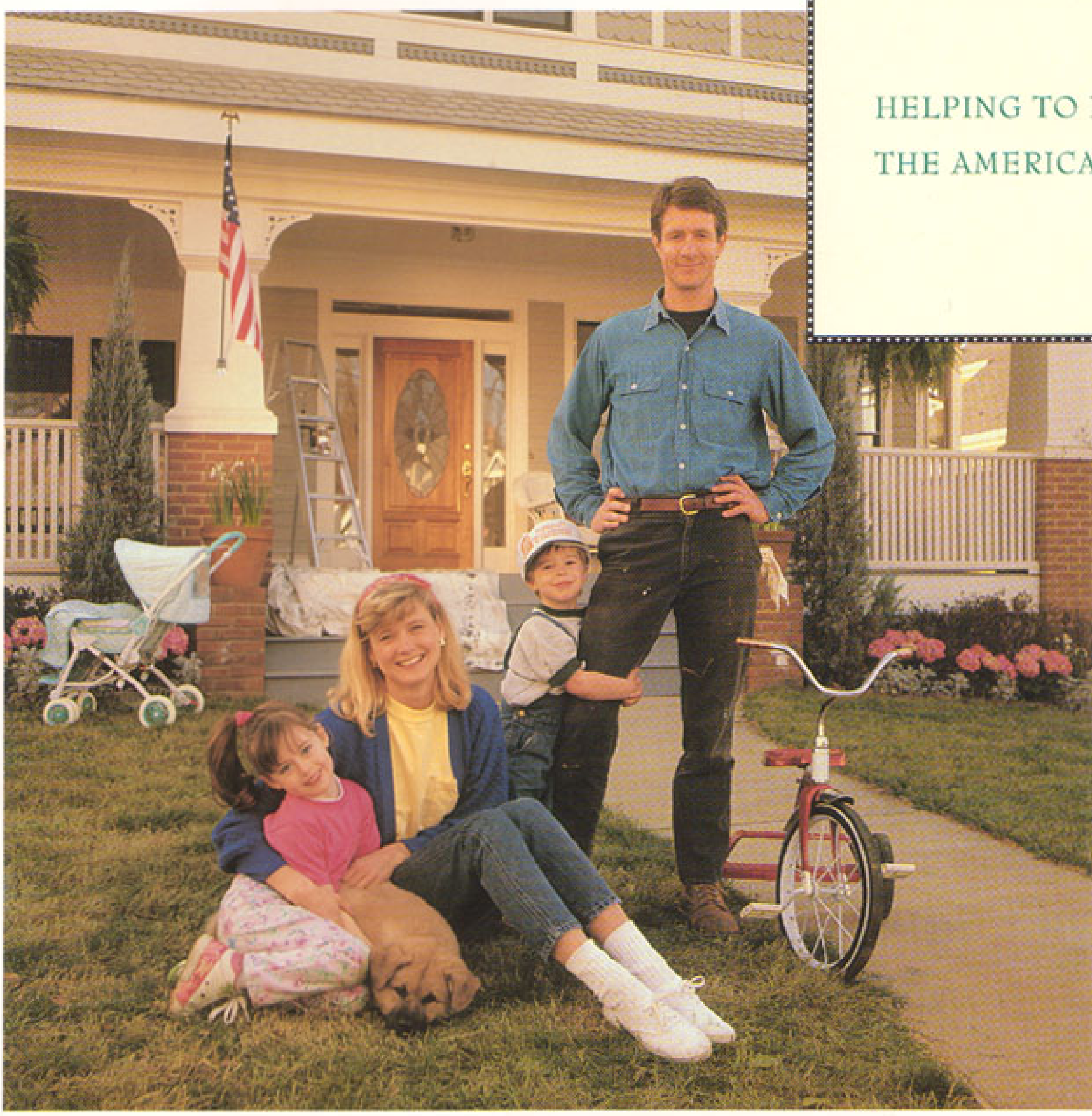
THE HOME DEPOT

1990 ANNUAL REPORT

HELPING TO BUILD THE AMERICAN DREAM



CORPORATE PROFILE Founded in 1978 in Atlanta, Georgia, The Home Depot is now America's largest home center retailer and is one of the fastest growing retailers in the United States. At the close of fiscal 1990, the Company was operating 145 warehouse-style stores in 12 states. The average Home Depot store is approximately 92,000 square feet, with an additional 10,000 to 20,000 square feet of outside selling area. The stores stock approximately 30,000 different kinds of building materials, home improvement supplies and lawn and garden products, a large proportion of which are sold to do-it-yourselfers as well as home remodeling and building maintenance professionals. The Company has been credited with being a leading innovator in the home center retail industry by combining the economies of scale inherent in a warehouse format with a level of customer service unprecedented among warehouse-style retailers. The Home Depot is ranked by *Fortune* magazine as one of the nation's 50 largest retailers and by *Business Month* as one of America's fastest-growing companies in terms of sales, profits and return on investment. The Home Depot's stock is traded on the New York Stock Exchange under the symbol "HD" and is included in the Standard & Poor's 500 Index.

HELPING TO BUILD THE AMERICAN DREAM

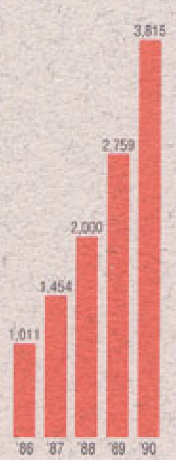
BERNARD MARCUS
Chairman and Chief Executive Officer

There is, simply, no place like home. In survey after survey, we Americans rank home ownership at the top of our list of the things we want. Nearly two-thirds of American families own their own homes. While new housing starts may be cyclical, home ownership is not. Clearly, owning one's own home is a fundamental component of the American Dream. It derives from our nation's deeply rooted belief that individuals are free to live how and where they choose, in their own homes and on their own land. But home ownership is not only a deeply ingrained social and cultural value among Americans. It is also, for most, the primary long-term investment of our lives, and an investment we seek to protect above all others. Moreover, it is an investment we are willing to nurture with our own hands. With a recession offically declared by the government, and a crisis in the Middle East, this annual report goes to press during especially trying times. Indeed, the consumer confidence index fell to its lowest level in nearly a decade. Despite these troubles, The Home Depot achieved another year of record success and seems well positioned for the years ahead. In uncertain times, "hearth and home," and the security they represent, seem more important than ever. By providing homeowners with the skills, the confidence and low-cost, high-quality products to do it themselves, The Home Depot is making better housing more affordable and accessible, and is thus helping more Americans build their version of the American Dream.

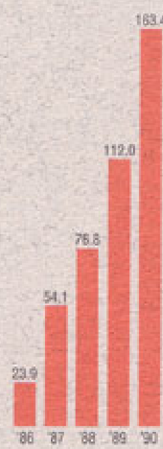
ARTHUR M. BLANK
President and Chief Operating Officer

The Home Depot's financial position remains solid and reflects the continued strong demand for the Company's knowledgeable service and quality products at everyday low prices.

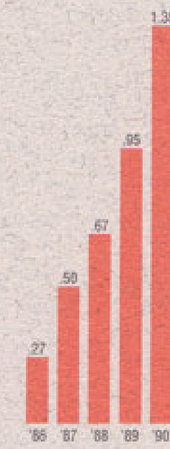
Net Sales
Dollars in Millions



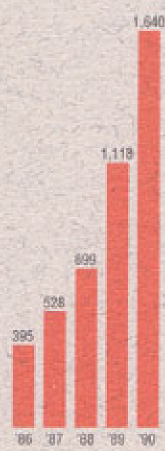
Net Earnings
Dollars in Millions



Net Earnings Per Share
Dollars



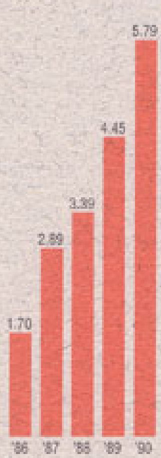
Total Assets
Dollars in millions



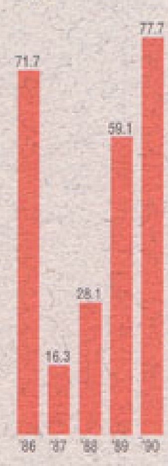
Long-term Debt
Dollars in Millions

Stockholders' Equity
Dollars in Millions

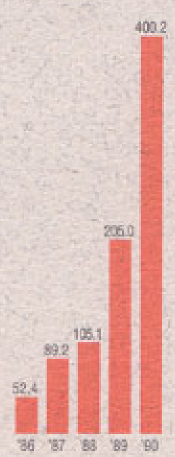
Book Value Per Share
Dollars



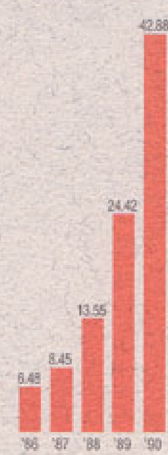
Long-term Debt to Equity
Percent



Capital Expenditures
Dollars in millions



Stock Price History
Dollars



TEN YEAR SELECTED FINANCIAL AND OPERATING HIGHLIGHTS

THE HOME DEPOT, INC. AND SUBSIDIARIES
(Amounts in thousands, except where noted)

	5 Year Annual Compound Growth Rate	10 Year Annual Compound Growth Rate	1990[1]
STATEMENT OF EARNINGS DATA			
Net sales	40.3%	67.2%	$3,815,356
Earnings before taxes	86.2	77.1	259,828
Net earnings	81.8	80.2	163,428
Net earnings per share ($)[2]	68.3	63.3	1.35
Weighted average number of shares[2]	7.2	5.2	120,835
Gross margin – % to sales	–	–	27.9
Store selling and operating – % to sales	–	–	18.2
Pre-opening – % to sales	–	–	.4
General & administrative – % to sales	–	–	2.4
Net interest expense (income) – % to sales	–	–	.1
Earnings before taxes – % to sales	–	–	6.8
Net earnings – % to sales	–	–	4.3
BALANCE SHEET DATA AND FINANCIAL RATIOS			
Total assets	33.9%	80.3%	$1,639,503
Working capital	23.1	71.1	300,867
Merchandise inventories	27.2	67.8	509,022
Net property and equipment	40.4	92.7	878,730
Long-term debt	21.6	87.0	530,774
Stockholders' equity	50.3	n/a	683,402
Book value per share ($)[2]	40.7	n/a	5.79
Long-term debt to equity – %	–	–	77.7
Current ratio	–	–	1.73:1
Inventory turnover	–	–	6.0x
Return on average equity – %	–	–	27.6
STATEMENT OF CASH FLOWS DATA			
Depreciation and amortization	45.9%	75.2%	$ 34,358
Capital expenditures	32.0	115.4	400,205
Cash dividends per share ($)[2]	–	–	.11
CUSTOMER AND STORE DATA			
Number of states	11.4%	28.2%	12
Number of stores	23.7	43.2	145
Square footage at year-end	27.1	48.8	13,278
Change in square footage – %	–	–	27.4
Average square footage per store	–	–	92
Number of customer transactions	37.0	62.3	112,464
Average sale per transaction ($)	2.5	3.1	33.92
Number of employees	31.8	53.3	21,500
OTHER DATA			
Net sales increase – %	–	–	38.3
Average total company weekly sales	39.8	67.2	$ 71,988
Weighted average weekly sales per operating store	10.5	18.1	566
Comparable store sales increase – %[3]	–	–	10
Weighted average sales per square foot ($)[3]	7.6	13.7	322
Advertising expense – % to sales	–	–	0.9

