot executives, including the Chairman and President, personally train all store management personnel and conduct frequent refresher courses. We believe this

personalized commitment to superior customer service and management development can be found in no other retailing operation of The Home Depot's size. It is a commitment to keeping alive the entrepreneurial spark that gave birth to The Home Depot 10 years ago. It is a commitment that we want the customer to feel when he or she shops at The Home Depot.



"If you're enthusiastic, creative, motivated and you love hard work, The Home Depot is your kind of place. Once you experience the feeling of helping your customers build their confidence, it gets in your blood."

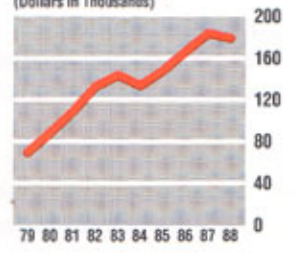


TERRY KINSKEY

Terry Kinskey started with The Home Depot in 1980 as a lot person helping customers load merchandise into their vehicles. Today, as Regional Manager—South Florida, Terry supervises six stores in the Miami-Ft. Lauderdale area.

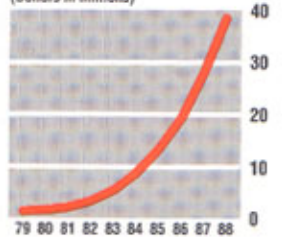


Sales Per Employee
(Dollars in Thousands)



Slightly lower sales per employee in 1988 reflected the start-up phase at 21 new stores

Average Total Company Weekly Sales
(Dollars in Millions)



The average Home Depot weekly sales increased more than \$10 million during 1988

As The Home Depot enters its second decade, the do-it-yourself market it helped to create and continues to serve will provide further exceptional opportunities for growth. In order to increase our leadership in the vibrant DIY retailing market over the next 10 years, The Home Depot will be pursuing several integrated operational and financial strategies:

- We will target growth of approximately 25% annually in the number of new Home Depot stores. Because our new stores will generally be larger than our existing units—up to 140,000 square feet compared to an average of 86,000 square feet in our 96 stores at the end of fiscal 1988—selling space is expected to grow at a slightly higher rate than the number of stores. In addition, to meet new merchandising challenges, we will be renovating and redoing our older stores, increasing overall selling space whenever possible.
- The opportunities available and The Home Depot's financial strength would enable us to add stores at an even more aggressive rate than 25% per year. However, we believe an orderly growth strategy will leave us in the best position to recruit, train and motivate the people who make The Home Depot philosophy work where it counts—on the sales floor.
- We will continue to take advantage of innovations in data processing technology throughout our system, from the store check-out counter to the decision making at the corporate level. When the first Home Depot low price home center warehouse opened in May, 1979, our record keeping was done manually. In 1989, we will go on-line systemwide with a satellite data and video transmission network, and will introduce Universal Product Code scanning in all our stores, improving productivity and customer service.
- We will continue to innovate in ways that expand our markets. For example, we introduced The Home Depot consumer credit card and a credit program for certain commercial accounts, such as manufacturing companies, hospitals and hotels, who desire the convenience of monthly billings, both under an arrangement with a major financial institution that eliminates the credit risk for our stores.
- We will expand aggressively both into new geographic areas and into markets where The Home Depot has already established a high profile and strong consumer acceptance. Our growth strategy takes into account that new stores inevitably take away some business from existing units.

However, our experience also has demonstrated that The Home Depot's overall share of market expands in multistore markets as each store is able to maintain the critical balance between volume and service.

At the threshold of the 1990s, demographic trends, changing lifestyles and a decline in service in our society are combining to create a do-it-yourself market potentially \$100 billion strong. If the next 10 years indeed turn out to be the DIY decade, The Home Depot will continue to be synonymous with quality, price and service in a market that is growing rapidly not only because it makes sense for the times, but also because it strikes a rewarding responsive chord in people.

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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.

THE HOME DEPOT, INC.

	Fiscal Year ⁽¹⁾			Percentage Increase (Decrease) of Dollar Amounts	
	1988	1987	1986	1988 v 1987	1987 v 1986
Selected Consolidated Statements of Earnings Data					
Net Sales	100.0%	100.0%	100.0%	37.6%	43.7%
Gross Profit	27.0	27.8	27.5	33.7	45.1
Costs and Expenses:					
Selling and Store Operating	17.8	18.1	18.7	35.6	39.1
Pre-Opening	.4	.3	.3	63.9	44.1
General and Administrative	2.4	2.6	2.7	28.7	37.6
Interest Income	—	—	(1)	(1.3)	(25.8)
Interest Expense	.1	.2	1.2	(50.2)	(72.1)
	20.7	21.2	22.8	34.3	33.3
Earnings Before Income Taxes	6.3	6.6	4.7	31.6	103.1
Income Taxes	2.5	2.9	2.3	18.3	78.9
Net Earnings	3.8%	3.7%	2.4%	41.9%	126.6%
Selected Consolidated Sales Data					
Number of Customer Transactions	64,227,000	48,073,000	34,020,000	33.6%	41.3%
Average Amount of Sale Per Transaction	\$ 31.13	\$ 30.24	\$ 29.73	2.9	1.7
Weighted Average Weekly Sales					
Per Operating Store	\$ 463,900	\$ 418,200	\$ 355,400	10.9	17.7
Weighted Average Sales Per Square Foot	\$ 281.86	\$ 264.71	\$ 229.65	6.5	15.3

(1) Fiscal years 1988, 1987 and 1986 refer to the fiscal years ended January 29, 1989, January 31, 1988 and February 1, 1987, respectively.

THE HOME DEPOT, INC.

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 and the ten year selected financial and operating data appearing elsewhere in this annual report.

Fiscal Year Ended January 29, 1989 Compared to January 31, 1988

Sales for fiscal year 1988 increased 37.6% from \$1,453,657,000 to \$1,999,514,000. The increase is attributable to 21 new stores opened during the year, a 13% increase in comparable store-for-store sales and full year sales from the 15 stores opened in 1987. The store-for-store calculation includes 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 decreased to 27.0% compared to 27.8% in 1987. This reduction is primarily due to the implementation of the Company's new pricing philosophy of low day-in, day-out warehouse prices.

Costs and expenses as a percent of sales decreased to 20.7% from 21.2% due to better expense controls and economies of scale achieved through increasing sales volumes. Reductions in selling and store operating expenses and general and administrative expenses were partially offset by an increase in pre-opening expenses to .4% from .3%. This increase is attributable to 21 store openings compared to 15 in 1987 and a higher per store pre-opening expenditure level. In 1988, 10 of 21 store openings were in California and the Northeast compared to 6 California openings in 1987. Personnel related pre-opening expenses are higher in these markets compared to other locations.

Interest expense decreased to .1% from .2% due to the 1987 conversion of the convertible debentures to common stock which was partially offset by higher average borrowings under the Company's revolving line of credit.

The Company's combined Federal and state effective tax rate was 39.0% in 1988 compared to 43.4% in 1987. This decrease is attributable to the corporate tax rate reduction enacted through the Tax Reform Act of 1986. See Note 1 in Notes To Consolidated Financial Statements for discussion regarding the recently enacted accounting standards for income taxes.

Net earnings as a percent of sales increased to 3.8% from 3.7% reflecting a gross margin rate reduction offset by lower costs and expenses, lower interest expense and a reduced tax rate as described above. In addition, earnings per share was \$1.50 for 1988 compared to \$1.13 in 1987 with a 7% increase in weighted average shares outstanding from 47,994,000 in 1987 to 51,255,000 in 1988.

Fiscal Year Ended January 31, 1988 Compared to February 1, 1987

Sales for fiscal year 1987 increased 43.7% from \$1,011,462,000 to \$1,453,657,000. The increase is attributable to 15 new stores opened during the year, an increase of 18% in comparable store-for-store sales and full year sales from the 10 stores opened in 1986.

Gross profit as a percent of sales increased in 1987 to 27.8% compared to 27.5% in 1986. This increase is due to enhanced merchandising efforts and the timing of the implementation of the change in the Company's pricing philosophy to low day-in, day-out warehouse prices wherein some merchandise was promoted at regular prices prior to the permanent reductions made during the transition to the day-in, day-out price.

(continued)

THE HOME DEPOT, INC.

Costs and expenses as a percent of sales decreased to 21.2% from 22.8% due to better expense controls and economies of scale from higher sales volumes. Interest expense decreased to .2% from 1.2% due to lower average borrowings under the Company's revolving line of credit and the conversion of the convertible debentures to common stock during the year.

The Company's combined Federal and state effective tax rate was 43.4% in 1987 compared to 49.3% in 1986. This decrease is attributable to the corporate tax rate reduction enacted through the Tax Reform Act of 1986.

Net earnings as a percent of sales increased to 3.7% from 2.4% reflecting continued strong sales growth, improved gross margin results, better expense controls, lower interest expense and a lower tax rate as described above. In addition, earnings per share for 1987 was \$1.13 compared to \$.60 in 1986 with an increase in the weighted average shares outstanding of 20% from 39,870,000 in 1986 to 47,994,000 in 1987.

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. As a result of enhanced computer systems and more emphasis on inventory management, inventory turnover increased to 5.8 times in 1988 compared to 5.4 times in 1987. In addition, a significant portion of the Company's inventory is financed under vendor credit terms.

The Company plans to open 24 new stores during fiscal 1989, of which it anticipates that 10 will be owned and 14 will be leased. The Company expects to open approximately 30 stores during fiscal 1990. Although some of these locations will be leased, it is expected that many may be obtained through the acquisition of land parcels and construction of buildings or the purchase of existing land and buildings during 1989. The total cost of new stores to be constructed and owned by the Company is expected to range from \$5,300,000 to over \$14,300,000, dependent upon location. In addition, the Company may have to purchase leasehold interests at varying amounts dependent upon the value of such properties. The cost to remodel and fixture stores to be leased ranges from \$1,000,000 to over \$4,400,000. In addition, each new store will require approximately \$1,800,000 to finance inventories, net of vendor financing.