[1] *Fiscal years 1990 and 1984 consisted of 53 weeks, all other years reported consisted of 52 weeks.*
[2] *All per share and share data have adjusted for a three-for-two stock split-up effected in the form of a dividend in July 1990.*
[3] *Adjusted to reflect the first 52 weeks of the 53-week fiscal year in 1990.*

1989	1988	1987	1986	1985	1984[1]	1983	1982	1981
$2,758,535	$1,999,514	$1,453,657	$1,011,462	$700,729	$432,779	$256,184	$117,645	$51,542
182,015	125,833	95,586	47,073	11,619	26,252	18,986	9,870	1,963
111,954	76,753	54,086	23,873	8,219	14,122	10,261	5,315	1,211
.95	.67	.50	.27	.10	.17	.12	.07	.02
118,470	115,325	107,987	89,708	85,211	85,395	83,816	75,038	71,045
27.8	27.0	27.8	27.5	25.9	26.4	27.3	28.4	28.6
18.3	17.8	18.1	18.7	19.2	17.2	17.0	16.5	19.0
.3	.4	.3	.3	1.1	.4	.9	.4	1.5
2.5	2.4	2.6	2.7	2.9	3.0	2.9	3.3	3.7
.1	.1	.2	1.1	1.2	(.3)	(.9)	(.2)	.6
6.6	6.3	6.6	4.7	1.7	6.1	7.4	8.4	3.8
4.1	3.8	3.7	2.4	1.2	3.3	4.0	4.5	2.3
$1,117,534	$ 699,179	$ 528,270	$ 394,741	$380,193	$249,364	$105,230	$ 33,014	$16,906
273,851	142,806	110,621	91,076	106,451	100,110	49,318	12,901	5,502
381,452	294,274	211,421	167,115	152,700	84,046	58,712	17,575	11,263
514,440	332,416	244,503	168,981	160,816	73,577	21,129	5,954	3,503
302,901	107,508	52,298	116,907	199,943	117,942	4,384	236	3,738
512,129	382,938	320,559	163,042	89,092	80,214	65,278	18,354	5,204
4.45	3.39	2.89	1.70	1.05	.95	.78	.48	.07
59.1	28.1	16.3	71.7	224.0	147.0	6.7	1.3	71.8
1.94:1	1.74:1	1.75:1	1.85:1	2.27:1	3.22:1	2.43:1	1.92:1	1.70:1
5.9x	5.8x	5.4x	4.6x	4.1x	4.2x	4.9x	5.8x	5.2x
25.2	21.6	21.1	20.3	9.7	19.3	24.5	45.1	58.7
$ 21,107	$ 14,673	$ 10,646	$ 8,697	$ 5,193	$ 2,368	$ 903	$ 389	$ 176
204,972	105,123	89,235	52,363	99,767	50,769	16,081	2,883	2,488
.07	.05	.03	–	–	–	–	–	–
12	10	8	7	7	6	4	2	2
118	96	75	60	50	31	19	10	8
10,424	8,216	6,161	4,828	4,001	2,381	1,449	696	507
26.9	33.4	27.6	20.6	68.0	64.3	108.2	37.3	103.6
88	86	82	80	80	77	76	70	63
84,494	64,227	48,073	34,020	23,324	14,256	8,479	4,164	1,916
32.65	31.13	30.24	29.73	30.04	30.36	30.21	28.25	26.90
17,500	13,000	9,100	6,600	5,400	4,000	2,400	1,100	650
38.0	37.6	43.7	44.3	61.9	68.9	117.8	128.3	130.9
$ 53,049	$ 38,452	$ 27,955	$ 19,451	$ 13,476	$ 8,166	$ 4,927	$ 2,262	$ 991
515	464	418	355	343	366	360	281	187
13	13	18	7	2	14	31	47	58
303	282	265	230	223	247	245	210	153
1.1	1.5	2.0	2.4	3.2	2.5	2.9	2.6	3.4

By virtually all measures, The Home Depot posted another year of record results during fiscal 1990.

Compared to the previous fiscal year, net earnings rose 46%, sales increased 38%, weighted average weekly store sales rose 10% and comparable store-for-store sales, adjusted to reflect the first 52 weeks of the 53-week fiscal year, rose 10%. Inventory turnover improved from 5.9 to 6.0.

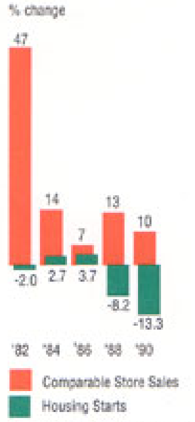
In addition, customer transactions increased 33%, the average customer sale rose 4%, sales per square foot increased 6%, and the overall amount of store selling space increased by 27%.

We opened 27 new stores and relocated one store during fiscal 1990, closing out the fiscal year with a total of 145 stores in 12 states.

The Home Depot more than doubled its presence in the northeastern United States during fiscal 1990, opening seven new stores. Despite the especially weak regional economy in the Northeast, the 12 stores we now operate there are among the highest sales volume stores in the Company. Their performance further encourages us to continue our expansion into the Northeast without delay. During the 1991 fiscal year, we expect to open stores in three more northeastern states, Massachusetts, New Hampshire and Maryland.

Our strategy of cannibalizing older stores in existing markets continues to yield successful results. In fiscal 1990, 22 of the 27 stores we opened, or 81%, were deliberately located to draw customers from existing stores nearby. While cannibalization has a short-term negative impact on the rate of growth of comparable store sales, the overall long-term effects are positive. Cannibalization enables us to maintain our competitive lead in providing excellent customer service and increasing our market share. By locating a new store on the edge of the market area served by an existing store, we are not only able to relieve sales pressure at the older store, we also attract new customers by providing them with a more convenient shopping location. In fact, during the third and fourth quarters of fiscal 1990, in those markets where comparable store sales were below the Company average due to cannibalization, the average customer count increased by 20%.

Home Depot Comparable Store Sales vs. Housing Starts



Source: U.S. Commerce Department, Cahners Economics

Comparable store sales are not directly related to housing starts.

During the fourth quarter of fiscal 1990, we began to implement our "Store Productivity Improvement" (SPI) test program. The SPI program involves retrofitting existing stores and building new ones with the goals of streamlining customer and merchandise throughput. So far, we have retrofitted two stores (in Escondido, Calif. and Ft. Myers, Fla.) and are now building two new stores (in Moreno Valley, Calif. and West Springfield, Mass.) using SPI concepts. We are experimenting with modified store layouts, material handling techniques and operations. Broader roll-out of various components of the SPI program should begin during late 1991 when we expect to be able to assess the impacts of the various SPI concepts tested thus far.

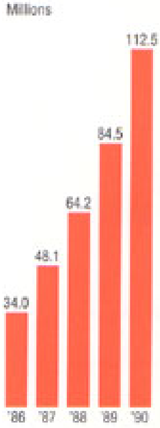
Our merchandising staff successfully introduced or expanded a number of programs during fiscal 1990. Most of our stores now have full-service decorating centers staffed by professional interior designers. In the carpet department, we have expanded our assortment and now offer installation services in 11 stores. Broader roll-out is being considered. During fiscal 1990, we also significantly expanded the assortment of floor and table lamps in our lighting department.

During fiscal 1990, we also continued to enhance our information services systems and internal communications capabilities. Our cashiers now scan up to 85% of the items sold. Universal product code scanning has not only speeded customer checkout, it has freed up labor once needed to price and tag merchandise to provide more customer service. Key information services projects for fiscal 1991 include improved inventory, store labor management and merchandising systems, a new human resource system, and an electronic data interchange pilot program. Our Home Depot Television Network (HDTV) is now fully operational and produced 60 training and communications programs during fiscal 1990. In fiscal 1991, HDTV plans to produce approximately 100 programs.

Our Home Depot credit card program now boasts over 500,000 cardholders and is one of the fastest growing private label retail credit cards. This translates into more sales since the average customer transaction with a private label credit card is about double our average customer sale.

Along with all Americans, we look forward to a return to a more robust economy. However, the weak economy has had several positive effects on The Home Depot. First and foremost, we see increased interest in do-it-yourself projects as a way for homeowners to save money. While sales of basic building materials typically used in new construction have softened, our limited exposure to that market segment has been largely offset by strong interest in remodeling and decorating projects, which generally involve higher-margin merchandise. The current low turnover of existing housing seems to be motivating more homeowners to stop deferring long-desired home improvements, since – for various reasons – they are making decisions to stay in their homes for a longer period of time. Repair projects, as would be expected, remain steady.

Home Depot Number of Customer Transactions
Millions

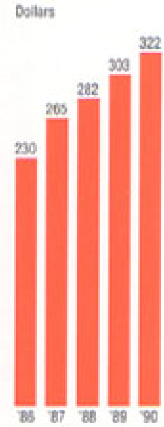


The weak economy has also tended to accelerate the consolidation of the highly fragmented home center industry. This has enabled The Home Depot to gain further market share. We have also gained new sources of merchandise from vendors who previously relied on other distribution channels to reach the marketplace.

With the significant downturn in new construction activities, we have also discovered an opportunity to attract construction professionals as store employees. These people provide excellent project guidance to our customers. Similarly, many underemployed contractors have entered the remodeling market, providing labor bargains for our "buy-it-yourself" customers.

In December 1990, we announced that we were consolidating our stores west of Texas into a new unit, the Western Division. The creation of the division is in keeping with our philosophy of decentralized decision making, which has enabled The Home Depot to grow successfully while avoiding a chain-store mentality. In that sense, the division's formation is an organizational experiment that may eventually be applied to other parts of the Company. Bill Hamlin, formerly vice president of merchandising of The Home Depot's western stores, is now president and operating officer of the division. Kurt Plouff, formerly merchandiser for garden and seasonal products for our western stores, is now vice president of merchandising for the new division.