Management believes that the availability of funds under its \$200,000,000 revolving credit agreement, cash generated from operations and/or its ability to obtain alternate forms of financing will enable the Company to complete its store expansion program through fiscal 1990.

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

THE HOME DEPOT, INC.

	Fiscal Year Ended		
	January 29, 1989	January 31, 1988	February 1, 1987
<i>Amounts in thousands except per share data</i>			
Net Sales	\$1,999,514	\$1,453,657	\$1,011,462
Cost of Merchandise Sold	1,459,862	1,049,918	733,302
Gross Profit	539,652	403,739	278,160
Operating Expenses:			
Selling and Store Operating	356,831	263,212	189,290
Pre-Opening	7,552	4,608	3,198
General and Administrative	48,485	37,678	27,376
Total Operating Expenses	412,868	305,498	219,864
Operating Income	126,784	98,241	58,296
Other Income (Expense):			
Interest Income	751	761	1,026
Interest Expense (note 2)	(1,702)	(3,416)	(12,249)
Earnings Before Income Taxes	125,833	95,586	47,073
Income Taxes (notes 1 and 3)	49,080	41,500	23,200
Net Earnings	\$ 76,753	\$ 54,086	\$ 23,873
Earnings Per Common and Common Equivalent Share (note 4)	\$ 1.50	\$ 1.13	\$.60
Weighted Average Number of Common and Common Equivalent Shares	51,255	47,994	39,870

See accompanying notes to consolidated financial statements.

THE HOME DEPOT, INC.

Dollar amounts in thousands

	January 29, 1989	January 31, 1988
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 15,853	\$ 25,595
Accounts Receivable, Net	17,614	15,228
Merchandise Inventories	294,274	211,421
Prepaid Expenses	9,201	5,043
Total Current Assets	336,942	257,287
Property and Equipment, at cost:		
Land	85,303	65,841
Buildings	111,350	85,842
Furniture, Fixtures and Equipment	82,373	59,563
Leasehold Improvements	58,707	43,520
Construction in Progress	30,043	12,427
	367,776	267,193
Less Accumulated Depreciation and Amortization	35,360	22,690
Net Property and Equipment	332,416	244,503
Cost in Excess of the Fair Value of Net Assets Acquired, net of accumulated amortization of \$2,627 at January 29, 1989 and \$1,995 at January 31, 1988		
	22,664	23,296
Other	7,157	3,184
	\$699,179	\$528,270

See accompanying notes to consolidated financial statements.

LIABILITIES AND STOCKHOLDERS' EQUITY	January 29, 1989	January 31, 1988
Current Liabilities:		
Accounts Payable	\$126,431	\$ 93,859
Accrued Salaries and Related Expenses	22,027	22,021
Other Accrued Expenses	43,378	27,322
Income Taxes Payable (notes 1 and 3)	2,067	3,229
Current Installments of Long-Term Debt (note 2)	233	235
Total Current Liabilities	194,136	146,666
Long-Term Debt , excluding current installments (notes 2 and 6)	107,508	52,298
Other Long-Term Liabilities	637	762
Deferred Income Taxes (notes 1 and 3)	13,960	7,985
Stockholders' Equity (notes 2 and 4):		
Common stock, par value \$.05. Authorized: 100,000,000 shares; issued and outstanding—50,230,000 shares at January 29, 1989 and 49,407,000 shares at January 31, 1988	2,511	2,470
Paid-in Capital	214,818	203,755
Retained Earnings	185,609	114,334
	402,938	320,559
Less ESOP shares at January 29, 1989 (note 6)	20,000	—
Total Stockholders' Equity	382,938	320,559
Commitments and Contingencies (notes 5 and 7)		
	\$699,179	\$528,270

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
THE HOME DEPOT, INC.
Fiscal years ended January 29, 1989, January 31, 1988 and February 1, 1987