Home Depot Weighted Average Sales per Square Foot



Our belief in decentralized decision-making has also prompted us to split our Southern Region merchandising staff into two regions – Mid-South and Southern – so that our merchants can remain responsive to their market assignments as we continue to open new stores. Jesse Behnke was promoted to the position of vice president of merchandising for the new Mid-South Region. Jesse was most recently the senior lawn and garden products merchandiser of that region. The Southern Region merchants are now based at a new regional headquarters in Tampa, Fla., headed by Bruce Berg, senior vice president of merchandising for that region.

During fiscal 1990, Peter Gold joined our Board of Directors. Peter is the former chairman and CEO of Price Pfister, Inc., one of the largest faucet makers in the world and a key Home Depot supplier. His expertise is invaluable to us. We also welcomed two new officers, W. Andrew McKenna, senior vice president of information services; and Ted Kaczmarowski, vice president of construction.

Going forward, we expect to open new stores at a maximum rate of 25% per year and continue to remodel, expand and relocate our older stores.

For a multitude of demographic, cultural, social and economic reasons, the do-it-yourself market continues to grow faster than retailing overall as well as the economy in general. The Home Depot seems extremely well positioned to take advantage of these trends in the 1990s.

Innovation will continue to play a strategic role in our growth. Since our inception 12 years ago, we have always tinkered with and revamped all aspects of our business. We have never subscribed to the idea that if it's not broken, you don't need to fix it. To stay on the leading edge of our industry means fixing things before they break.

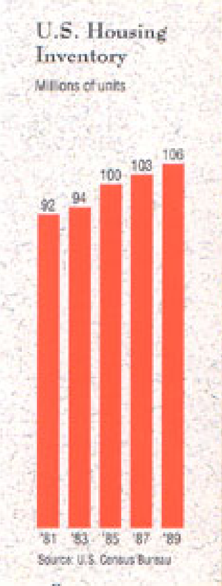
Above all, we believe that our people are the key to our success and this is reflected in our progressive corporate culture. Our employees have a sense of pride and ownership that is all-too-uncommon in corporate America today. We encourage free expression, risk-taking, personal initiative and teamwork. These are the kinds of attitudes and behaviors that foster innovation and success as well as a stimulating workplace. We are grateful to our 21,500 employees who have worked hard to forge strong bonds with our loyal customers.

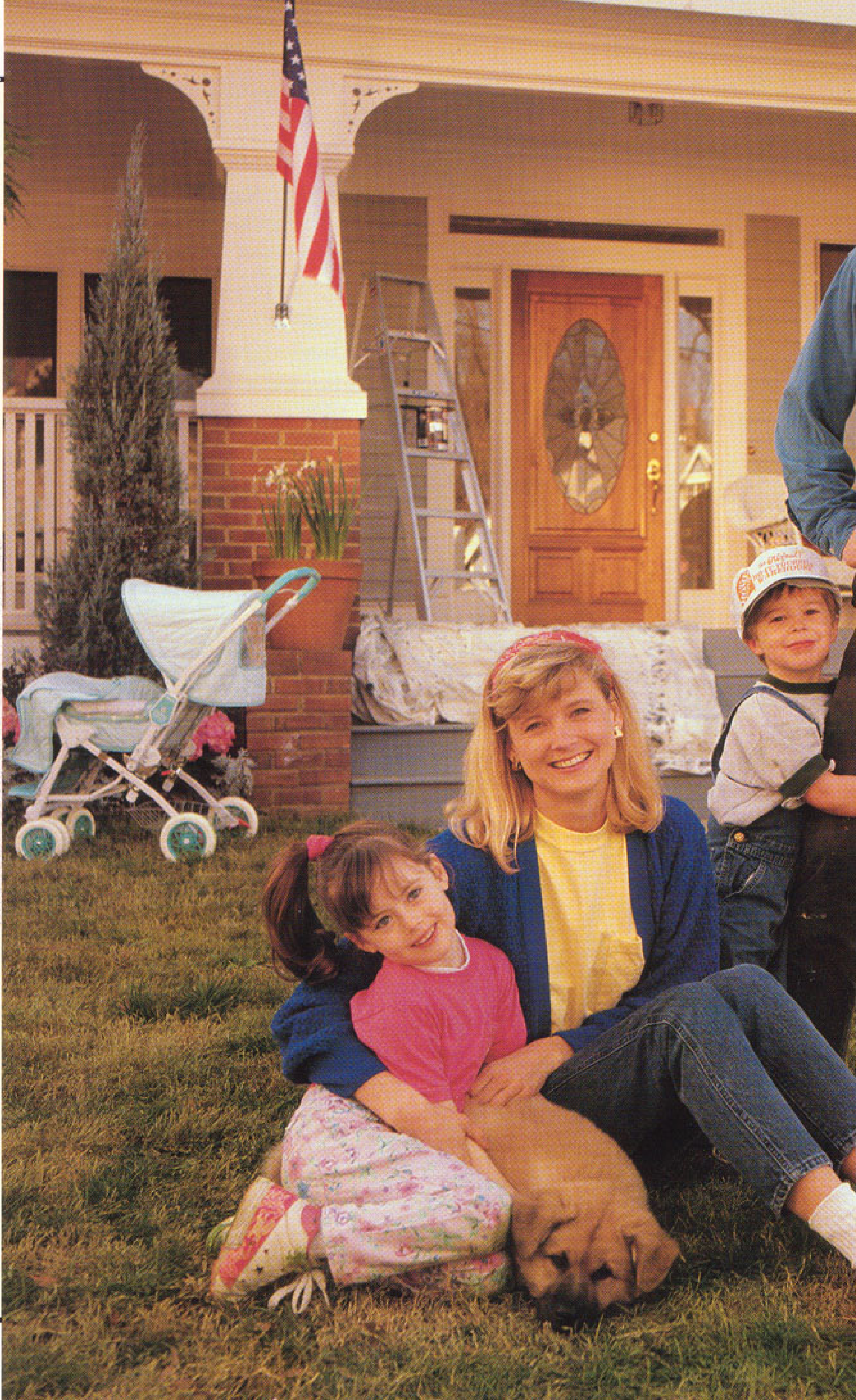
Sincerely,

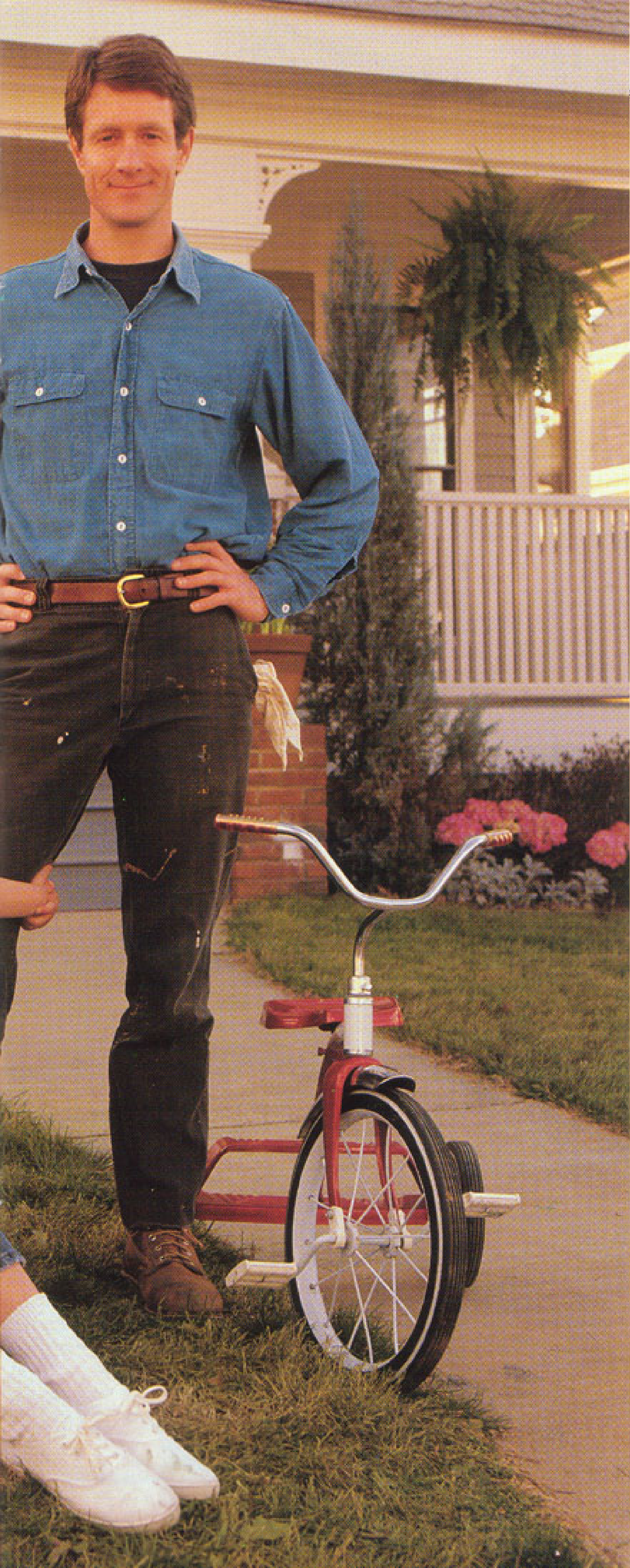
Bernard Marcus
Chairman and Chief Executive Officer

Arthur M. Blank
President and Chief Operating Officer

March 1, 1991


U.S. Housing Inventory
Millions of units
92
94
100
103
106
'81
'83
'85
'87
'89
Source: U.S. Census Bureau





Making It Better

The 1990s are ripe for do-it-yourselfers. The Baby Boomers have entered their prime earning and household formation years, and at long last, they have given rise to the Baby Boomlet. With the Boomers returning to the home- and family-oriented lifestyle in which they were raised, demographers have coined yet another catchphrase, "the cocooning of America." Meanwhile, the Baby Bust generation of the mid-1960s is entering the starter home market.

And most recently, moderating home prices have raised the typical American family's ability to buy a home to the highest level in 13 years.

Americans, in short, are not only coming home, they are finding it more affordable to do so. But that home needs some work.

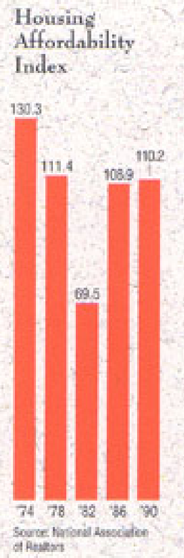
Many of the approximately 14 million houses built in the 1950s are now in need of major improvements. Yet, skilled home improvement labor is costly and in short supply, and with record numbers of two-income families and single heads of households, there's often no longer anyone at home during the day to supervise workers.