<i>(Amounts in thousands, except per share amounts)</i>	Common Stock		Paid-in Capital	Retained Earnings	ESOP Shares	Total Stockholders' Equity
	Shares	Amount				
Balance, February 2, 1986	37,725	\$1,886	\$ 48,272	\$ 38,934	\$ —	\$ 89,092
Sale of Common Stock in a Public Offering, Net of Expenses of Sale	4,485	224	47,964	—	—	48,188
Shares Sold Under Employee Stock Purchase and Option Plans, Net of Retirements (note 4)	361	19	1,890	—	—	1,909
Tax Effect of Sale of Option Shares by Employees	—	—	(20)	—	—	(20)
Net Earnings	—	—	—	23,873	—	23,873
Balance, February 1, 1987	42,571	2,129	98,106	62,807	—	163,042
Conversion of Convertible Subordinated Debentures, Net (note 2)	6,116	305	98,299	—	—	98,604
Shares Sold Under Employee Stock Purchase and Option Plans, Net of Retirements (note 4)	720	36	7,078	—	—	7,114
Tax Effect of Sale of Option Shares by Employees	—	—	272	—	—	272
Net Earnings	—	—	—	54,086	—	54,086
Cash Dividends (\$.06 per share)	—	—	—	(2,559)	—	(2,559)
Balance, January 31, 1988	49,407	2,470	203,755	114,334	—	320,559
Shares Sold Under Employee Stock Purchase and Option Plans, Net of Retirements (note 4)	823	41	10,300	—	—	10,341
Tax Effect of Sale of Option Shares by Employees	—	—	763	—	—	763
Net Earnings	—	—	—	76,753	—	76,753
Cash Dividends (\$.11 per share)	—	—	—	(5,478)	—	(5,478)
ESOP Shares (note 6)	—	—	—	—	(20,000)	(20,000)
Balance, January 29, 1989	50,230	\$2,511	\$214,818	\$185,609	\$(20,000)	\$382,938

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

THE HOME DEPOT, INC.

	Fiscal Year Ended		
	January 29, 1989	January 31, 1988	February 1, 1987
<i>Amounts in thousands</i>			
Cash Provided From Operations:			
Net Earnings	\$ 76,753	\$54,086	\$23,873
Reconciliation of Net Earnings to Net Cash Provided By Operations:			
Depreciation and Amortization	14,673	10,646	8,697
Deferred Income Taxes	5,080	1,400	1,238
(Increase) Decrease in Receivables, Net	(2,386)	(5,291)	15,227
Increase in Merchandise Inventories	(82,853)	(44,306)	(14,415)
Increase in Accounts Payable and Accrued Expenses	48,634	44,009	27,596
Increase (Decrease) in Income Taxes Payable	(1,162)	(2,250)	5,731
Other	(5,200)	(2,109)	(2,330)
Total	(23,214)	2,099	41,744
Net Cash Provided by Operations	53,539	56,185	65,617
Cash Flows From Investment in Property and Equipment:			
Capital Expenditures	(105,123)	(89,235)	(52,363)
Proceeds from Sale-and-Leaseback of Property	—	—	31,673
Proceeds from Sale of Property and Equipment	1,771	1,857	5,607
Net Cash Used in Investing Activities	(103,352)	(87,378)	(15,083)
Cash Flows From Financing Activities:			
Borrowings (Repayments) Under Revolving Line of Credit, Net	35,500	35,500	(88,000)
Proceeds from Long-Term Borrowings	20,000	—	5,200
Cash Provided to ESOP	(20,000)	—	—
Principal Repayments of Long-Term Debt	(292)	(391)	(10,378)
Proceeds from Sale of Common Stock, Net	10,341	7,114	50,097
Cash Dividends Paid to Shareholders	(5,478)	(2,559)	—
Net Cash Provided (Used) by Financing Activities	40,071	39,664	(43,081)
(Decrease) Increase in Cash and Cash Equivalents	(9,742)	8,471	7,453
Cash and Cash Equivalents at Beginning of Year	25,595	17,124	9,671
Cash and Cash Equivalents at End of Year	\$15,853	\$25,595	\$ 17,124
Supplemental Disclosure of Cash Payments Made For:			
Interest (net of interest capitalized)	\$ 1,574	\$ 4,427	\$12,114
Income Taxes	\$ 45,804	\$42,350	\$12,572

See accompanying notes to consolidated financial statements.

THE HOME DEPOT, INC.

1-Summary of Significant Accounting Policies

Fiscal Year

The Company's fiscal year is a 52 or 53-week period ending on the Sunday nearest to January 31. Fiscal years 1988, 1987 and 1986, each consisting of 52 weeks, ended on January 29, 1989, January 31, 1988 and February 1, 1987, respectively.

Basis of Presentation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary. All significant intercompany transactions have been eliminated in consolidation. Certain reclassifications have been made to the fiscal 1986 and 1987 consolidated statements of cash flows to conform to current year presentation.

Stockholders' equity, share and per share amounts for all periods presented have been adjusted for a three-for-two stock split-up declared in August, 1987 and effected in the form of a dividend.

Cash Equivalents

The Company considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

Merchandise Inventories

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

Income Taxes

In December, 1987, the Financial Accounting Standards Board issued Statement No. 96, "Accounting for Income Taxes," which must be adopted by fiscal year 1990. This statement requires an asset and liability approach for financial accounting and reporting for income taxes. The probable effect of this statement,

assuming no change in statutory tax rates, will be to reduce the deferred income taxes reflected on the Company's consolidated balance sheet. The Company has not quantified the effect of the new pronouncement, is still reviewing several unresolved issues and is awaiting a Financial Accounting Standards Board interpretation of this standard which should be issued in early 1989.

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

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. The cost in excess of the fair value of net assets acquired is being amortized on a straight-line basis over 40 years. The cost of purchased software and associated consulting fees is amortized on a straight-line basis over periods ranging from three to five years.

Store Pre-Opening 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.

Prior to their conversion during 1987, shares issuable upon conversion of the Company's convertible subordinated debentures were not materially dilutive to the earnings per share computations for fiscal 1986.

THE HOME DEPOT, INC.

2-Long-Term Debt and Line of Credit

Long-term debt consists of the following (in thousands):

	January 29, 1989	January 31, 1988
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 3/4%, the LIBOR rate plus 1/2%, the prime rate or at rates determined through competitive bids.	\$ 71,000	\$35,500
7.95% Unsecured Note, payable on September 1, 1995, incurred in connection with the establishment of a leveraged Employee Stock Ownership Plan and Trust (see Note 6); interest is payable semi-annually.	20,000	—
Variable Rate Industrial Revenue Bonds, secured by letters of credit or land, interest rates averaging 7.0% during 1988, payable in varying installments through 2010 with \$5,200 payable on October 1, 2011.	12,166	12,400
9 5/8% Industrial Revenue Bond, secured by a letter of credit, payable on December 1, 1993, with interest payable semi-annually.	4,200	4,200
Other	375	433
Total long-term debt	107,741	52,533
Less current installments	233	235
Long-term debt, excluding current installments	\$107,508	\$52,298

Maturities of long-term debt are approximately \$233,000 for fiscal 1989 and 1990, \$333,000 for fiscal 1991 and 1992 and \$4,733,000 for fiscal 1993.

The Company has a revolving line of credit agreement for a maximum of \$200,000,000. Commitment amounts under the agreement decrease by \$15,000,000 on July 31, 1993, by \$20,000,000 each six months from that date through January 31, 1996, and by \$35,000,000 on July 31, 1996. The remaining \$50,000,000 commitment expires on January 31, 1997. Under certain conditions, the commitment may be extended and/or increased. An annual commitment fee of 1/4% to 3/8% 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 3/8% based on specified ratios of interest rate coverage and debt to equity.

Under the Revolving Credit Agreement, the Company is required, among other things, to maintain a minimum tangible net worth of \$213,160,000 as of January 29, 1989 (for subsequent years \$213,160,000 plus 65% of net earnings), a debt to tangible net worth ratio of no more than 2.5 to 1, a current ratio of not less than 1.3 to 1, a ratio of earnings before interest expense and income taxes to interest expense, net, of not less than 2.5 to 1 and indebtedness under the Employee Stock Ownership Plan and

Trust (ESOP) may not exceed \$50,000,000. In addition, the unsecured note related to the ESOP requires, among other things, that debt shall not exceed 66-2/3% of consolidated assets net of goodwill and current liabilities. The Company was in compliance with all restrictive covenants as of January 29, 1989. The restrictive covenants related to the letter of credit agreements securing the industrial revenue bonds are no more restrictive than those described above.

During 1987, holders' of the Company's 8 1/2% and 9% convertible subordinated debentures converted a total principal amount of \$100,098,000 into 6,115,689 shares of the Company's common stock. As a result of the transaction, the total principal amount converted plus accrued and unpaid interest to the conversion dates of \$682,000 was credited to common stock at par and paid-in capital, net of unamortized expenses of the original debt issues of \$2,176,000. Assuming the conversions had occurred at the beginning of fiscal 1987, net earnings per share would have decreased to \$1.11 for the year ended January 31, 1988.

Interest expense in the accompanying consolidated statements of earnings is net of interest capitalized of \$2,775,000 in fiscal 1988, \$2,601,000 in fiscal 1987 and \$2,808,000 in fiscal 1986.

(continued)

THE HOME DEPOT, INC.

3-Income Taxes

The provision for income taxes consists of the following (in thousands):

	Fiscal Year Ended		
	January 29, 1989	January 31, 1988	February 1, 1987
Current:			
Federal	\$36,000	\$34,100	\$19,131
State	8,000	6,000	2,831
	44,000	40,100	21,962
Deferred:			
Federal	4,300	1,324	1,237
State	780	76	1
	5,080	1,400	1,238
Total	\$49,080	\$41,500	\$23,200

The effective tax rates for fiscal 1988, 1987 and 1986 were 39.0%, 43.4% and 49.3%, respectively. A reconciliation of income tax expense at Federal statutory rates of 34% for fiscal 1988, 39% (blended rate) for

fiscal 1987 and 46% for fiscal 1986 to actual tax expense for the applicable fiscal years follows (in thousands):

	Fiscal Year Ended		
	January 29, 1989	January 31, 1988	February 1, 1987
Income taxes at Federal statutory rate	\$42,783	\$37,278	\$21,654
State income taxes, net of Federal income tax benefit	5,653	3,680	1,529
Investment and targeted jobs tax (credits) recapture	(171)	17	(263)
Other, net	815	525	280
Total	\$49,080	\$41,500	\$23,200

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 (in thousands):

	Fiscal Year Ended		
	January 29, 1989	January 31, 1988	February 1, 1987
Accelerated depreciation	\$4,746	\$3,029	\$2,955
Interest capitalization	166	792	962
Accrued self-insurance liabilities	(348)	(2,104)	(1,632)
Other accrued liabilities	(2)	(382)	(488)
Other, net	518	65	(559)
Total	\$5,080	\$1,400	\$1,238

THE HOME DEPOT, INC.