Last year, approximately 75% of homeowners undertook some kind of do-it-yourself project. They realize they can save tremendous sums of money on labor costs and end up accomplishing much more by doing it themselves. They also enjoy the satisfaction of building something with their own hands, a simple pleasure that is increasingly rare in today's service economy-oriented workplace.

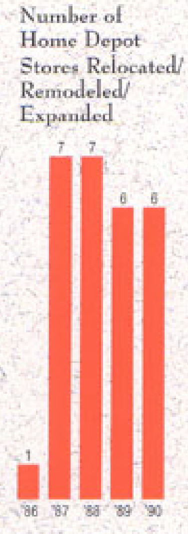
For these and other reasons, researchers predict that do-it-yourself home improvement expenditures over the next five years will grow at a relatively fast compound annual rate of about 6 to 7%, approximately 20 to 40% higher than the expected growth in retail sales overall.

Since its inception, The Home Depot has believed that a little knowledge goes an especially long way in the home improvement business. By teaching a customer how to replace a faucet today, you begin to impart the skills and confidence he or she will eventually apply to undertake a complete bathroom remodeling project. This is what we mean when we say that at The Home Depot, we grow our business by growing the market.

To make sure both beginning and advanced do-it-yourselfers get the attention they need, The Home Depot makes significant investments in developing its employees in terms of store operations, project and product knowledge and the Company's entrepreneurial culture. Training is done mostly in person, but now also on the Company's television network.



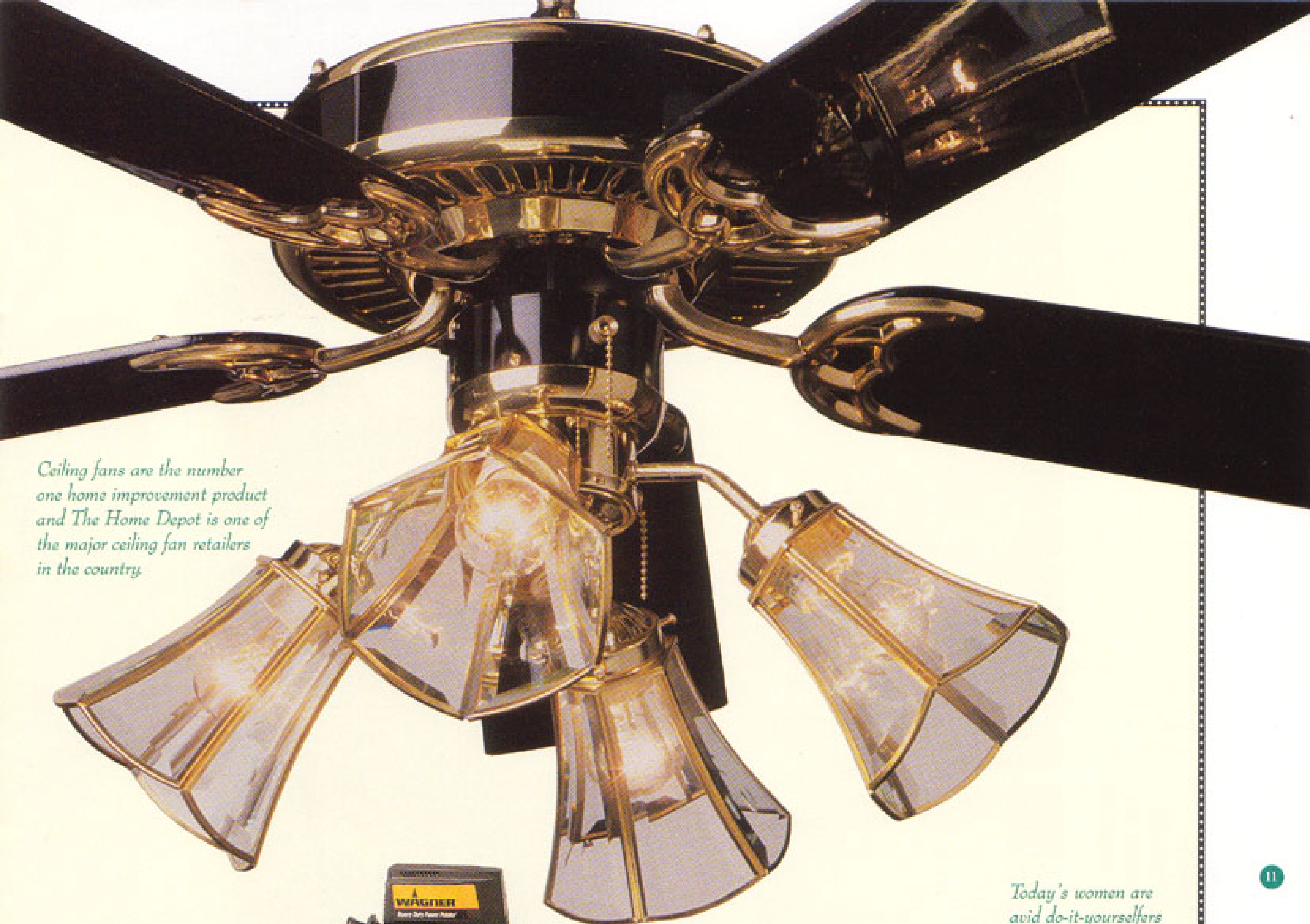
After a decline in the early '80s, the Index has continued to increase into the '90s.



The Home Depot regularly assesses each store to maximize sales performance.

Basic building materials continue to be the core business of our stores.

The Home Depot is always responding to customer input and so today, all stores now offer comprehensive delivery services.



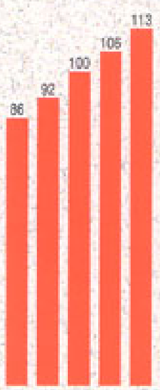
Ceiling fans are the number one home improvement product and The Home Depot is one of the major ceiling fan retailers in the country.

The Home Depot is dedicated to providing customers with quality name-brand products that meet all performance expectations.

Today's women are avid do-it-yourselfers and account for many of the over two million transactions The Home Depot rings up weekly.

Home Improvement Expenditures

Dollars in billions

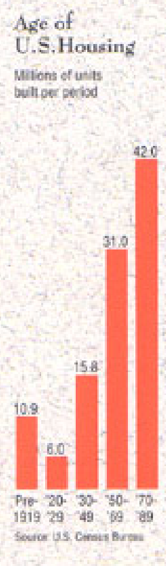


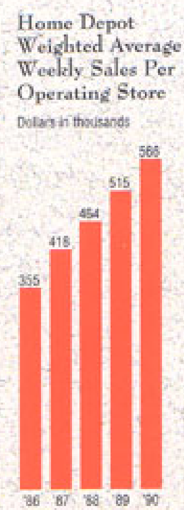
Source: U.S. Commerce
Cahners Economics

Doing Something SPECIAL

How many among us are ever truly satisfied with our homes? There always seems to be something else we can build, expand, replace or remodel to make things more comfortable and more conducive to the "Good Life," as each of us defines it. The least expensive, most dramatic and most popular kind of home improvement activity revolves around decorating. A little paint, perhaps new wallpaper, make a big difference in a home's appearance.

As one of America's largest retail lighting suppliers, we are always looking for new ways to merchandise our huge selection, including our new expanded "light cloud."





More than half the U.S. residences are over 20 years old and in need of remodeling or repair.

Our weighted average weekly sales per store have increased 59% in the last five years.

New in 1991 are the decorating centers now being incorporated into most stores. Staffed with interior design specialists, the centers were extremely successful in test markets.

Customers can choose from The Home Depot's 30,000 in-stock items or we'll special order what they want.

Home ownership is one of the foremost American dreams; close to 60 million American families own their own homes.

To be sure that our customers receive assistance with their decorating projects, most Home Depot stores now have full-fledged decorator centers. The centers are staffed with interior design professionals who help our customers put a whole project together, selecting wallpaper, paint, window and floor coverings and kitchen and bath fixtures.

Given Americans' ever-increasing desire to live more comfortably, The Home Depot continues to expand its assortment of stylish bathroom fixtures, marble tile, and architectural windows. But, for the first time in the home improvement industry, these kinds of name-brand products are now available at low, every-day prices at The Home Depot.

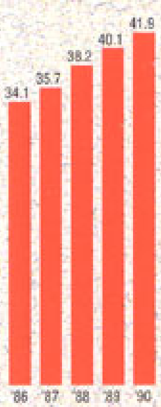
Comprehensive delivery services and the special order of non-stock merchandise are other ways that The Home Depot is meeting customer needs. The Company also uses the special order program to identify especially popular products and then moves these items into its regular store inventories. For example, The Home Depot used to stock only certain sizes of mini-blinds, but after studying special order records, it now keeps many of the most commonly requested sizes on hand.

The professional customer's product and service needs have also been getting a lot of attention. In response to survey and focus group research, The Home Depot now stocks an expanded assortment of many basic construction materials, more professional quality, brand name power tools, and more maintenance-oriented supplies for business customers. The Company is also investigating the use of bulk packaging of many kinds of commodity products that will better suit the needs of high-volume buyers such as commercial real estate managers.