4-Employee Stock Plans

The Company has a qualified and a non-qualified 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 7,156,250 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 January 29, 1989, options for 4,721,590 shares had been granted, net of cancellations (of which 1,985,664 had been exercised), at \$1.07 to \$25.50 per share and 2,434,660 common shares were available for future grants under the plan.

Under the 1984 non-qualified Stock Option Plan, a maximum of 750,000 shares are authorized for grants at fair market value at date of grant. Such options may be exercised at varying rates commencing on the first anniversary date of the grant and expire on the tenth anniversary date of the grant. At January 29, 1989 options for 81,112 shares had been granted, net of cancellations (of which 25,537 had been exercised), at \$10.33 to \$22.75 per share and 668,888 common shares were available for future grants under the plan.

The following summarizes shares outstanding under the plans at January 29, 1989, January 31, 1988 and February 1, 1987 and changes during the fiscal years then ended:

	Fiscal Year Ended		
	January 29, 1989	January 31, 1988	February 1, 1987
Number of options			
At beginning of year			
Outstanding	2,720,035	2,604,131	3,004,661
Exercisable	716,845	881,949	546,219
During the year			
Issued	832,050	988,150	206,925
Cancelled	226,737	278,296	352,321
Became exercisable	498,793	428,846	590,864
Exercised	534,949	593,950	255,134
At end of year			
Outstanding	2,790,399	2,720,035	2,604,131
Exercisable	680,689	716,845	881,949
Average price per share			
Outstanding at the end of year	\$14.71	\$11.72	\$ 9.51
Exercised during the year	\$12.06	\$10.61	\$ 4.90

In addition, the Company has an Employee Stock Purchase Plan under which the Company may grant eligible employees options to purchase up to 1,650,000 shares of common stock 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 stock at its fair market value (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 1988 options for 301,473 shares were exercised at an average price of \$14.14, and at January 29, 1989, 113,685 options were outstanding, net of cancellations, at an average price of \$22.60 per share. At January 31, 1988, 122,362 options were outstanding, net of cancellations, at an average price of \$14.60 per share. At February 1, 1987, 75,329 options were outstanding, net of cancellations, at an average price of \$9.39 per share.

(continued)

THE HOME DEPOT, INC.

5-Leases

The Company leases certain retail locations, office, 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 January 29, 1989, January 31, 1988 and February 1, 1987 amounted to approximately \$30,678,000, \$25,980,000 and \$19,314,000, 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. Con-

tingent rentals for fiscal years ended January 29, 1989, January 31, 1988 and February 1, 1987 were approximately \$1,454,000, \$972,000 and \$736,000, 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 January 29, 1989 are as follows (in thousands):

Fiscal year	
1989	\$41,695
1990	47,483
1991	45,349
1992	42,989
1993	41,686
Thereafter	500,958
	\$720,160

6-Employee Stock Ownership Plan and Trust

During 1988, the Company established a leveraged Employee Stock Ownership Plan and Trust (ESOP) for substantially all full-time employees of the Company. In the third and fourth quarters of 1988, the ESOP used the proceeds of a loan obtained from the Company to purchase 739,100 shares of The Home Depot common stock for a total of \$20,000,000. The \$20,000,000 lent to the ESOP (maturing August 31, 1995) was obtained through a private placement (see Note 2).

The Home Depot common stock purchased by the ESOP is held in a "suspense account" as collateral for the loan from the Company. Each year, commencing in 1989, the Company intends to make contributions

to the plan which the plan trustee is required to use to make loan interest and principal payments to the Company. With each loan payment, a portion of the common stock is released from the "suspense account" and allocated to participating employees. Any dividends on unallocated shares will be used to service the Plan's debt, to pay expenses of the Plan, to purchase additional shares of the Company or to purchase other investments.

The unpaid portion of the ESOP's obligation to the Company is recorded as a reduction of stockholders' equity.

7-Commitments and Contingencies

At January 29, 1989, the Company was contingently liable for approximately \$16,079,000 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.

THE HOME DEPOT, INC.