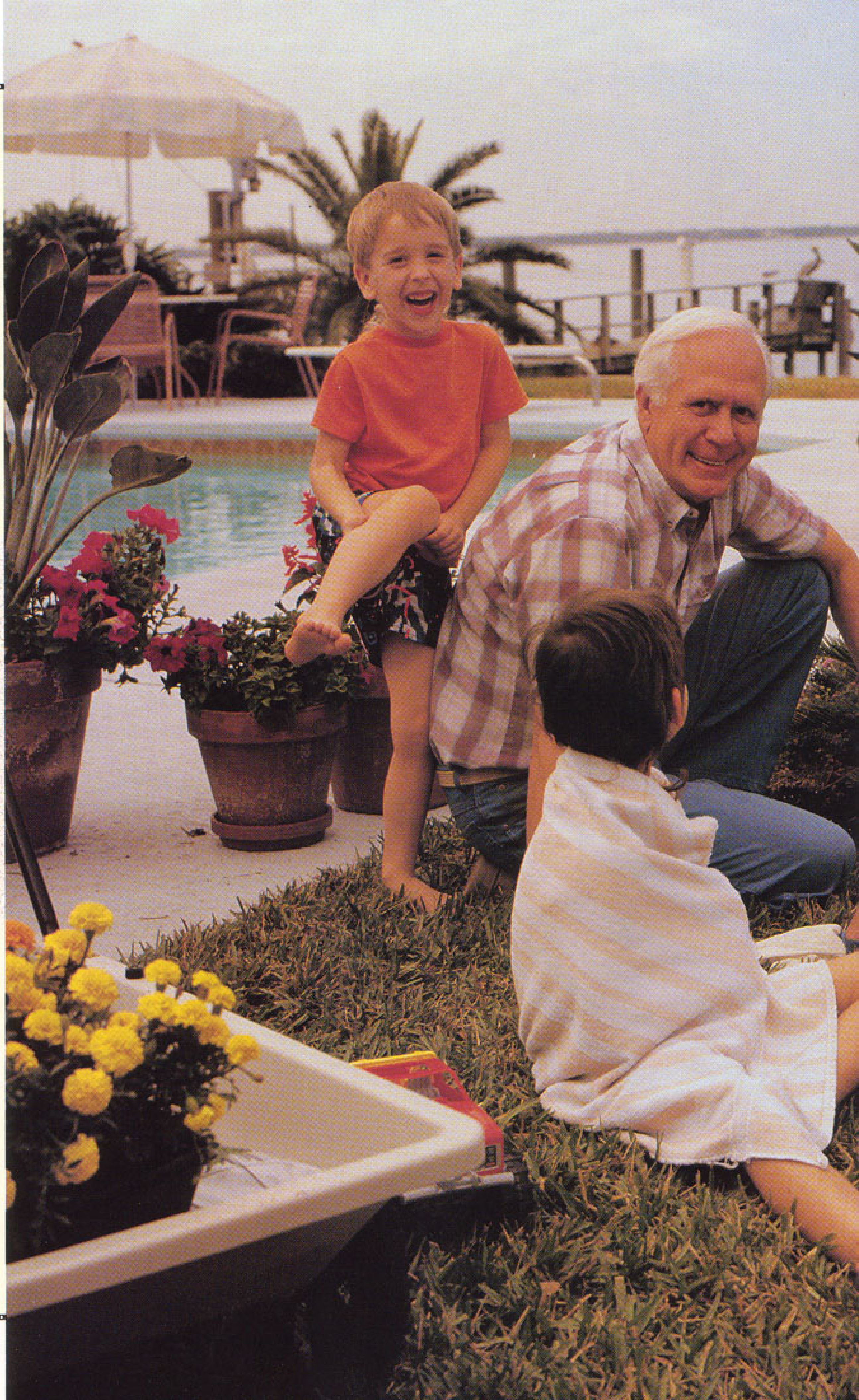
Friendly, knowledgeable service is absolutely, positively the top priority at The Home Depot.

Disposable Income Per U.S. Household

Dollars in thousands



Source: U.S. Census Bureau



ADDING STYLE

The 35-54 age group will grow more than three times faster than the overall population during the 1990s. These consumers will be better educated, more active and more affluent than ever before. Both disposable personal income and disposable household income are expected to reach all-time highs. These consumers will also be spending more time at home and will most likely spend proportionately more money making their homes bigger and better.

The average home built during the 1950s is only half as large as today's new home. Popular amenities back then were air conditioning, a built-in oven and a second bathroom.

Today, for many, those luxuries have become necessities and homeowners now dream of whirlpool tubs, leaded glass doors, marble floors, fireplaces, designer fixtures and automated underground sprinkler systems. These once seemingly unaffordable accessories are now in reach of many of our customers, not only because we offer unprecedented low prices, but also because we teach people to do the work themselves.

The Home Depot makes sure its customers find all the items they want, and accordingly, the merchandise mix is always being revised to include the latest and most innovative products.

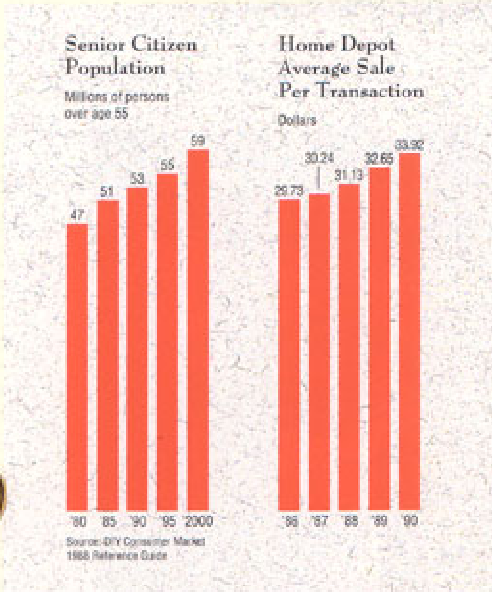
While The Home Depot last year became the nation's largest home center retailer in terms of sales volume, its market share is probably no more than 4% of the total market for home improvements. The Company as well as industry analysts expect The Home Depot to continue to make significant market share gains during the 1990s. These gains will come not only through favorable demographic trends, but also through the Company's commitment to customer service and the resulting ability to convert customers into increasingly committed and accomplished do-it-yourselfers.

As it did when it was founded, The Home Depot will continue to challenge the status quo in the home center industry. The Company continuously experiments with new concepts and merchandise and encourages employees and customers to contribute their ideas.

As the industry leader and as a company completely focused on home improvement retailing, The Home Depot is eager and able to help everyone build their American dream, whether it's that first fixer upper in Marietta, Georgia, the all-new kitchen in Arlington, Texas, or the comfortable retirement home in Sarasota, Florida.

To meet our customers' growing desire to upgrade their homes' value, we have made a concerted effort to bring in better product lines that were previously unavailable from a mass merchandising retailer.

How-to clinics at The Home Depot help teach beginners new home improvement skills.

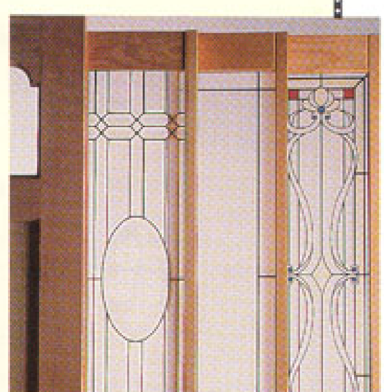


More older citizens with more money have time to work around the house.

In five years the average sale per transaction increased by 14%.

In addition to do-it-yourselfers, The Home Depot serves a large number of professional contractors as well as small businesses, property management firms and corporate maintenance departments.

Gardening and landscaping are areas where The Home Depot is seeking out environmentally-sound products.



Adding extra touches from The Home Depot's expanding line of decorator products lets homeowners customize the basics.

In fiscal 1990, The Home Depot focused the majority of its $1.8 million philanthropy budget on two key issues, affordable housing and youth "at risk." In fiscal 1991, our plan is to increase that amount to approximately $2.6 million.

But we're not just funding charities with dollars. Our employees are giving their time and labor to build low-income housing and teach building skills to other volunteers. In Houston, for example, our people have donated supplies and their own time to repair the homes of elderly and disabled neighbors.

In Tampa, our people are working with groups like Habitat for Humanity to build new homes, and teach others to help as well.

In Atlanta, we're helping rescue an old park and neighborhood youth center from decay. These are just a few of the dozens of projects we're sponsoring in the communities where we do business.

Another helping hand was outstretched to our employees who were called up for active military duty in connection with the war in the Persian Gulf. These employees and their families are making great sacrifices for America and the rest of the world and we feel a special moral obligation to provide support above and beyond what is required by law. Accordingly, we are supplementing their military earnings to ensure that their income will generally remain unchanged. They are also receiving other Company benefits.

In terms of environmental issues, The Home Depot has taken a proactive stance and is studying the environmental impacts of many Company activities. In fiscal 1990, the Company hired an environmental manager, formed an environmental steering committee and adopted environmental principles that will help guide Company activities toward protecting and preserving a safe and healthy world.

FINANCIAL REVIEW

THE HOME DEPOT, INC. AND SUBSIDIARIES

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

	Fiscal Year[1]			Percentage Increase of Dollar Amounts[1]	
	1990	1989	1988	1990 vs. 1989	1989 vs. 1988
SELECTED CONSOLIDATED STATEMENTS OF EARNINGS DATA					
Net Sales	100.0%	100.0%	100.0%	38.3%	38.0%
Gross Profit	27.9	27.8	27.0	38.8	42.1
Operating Expenses:					
Selling and Store Operating	18.2	18.3	17.8	37.5	41.3
Pre-Opening	.4	.3	.4	35.2	30.4
General and Administrative	2.4	2.5	2.4	35.0	40.0
Interest Income	(.5)	(.5)	—	32.0	1,673.6
Interest Expense	.6	.6	.1	46.6	837.4
	21.1	21.2	20.7	37.6	41.3
Earnings Before Income Taxes	6.8	6.6	6.3	42.8	44.6
Income Taxes	2.5	2.5	2.5	37.6	42.7
Net Earnings	4.3%	4.1%	3.8%	46.0%	45.9%
SELECTED CONSOLIDATED SALES DATA					
Number of Customer Transactions	112,464,000	84,494,000	64,227,000	33.1%	31.6%
Average Amount of Sale Per Transaction	$ 33.92	$ 32.65	$ 31.13	3.9	4.9
Weighted Average Weekly Sales Per Operating Store	$566,000	$515,000	$463,900	9.9	11.0
Weighted Average Sales Per Square Foot	$ 321.60[2]	$ 302.88	$ 281.86	6.2	7.5

[1] Fiscal years 1990, 1989 and 1988 refer to the fiscal years ended February 3, 1991, January 28, 1990, and January 29, 1989, respectively. Fiscal 1990 consisted of 53 weeks while fiscal 1989 and fiscal 1988 each consisted of 52 weeks.

[2] Adjusted to reflect the first 52 weeks of the 53-week fiscal year in 1990.

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 3, 1991 Compared to January 28, 1990

Sales for the fiscal year 1990 increased 38% from $2,758,535,000 to $3,815,356,000. This increase was attributable to, among other things, 27 new store openings during the year, a 10% comparable store-for-store sales increase (adjusted to reflect the first 52 weeks of the 53-week fiscal year) and full year sales from 22 stores opened during fiscal 1989. Also, a portion of the increase was due to the additional week of sales in fiscal 1990.

Gross profit as a percent of sales increased to 27.9% compared to 27.8% for fiscal 1989. The higher gross profit was primarily attributable to changes in product mix, additional vendor volume rebates and an increasing penetration of the Northeast market, where sales are generally at higher gross margins.