8-Quarterly Financial Data (Unaudited)

The following is a summary of the unaudited quarterly results of operations for fiscal years ended

January 29, 1989 and January 31, 1988 (in thousands, except per share amounts):

	Net sales	Percent increase in comparable store sales	Gross profit	Net earnings	Net earnings per common and common equivalent share
Fiscal year ended					
January 29, 1989:					
First Quarter	\$ 446,592	13%	\$122,595	\$19,245	\$.38
Second Quarter	518,159	12%	137,573	21,516	.42
Third Quarter	509,990	14%	134,897	17,105	.33
Fourth Quarter	524,773	15%	144,587	18,887	.37
	\$1,999,514	13%	\$539,652	\$76,753	\$1.50
Fiscal year ended					
January 31, 1988:					
First Quarter	\$ 333,969	22%	\$ 94,116	\$12,807	\$.29
Second Quarter	381,443	21%	104,063	15,579	.33
Third Quarter	364,245	20%	96,228	9,737	.19
Fourth Quarter	374,000	12%	109,332	15,963	.32
	\$1,453,657	18%	\$403,739	\$54,086	\$1.13

INDEPENDENT AUDITORS' REPORT

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

KPMG Peat Marwick

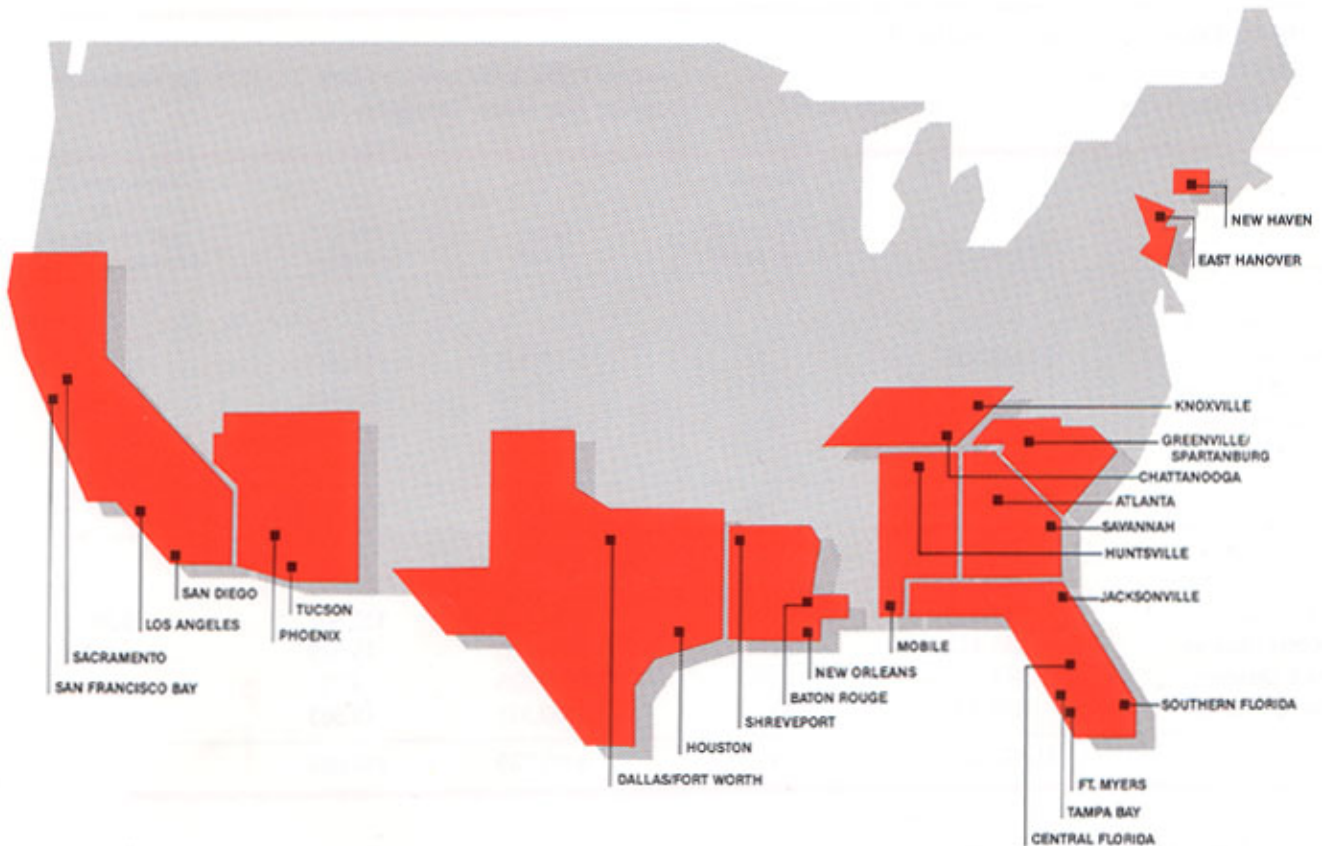
We have audited the accompanying consolidated balance sheets of The Home Depot, Inc. and subsidiary as of January 29, 1989 and January 31, 1988, and the related consolidated statements of earnings, stockholders' equity, and cash flows for each of the years in the three-year period ended January 29, 1989. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Home Depot, Inc. and subsidiary at January 29, 1989 and January 31, 1988, and the results of their operations and their cash flows for each of the years in the three-year period ended January 29, 1989 in conformity with generally accepted accounting principles.