Operating expenses, including interest, as a percent of sales decreased from 21.2% to 21.1%. This decrease resulted from, among other things, lower costs associated with the Company's self-funded risk management program, lower general and administrative expenses and lower net advertising expenses. These reductions as a percent of sales were partially offset by higher occupancy costs, higher pre-opening and operating expenses in the Northeast and higher expenses resulting from increasing third party and private label credit card sales.

Interest expense as a percent of sales remained at 0.6% for fiscal 1990. Interest income as a percent of sales remained flat at 0.5% representing revenue from the short-term investment of excess funds.

The Company's combined Federal and state effective income tax rate was 37.1% for fiscal 1990 compared to 38.5% for fiscal 1989. This decrease was attributable to a decrease in the Company's effective state income tax rate.

Net earnings as a percent of sales increased to 4.3% from 4.1% reflecting higher gross profits, reduced operating expenses and a lower tax rate, as described above. Earnings per share was $1.35 for fiscal 1990 compared to $.95 in fiscal 1989.

Fiscal Year Ended January 28, 1990 Compared to January 29, 1989

Sales for the fiscal year 1989 increased 38% from $1,999,514,000 to $2,758,535,000. This increase was attributable to 22 new store openings during the year, a 13% comparable store-for-store sales increase and full year sales from 21 stores opened during fiscal year 1988.

Gross profit as a percent of sales increased to 27.8% compared to 27.0% in 1988. These higher gross profits were attributable to several factors, including a shift in sales from lower mark-up lumber, building materials and garden products to higher mark-up plumbing, electrical and hardware merchandise and the addition of new expanded product categories such as kitchen, bath and lighting programs. In addition, the Company experienced a favorable trend in physical inventory shrinkage results during the year.

Operating expenses as a percent of sales increased from 20.7% to 21.2%. This increase was attributable to higher costs associated with the Company's self-funded risk management program and a $6,000,000 contribution to the Company's Employee Stock Ownership Plan, partially offset by a reduction in net advertising expense as a percent to sales of 0.4%.

Interest expense increased as a percent of sales from 0.1% to 0.6% due to the issuance of the 1989 convertible debentures and early fiscal 1989 borrowings under the Company's revolving line of credit. Interest income was 0.5% as a percent of sales representing revenue from the short-term investment of excess funds generated from May 1989 through the end of fiscal 1989.

The Company's combined Federal and state effective income tax rate was 38.5% for fiscal 1989 compared to 39% for fiscal 1988. This decrease was attributable to a decrease in the Company's effective state income tax rate.

Net earnings as a percent of sales increased to 4.1% from 3.8% reflecting a gross margin rate increase and a reduced tax rate offset by higher operating expenses, as described above. In addition, earnings per share was $.95 for 1989 compared to $.67 in 1988.

Liquidity and Capital Resources

Cash flow generated from store operations provides the Company with a significant source of liquidity. Additionally, a significant portion of the Company's inventory is financed under vendor credit terms. As a result of continued emphasis on inventory management, inventory turnover increased to 6.0 times in fiscal 1990 compared to 5.9 times in fiscal 1989 and 5.8 times in fiscal 1988.

The Company plans to open approximately 30 new stores and will relocate four of its existing stores during fiscal 1991 and anticipates that 23 will be owned and 11 will be leased. The Company plans to open approximately 40 stores during fiscal 1992. Although some of these locations will be leased, it is expected that many may be obtained through the purchase of leasehold interests, the acquisition of land parcels and construction or purchase of buildings during 1991. While the cost of new stores to be constructed and owned by the Company varies widely, principally due to land costs, new store costs are currently estimated to average approximately $10,000,000 per location. In addition, the Company may purchase leasehold interests at varying amounts dependent upon the value of such properties. The cost to remodel and fixture stores to be leased is expected to average approximately $3,000,000 per store. In addition, each new store will require approximately $2,000,000 to finance inventories, net of vendor financing.

On or after May 31, 1991, the Company, at its option, may redeem, in whole or in part, its 1989 debentures pursuant to their terms. Depending on market conditions and the market price of the Company's common stock, the Company anticipates calling for redemption all of the 1989 debentures. The holders of the 1989 debentures have the right to convert their debentures into shares of the Company's common stock. In light of current market prices of the Company's common stock, it is expected that a redemption call would result in the conversion of substantially all of the outstanding principal ($258,649,000) to equity and thereby result in the issuance of approximately 11,876,000 additional shares.

As of February 3, 1991, the Company had $137,296,000 in cash and short-term investments. Management believes that its current cash position, including proceeds from short-term investments, external sources including borrowings under the Company's $300,000,000 revolving credit agreement, internally generated funds and/or the ability to obtain alternate sources of financing should enable the Company to complete its capital expenditure programs, including planned store expansion and renovation, through the next several fiscal years.

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.

THE HOME DEPOT, INC. AND SUBSIDIARIES

	Fiscal Year Ended		
	February 3, 1991	January 28, 1990	January 29, 1989
NET SALES	$3,815,356	$2,758,535	$1,999,514
COST OF MERCHANDISE SOLD	2,751,085	1,991,777	1,459,862
GROSS PROFIT	1,064,271	766,758	539,652
OPERATING EXPENSES:			
Selling and Store Operating	693,657	504,363	356,831
Pre-Opening	13,315	9,845	7,552
General and Administrative	91,664	67,901	48,485
TOTAL OPERATING EXPENSES	798,636	582,109	412,868
OPERATING INCOME	265,635	184,649	126,784
INTEREST INCOME (EXPENSE):			
Interest Income	17,579	13,320	751
Interest Expense (note 2)	(23,386)	(15,954)	(1,702)
INTEREST EXPENSE, Net	(5,807)	(2,634)	(951)
EARNINGS BEFORE INCOME TAXES	259,828	182,015	125,833
INCOME TAXES (note 3)	96,400	70,061	49,080
NET EARNINGS	$ 163,428	$ 111,954	$ 76,753
EARNINGS PER COMMON AND COMMON EQUIVALENT SHARE (note 4)	$ 1.35	$ .95	$ .67
WEIGHTED AVERAGE NUMBER OF COMMON AND COMMON EQUIVALENT SHARES	120,835	118,470	115,325

See accompanying notes to consolidated financial statements.

THE HOME DEPOT, INC. AND SUBSIDIARIES
Amounts in thousands, except share data

	February 3, 1991	January 28, 1990
ASSETS		
CURRENT ASSETS:		
Cash and Cash Equivalents	$ 107,895	$ 69,525
Short-term Investments, at cost, which approximates market value	29,401	65,856
Accounts Receivable, Net	49,325	38,933
Merchandise Inventories	509,022	381,452
Other Current Assets	17,931	10,474
Total Current Assets	713,574	566,240
PROPERTY AND EQUIPMENT, at cost:		
Land	262,560	128,265
Buildings	272,095	171,323
Furniture, Fixtures and Equipment	186,025	125,044
Leasehold Improvements	160,760	94,641
Construction in Progress	82,179	49,417
	963,619	568,690
Less Accumulated Depreciation and Amortization	84,889	54,250
Net Property and Equipment	878,730	514,440
COST IN EXCESS OF THE FAIR VALUE OF NET ASSETS ACQUIRED, net of accumulated amortization of $3,891 at February 3, 1991 and $3,259 at January 28, 1990	21,400	22,032
OTHER	25,799	14,822
	$1,639,503	$1,117,534

See accompanying notes to consolidated financial statements.

	February 3, 1991	January 28, 1990
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts Payable	$ 235,267	$ 172,876
Accrued Salaries and Related Expenses	63,547	46,253
Sales Taxes Payable	26,806	17,507
Other Accrued Expenses	76,381	54,306
Income Taxes Payable	8,800	—
Current Installments of Long-Term Debt (note 2)	1,906	1,447
Total Current Liabilities	412,707	292,389
LONG-TERM DEBT, excluding current installments (notes 2 and 6)	530,774	302,901
OTHER LONG-TERM LIABILITIES	4,415	601
DEFERRED INCOME TAXES (note 3)	8,205	9,514
STOCKHOLDERS' EQUITY (notes 2 and 4):		
Common stock, par value $.05. Authorized: 250,000,000 shares; issued and outstanding – 118,066,000 shares at February 3, 1991 and 115,176,000 shares at January 28, 1990	5,903	5,759
Paid-in Capital	264,301	231,538
Retained Earnings	439,770	289,177
	709,974	526,474
Less Notes Receivable From ESOP (note 6)	26,572	14,345
Total Stockholders' Equity	683,402	512,129
COMMITMENTS AND CONTINGENCIES (notes 5 and 7)		
	$1,639,503	$1,117,534

THE HOME DEPOT, INC. AND SUBSIDIARIES
Fiscal years ended February 3, 1991, January 28, 1990 and January 29, 1989
Amounts in thousands, except per share data

	Common Stock		Paid-in	Retained	Notes Receivable	Total Stockholders'
	Shares	Amount	Capital	Earnings	from ESOP	Equity
BALANCE, JANUARY 31, 1988	111,166	$5,558	$200,667	$114,334	—	$320,559
Shares Sold Under Employee Stock Purchase and Option Plans, Net of Retirements (note 4)	1,852	93	10,248	—	—	10,341
Tax Effect of Sale of Option Shares by Employees	—	—	763	—	—	763
Note receivable from ESOP (note 6)	—	—	—	—	$(20,000)	(20,000)
Net Earnings	—	—	—	76,753	—	76,753
Cash Dividends ($.05 per share)	—	—	—	(5,478)	—	(5,478)
BALANCE, JANUARY 29, 1989	113,018	$5,651	$211,678	$185,609	$(20,000)	$382,938
Shares Sold Under Employee Stock Purchase and Option Plans, Net of Retirements (note 4)	2,158	108	13,038	—	—	13,146
Repayments of Notes Receivable from ESOP, Net of Additional Notes Receivable of $345 (note 6)	—	—	—	—	5,655	5,655
Tax Effect of Sale of Option Shares by Employees	—	—	6,822	—	—	6,822
Net Earnings	—	—	—	111,954	—	111,954
Cash Dividends ($.07 per share)	—	—	—	(8,386)	—	(8,386)
BALANCE, JANUARY 28, 1990	115,176	$5,759	$231,538	$289,177	$(14,345)	$512,129
Shares Sold Under Employee Stock Purchase and Option Plans, Net of Retirements (note 4)	2,885	144	22,969	—	—	23,113
Additional Notes Receivable from ESOP, Net of Repayments of $7,428 (note 6)	—	—	—	—	(12,227)	(12,227)
Conversion of Convertible Subordinated Debentures, Net (note 2)	5	—	101	—	—	101
Tax Effect of Sale of Option Shares by Employees	—	—	9,693	—	—	9,693
Net Earnings	—	—	—	163,428	—	163,428
Cash Dividends ($.11 per share)	—	—	—	(12,835)	—	(12,835)
BALANCE, FEBRUARY 3, 1991	118,066	$5,903	$264,301	$439,770	$(26,572)	$683,402

See accompanying notes to consolidated financial statements.

THE HOME DEPOT, INC. AND SUBSIDIARIES
Amounts in thousands

	Fiscal Year Ended		
	February 3, 1991	January 28, 1990	January 29, 1989
CASH PROVIDED FROM OPERATIONS:			
Net Earnings	$163,428	$111,954	$ 76,753
Reconciliation of Net Earnings to Net Cash Provided by Operations:			
Depreciation and Amortization	34,358	21,107	14,673
Deferred Income Tax Expense (Benefit)	688	(2,880)	5,080
Increase in Receivables, Net	(10,392)	(16,063)	(2,386)
Increase in Merchandise Inventories	(127,570)	(87,178)	(82,853)
Increase in Accounts Payable and Accrued Expenses	111,059	99,106	48,634
Increase (Decrease) in Income Taxes Payable	16,496	(2,067)	(1,162)
Other	(7,371)	(7,220)	(5,200)
Total	17,268	4,805	(23,214)
Net Cash Provided by Operations	180,696	116,759	53,539
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital Expenditures, net of $2,100 and $14,728 of non-cash capital expenditures in 1990 and 1989, respectively	(398,105)	(190,244)	(105,123)
Proceeds from Sale of Property and Equipment	229	719	1,771
Sale (Purchase) of Short-term Investments, Net	36,455	(65,856)	—
Advances Secured by Real Estate	(7,389)	—	—
Net Cash Used in Investing Activities	(368,810)	(255,381)	(103,352)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Borrowings (Repayments) Under Revolving Line of Credit, Net	—	(71,000)	35,500
Proceeds from Long-Term Borrowings	230,000	258,750	20,000
Cash Loaned to ESOP	(19,655)	(345)	(20,000)
Repayments of Notes Receivable from ESOP	7,428	6,000	—
Principal Repayments of Long-Term Debt	(1,567)	(5,871)	(292)
Proceeds from Sale of Common Stock, Net	23,113	13,146	10,341
Cash Dividends Paid to Stockholders	(12,835)	(8,386)	(5,478)
Net Cash Provided by Financing Activities	226,484	192,294	40,071
Increase (Decrease) in Cash and Cash Equivalents	38,370	53,672	(9,742)
Cash and Cash Equivalents at Beginning of Year	69,525	15,853	25,595
Cash and Cash Equivalents at End of Year	$107,895	$ 69,525	$ 15,853
SUPPLEMENTAL DISCLOSURE OF CASH PAYMENTS MADE FOR:			
Interest (net of interest capitalized)	$ 21,138	$ 11,831	$ 1,574
Income Taxes	$ 78,427	$ 69,016	$ 45,804

See accompanying notes to consolidated financial statements.

NOTE 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 year 1990, which ended February 3, 1991, consisted of 53 weeks while fiscal years 1989 and 1988, ending January 28, 1990 and January 29, 1989, respectively, consisted of 52 weeks.

Basis of Presentation

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

Stockholders' equity, share and per share amounts for all periods presented have been adjusted for three-for-two stock splits effected in July 1990 and June 1989 in the form of stock dividends.

Cash Equivalents

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

Short-Term Investments

The Company's short-term investments, consisting of debt securities, are valued at the lower of aggregate cost or market. The cost of short-term investments sold is determined on the specific identification method.

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

The Company provides for Federal and state income taxes currently payable as well as for those deferred because of timing differences between reporting income and expenses for financial statement purposes and income and expenses for tax purposes. Targeted jobs tax credits are recorded as a reduction of income taxes in the year realized.

The Company has elected to postpone until fiscal 1992 the adoption of Statement of Financial Accounting Standards No. 96, "Accounting for Income Taxes," which was issued in 1987 and amended in 1988 and 1989 and requires an asset and liability approach in accounting and reporting for income taxes. The effect of adopting the statement on the net earnings of the Company in its current form, assuming no change in statutory tax rates, is not expected to be significant.

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 Company's property and equipment is depreciated using the following estimated lives:

	Life
Buildings	20-45 years
Furniture, fixtures and equipment	5-20 years
Leasehold improvements	8-25 years

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.

NOTE 1–SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Store Closing Costs
When a store is relocated or closed, estimated unrecoverable costs are charged to expense. Such costs include the book value of abandoned fixtures, equipment, leasehold improvements and a provision for the present value of future lease obligations, less estimated sub-rental income.

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

The Company's 6% convertible subordinated notes, issued in 1990, are common stock equivalents. However, because shares issuable upon their conversion would be anti-dilutive they are not included in the earnings per share computations. The Company's 6¾% convertible subordinated debentures are not common stock equivalents and, therefore, shares issuable upon their conversion are included only in the computation of fully diluted earnings per share. The difference between primary and fully diluted earnings per share was not significant in any year presented.

NOTE 2

LONG-TERM DEBT AND LINE OF CREDIT

The Company's long-term debt consists of the following (in thousands):

	February 3, 1991	January 28, 1990
6.75% Convertible Subordinated Debentures, due May 15, 2014, convertible into shares of common stock of the Company at a conversion price of $21.78 per share. The debentures are redeemable by the Company at a premium, plus accrued interest, from May 31, 1991 to May 31, 1996. An annual mandatory sinking fund commencing May 15, 1999 will retire 66.6% of the issue prior to maturity. Interest is payable semi-annually.	$258,649	$258,750
6.00% Convertible Subordinated Notes, due June 15, 1997, convertible into shares of common stock of the Company at a conversion price of $48.17 per share. The Notes are redeemable by the Company at a premium, plus accrued interest, beginning June 30, 1992.	230,000	—
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	20,000
Variable Rate Industrial Revenue Bonds, secured by letters of credit or land, interest rates averaging 6.49% during 1990, payable in varying installments through 2010 with $5,200 payable on October 1, 2011.	11,700	11,933
Installment Notes Payable of $11,662 and $14,210 in 1990 and 1989, respectively, interest imputed at rates between 10.5% and 11.5%, payable in varying installments through 2000.	8,517	9,825
Other	3,814	3,840
Total long-term debt	532,680	304,348
Less current installments	1,906	1,447
Long-term debt, excluding current installments	$530,774	$302,901

Maturities of long-term debt are $1,906,000 for fiscal 1991, $1,915,000 for fiscal 1992, $1,787,000 for fiscal 1993, $1,548,000 for fiscal 1994 and $21,826,000 for fiscal 1995.

NOTE 2–LONG-TERM DEBT AND LINE OF CREDIT (continued)

During 1989, the Company entered into a revolving line of credit agreement for maximum borrowings of $300,000,000 through September 1994 with options annually for one-year extensions beyond 1994. An annual facility fee of approximately ⅛% is payable quarterly on the total credit facility commitment. As of and for the fiscal year ended February 3, 1991, there were no borrowings under this agreement.

Under the revolving credit agreement, the Company is required, among other things, to maintain a minimum tangible net worth of $270,000,000 plus 65% of consolidated net earnings for periods beginning after January 29, 1989; a ratio of earnings before income taxes, interest, operating lease expense and amortization of intangible assets to net interest expense of not less than 1.75 to 1; and a ratio of debt to tangible net worth of no more than 2 to 1. In addition, the unsecured note related to the ESOP requires, among other things, that debt shall not exceed 66⅔% of consolidated assets net of goodwill and current liabilities. The Company was in compliance with all restrictive covenants as of February 3, 1991. The restrictive covenants related to letter of credit agreements securing the industrial revenue bonds are no more restrictive than those described above.

During fiscal 1989, the Company acquired the rights to certain operating leases with favorable terms by incurring non-interest bearing notes payable totalling $16,252,000. Accordingly, the Company recorded non-interest bearing notes payable of $11,250,000, net of discounts imputed at 10.5% and 11.5%, and corresponding leasehold interests to be amortized over the term of the related leases.

Interest expense in the accompanying consolidated statements of earnings is net of interest capitalized of $7,731,000 in fiscal 1990, $2,389,000 in fiscal 1989 and $2,775,000 in fiscal 1988.

NOTE 3

INCOME TAXES

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

	Fiscal Year Ended		
	February 3, 1991	January 28, 1990	January 29, 1989
Current:			
Federal	$83,036	$62,460	$36,000
State	12,676	10,481	8,000
	95,712	72,941	44,000
Deferred:			
Federal	619	(2,394)	4,300
State	69	(486)	780
	688	(2,880)	5,080
Total	$96,400	$70,061	$49,080

NOTE 3–INCOME TAXES (continued)

The effective tax rates for fiscal 1990, 1989 and 1988 were 37.1%, 38.5% and 39.0%, respectively. A reconciliation of income tax expense at the Federal statutory rate of 34% to actual tax expense for the applicable fiscal years follows (in thousands):

	Fiscal Year Ended		
	February 3, 1991	January 28, 1990	January 29, 1989
Income taxes at Federal statutory rate	$88,342	$61,885	$42,783
State income taxes, net of Federal income tax benefit	8,412	6,597	5,653
Other, net	(354)	1,579	644
Total	$96,400	$70,061	$49,080

Deferred income taxes result from differences in the timing of reporting income and expenses 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		
	February 3, 1991	January 28, 1990	January 29, 1989
Accelerated depreciation	$ 6,042	$ 6,190	$4,746
Interest capitalization	220	152	166
Accrued self-insurance liabilities	(2,648)	(7,338)	(348)
Other accrued liabilities	(2,625)	(1,592)	(2)
Uniform capitalization	(257)	(135)	(134)
Other	(44)	(157)	652
Total	$ 688	$(2,880)	$5,080

NOTE 4

EMPLOYEE STOCK PLANS

The Company has both qualified and non-qualified stock option plans that provide for the granting of options to purchase the Company's common stock to selected key employees, officers and directors.

Under the qualified Employee Incentive Stock Option Plan, 2,311,956 common shares were available for future grants at February 3, 1991. The provisions of the Plan authorize a maximum of 16,101,562 shares of common stock 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 3, 1991, options for 13,789,606 shares had been granted, net of cancellations (of which 8,363,871 had been exercised), at $.47 to $38.58 per share.

Under the 1984 Non-Qualified Stock Option Plan, 1,461,123 common shares were available for future grants at February 3, 1991. The provisions of the Plan authorize a maximum of 1,687,500 shares of common stock for grants at fair market value on the 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 February 3, 1991 options for 226,377 shares had been granted, net of cancellations (of which 105,007 had been exercised), at $4.59 to $29.58 per share.