PEAT MARWICK MAIN & CO.

Atlanta, Georgia
March 10, 1989



ALABAMA

- MOBILE
- HUNTSVILLE

ARIZONA

- PHOENIX
 - Cave Creek
 - Mesa
 - Camelback
 - Thomas Road
 - Glendale
 - Scottsdale
- TUCSON
 - East Broadway
 - Oracle Road

CALIFORNIA

- LOS ANGELES
 - Huntington Beach
 - Fullerton
 - San Bernardino
 - Long Beach
 - Cerritos
 - City of Industry
 - La Mirada
 - Van Nuys
 - Pico Rivera
 - Covina
 - San Fernando
 - Upland
- SACRAMENTO
 - Carmichael
- SAN FRANCISCO BAY
 - Sunnyvale
 - San Jose
 - Fremont
 - Colma
 - Milpitas
 - San Leandro

■ **SAN DIEGO**

- Genesee
- University Avenue
- Oceanside
- Chula Vista
- El Cajon
- Sports Arena
- Escondido

CONNECTICUT

- NEW HAVEN
 - North Haven

FLORIDA

- SOUTHERN FLORIDA
 - Hollywood
 - Lauderdale Lakes
 - Dixie Highway
 - Hialeah
 - North Miami Beach
 - Palm Springs
 - Deerfield Beach
 - Flagler
 - Kendall
 - Lake Park
 - Margate
- JACKSONVILLE
 - Atlantic
 - Blanding
 - Ramona

■ **CENTRAL FLORIDA**

- Altamonte Springs
- Colonial Drive
- Southland Blvd.
- Daytona
- Melbourne

■ **TAMPA BAY**

- Tampa
- Clearwater
- St. Petersburg
- Brandon
- Hillsborough
- New Port Richey
- Largo
- Sarasota

■ **FT. MYERS**

GEORGIA

- ATLANTA
 - Decatur
 - Doraville
 - Marietta
 - Forest Park
 - Duluth
 - Kennesaw
 - Douglasville
 - Roswell
- SAVANNAH

LOUISIANA

- NEW ORLEANS
 - Gretna
 - Harahan
 - East New Orleans
- SHREVEPORT
- BATON ROUGE

NEW JERSEY

- EAST HANOVER

SOUTH CAROLINA

- GREENVILLE/SPARTANBURG
 - Greenville
 - Spartanburg

TENNESSEE

- KNOXVILLE
- CHATTANOOGA

TEXAS

- DALLAS/FORT WORTH
 - North Richland Hills
 - Piano
 - Richardson
 - Arlington
 - Mesquite
 - Westmoreland
 - White Settlement
 - Carrollton
 - Northwest Highway
- HOUSTON
 - Bellaire
 - Lumpkin
 - Gulf Freeway
 - FM 1960
 - Stuebner

DIRECTORS

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

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

Ronald M. Brill
Sr. Vice President/Treasurer
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

James Inglis
Executive Vice President—
Merchandising

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

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

Nathan Morton
Sr. Vice President—
Operations

William E. Harris
Sr. Vice President—
Corporate Development

Bruce Berg
Sr. Vice President—
Merchandising/Eastern Region

William J. Salyer
Vice President—
Construction & 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

Lynn Martineau
Vice President—Store Operations/West Coast

Marshall L. Day
Vice President—
Controller

Dennis Ryan
Vice President—
Merchandising/Northeast Region

Bill Hamlin
Vice President—
Merchandising/Western Region

Dick Hammill
Vice President—Advertising & Marketing

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, Ga. 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 31, 1989, at the Wyndham Hotel, 2857 Paces Ferry Rd., Atlanta, Ga.

Number of Stockholders

As of March 22, 1989, there were approximately 4,900 stockholders of record. This number excludes individual stockholders holding stock under nominee security position listings.

Dividend Policy

The Company did not declare dividends prior to fiscal 1987. During fiscal 1988, the Company paid a quarterly dividend of \$.02 per share in April and \$.03 per share in June, September and December.

Form 10-K

A copy of the Company's Annual Report on Form 10-K for the fiscal year ended January 29, 1989 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 1988:		
First Quarter	27 $\frac{1}{8}$	19 $\frac{1}{8}$
Second Quarter	29 $\frac{3}{4}$	23 $\frac{3}{8}$
Third Quarter	30	23 $\frac{1}{2}$
Fourth Quarter	31 $\frac{1}{2}$	26 $\frac{1}{2}$
Fiscal 1987:		
First Quarter	20 $\frac{1}{8}$	14 $\frac{1}{8}$
Second Quarter	25	18 $\frac{1}{8}$
Third Quarter	27 $\frac{1}{4}$	12 $\frac{1}{4}$
Fourth Quarter	19 $\frac{1}{8}$	15 $\frac{1}{2}$



Executive Offices
The Home Depot
2727 Paces Ferry Road
Atlanta, GA 30339
404-433-8211