NOTE 4-EMPLOYEE STOCK PLANS (continued)

The following summarizes shares outstanding under the plans at February 3, 1991, January 28, 1990 and January 29, 1989 and changes during the fiscal years then ended (in thousands of shares):

	Fiscal Year Ended		
	February 3, 1991	January 28, 1990	January 29, 1989
Number of options			
At beginning of year			
Outstanding	6,493	6,279	6,120
Exercisable	1,594	1,611	1,367
During the year			
Issued	1,621	2,211	1,872
Cancelled	307	312	510
Became exercisable	1,978	1,668	1,447
Exercised	2,260	1,685	1,203
At end of year			
Outstanding	5,547	6,493	6,279
Exercisable	1,312	1,594	1,611
Average price per share			
Outstanding at the end of year	$14.73	$9.29	$6.54
Exercised during the year	$ 5.99	$5.19	$5.36

In addition, the Company had 1,055,461 shares available for future grants under the Employee Stock Purchase Plan at February 3, 1991. This Plan enables the Company to grant eligible employees options to purchase up to 3,712,500 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 1990, options for 678,571 shares were exercised at an average price of $16.81 per share. At February 3, 1991, 375,750 options were outstanding, net of cancellations, at an average price of $25.88 per share.

NOTE 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 sub-lease income, for the fiscal years ended February 3, 1991, January 28, 1990 and January 29, 1989 amounted to approximately $68,691,000, $48,515,000 and $30,678,000, 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 3, 1991, January 28, 1990 and January 29, 1989 were approximately $3,328,000, $2,072,000 and $1,454,000, respectively.

The approximate future minimum lease payments under operating leases at February 3, 1991 are as follows (in thousands):

Fiscal year	
1991	$ 74,890
1992	86,839
1993	85,685
1994	81,674
1995	80,071
Thereafter	963,036
	$1,372,195

NOTE 6

EMPLOYEE STOCK OWNERSHIP PLAN AND TRUST

During fiscal 1988, the Company established a leveraged Employee Stock Ownership Plan and Trust (the "ESOP") covering substantially all full-time employees. At February 3, 1991, the ESOP held a total of 2,348,829 shares of the Company's common stock in trust for plan participants. The ESOP purchased the shares with the proceeds of loans obtained from the Company during fiscal 1990 and 1989 totaling $40,000,000. Of that amount, the Company borrowed $20,000,000 during 1988 in a private placement (see note 2), which in turn was loaned to the ESOP for the purpose of purchasing the shares. The private placement loan and $20,000,000 of the related Company loans to the ESOP have similar terms and mature in August 1995. The additional $20,000,000 loaned to the ESOP was funded by cash from operations of the Company.

The Home Depot common stock purchased by the ESOP is held in a "suspense account" as collateral for amounts loaned by the Company. Each year the Company makes contributions to the Plan which the Plan trustee is required to use to make loan interest and principal payments to the Company. When the Company commits to make contributions to the Plan, a portion of the common stock is released from the "suspense account" and allocated to participating employees. Any dividends on unallocated shares are 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. The Company's contributions to the ESOP were $7,000,000 and $6,000,000 for the fiscal years ended February 3, 1991 and January 28, 1990, respectively.

NOTE 7

COMMITMENTS AND CONTINGENCIES

At February 3, 1991, the Company was contingently liable for approximately $24,500,000 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.

NOTE 8

QUARTERLY FINANCIAL DATA (Unaudited)

The following is a summary of the unaudited quarterly results of operations for the fiscal years ended February 3, 1991 and January 28, 1990 (in thousands, except per share data):

	Net sales	Percent increase in comparable store sales	Gross profit	Net earnings	Net earnings per common and common equivalent share
Fiscal year ended February 3, 1991:					
First Quarter	$ 880,856	13%	$ 243,662	$ 38,617	$ .32
Second Quarter	990,346	12%	269,226	47,239	.39
Third Quarter	936,612	8%	258,817	36,096	.30
Fourth Quarter	1,007,542	6%	292,566	41,476	.34
	$3,815,356	10%	$1,064,271	$163,428	$1.35
Fiscal year ended January 28, 1990:					
First Quarter	$ 641,521	12%	$ 177,754	$ 25,928	$ .22
Second Quarter	704,025	11%	192,817	30,801	.26
Third Quarter	699,740	15%	191,500	25,640	.21
Fourth Quarter	713,249	13%	204,687	29,585	.25
	$2,758,535	13%	$ 766,758	$111,954	$ .95

NOTE 9

SUBSEQUENT EVENTS

On March 22, 1991, the Company's Board of Directors adopted, subject to stockholders' approval, the 1991 Omnibus Stock Option Plan. This Plan, which would become effective June 1, 1991, provides for the Company to grant options to purchase shares of common stock in an aggregate amount up to the sum of the shares authorized and not granted under the Company's existing stock option plans (the "Carryover Shares") (see note 4) plus 1% per year, on a cumulative basis, of the number of shares of common stock issued and outstanding at the beginning of each of the ten years that the Plan is proposed to be in effect. The minimum number of shares available for issuance under the Plan will be 5,000,000 shares plus the number of Carryover Shares.

In addition, on March 22, 1991, the Company's Board of Directors, subject to stockholders' approval, has authorized an additional 2,000,000 shares of common stock which may be purchased under the Company's Employee Stock Purchase Plan (see note 4).

On March 25, 1991 the Company filed a registration statement with the Securities and Exchange Commission to register an anticipated offering of at least 6,000,000 shares of common stock. If assumed completed at the beginning of fiscal 1990, the proposed sale of shares under the offering would not have had a significant adverse effect on the Company's earnings per common and common equivalent share for the fiscal year ended February 3, 1991.

THE BOARD OF DIRECTORS AND STOCKHOLDERS

The Home Depot, Inc.:

We have audited the accompanying consolidated balance sheets of The Home Depot, Inc. and subsidiaries as of February 3, 1991 and January 28, 1990, and the related consolidated statements of earnings, stockholders' equity, and cash flows for each of the years in the three-year period ended February 3, 1991. 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.

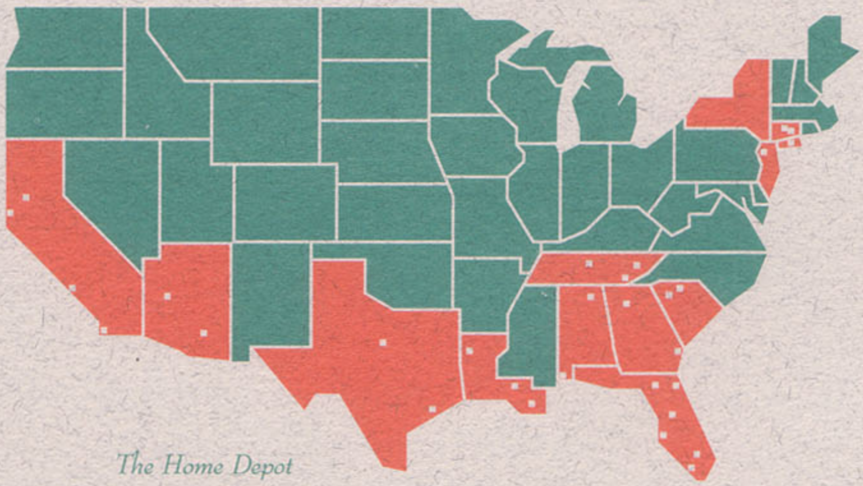
We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence 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 subsidiaries as of February 3, 1991 and January 28, 1990, and the results of their operations and their cash flows for each of the years in the three-year period ended February 3, 1991 in conformity with generally accepted accounting principles.

KPMG Peat Marwick

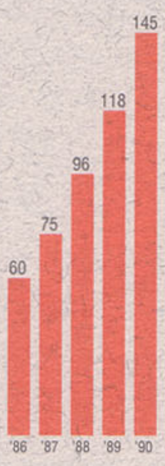
Atlanta, Georgia
March 15, 1991, except for Note 9,
as to which the date is March 25, 1991

Location	Number of Stores	Total Square Footage
Alabama	2	
Mobile	1	80,000
Huntsville	1	84,000
Arizona	10	
Phoenix	8	809,000
Tucson	2	195,000
California	41	
Los Angeles	21	2,164,000
Sacramento	2	212,000
San Francisco Bay	9	833,000
San Diego	9	852,000
Connecticut	3	
West Connecticut	2	200,000
Berlin	1	103,000
Florida	37	
South Florida	16	1,366,000
Jacksonville	3	265,000
Central Florida	6	487,000
West Florida	8	676,000
S.W. Florida	3	285,000
Gainesville	1	84,000
Georgia	14	
Atlanta	13	1,116,000
Savannah	1	80,000
Louisiana	5	
New Orleans	3	239,000
Shreveport	1	77,000
Baton Rouge	1	81,000
New Jersey	4	
East Hanover	1	100,000
Lakewood	1	102,000
Paramus	1	93,000
Parlin	1	100,000
New York	5	
Long Island	5	555,000
South Carolina	2	
Greenville	1	99,000
Spartanburg	1	84,000
Tennessee	5	
Knoxville	2	157,000
Chattanooga	1	79,000
Nashville	2	203,000
Texas	17	
Dallas/Ft. Worth	11	903,000
Houston	6	515,000



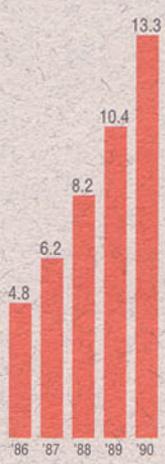
The Home Depot has grown from three stores in Atlanta, Georgia, to 145 stores in 12 states.

Total Number of Stores



This year The Home Depot opened 27 new stores continuing its controlled growth strategy.

Total Store Square Footage
In Millions



The average size of a Home Depot store is now approximately 92,000 square feet.

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
Chief Financial Officer
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
The Hart Group

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. and
Chairman of the Board
Patlex Corporation

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

Peter S. Gold
Retired Chairman and
Chief Executive Officer
Price Pfister, Inc.

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

CORPORATE HEADQUARTERS

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

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OFFICERS

Bernard Marcus
Chairman of the Board
Chief Executive Officer
Secretary

Arthur M. Blank
President and
Chief Operating Officer

James Inglis
Executive Vice President–
Merchandising

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

William E. Harris
Sr. Vice President–Corporate
Development

W. Andrew McKenna
Sr. Vice President–
Information Services

Bruce Berg
Sr. Vice President–
Merchandising/Southern Division

Dennis Ryan
Vice President–
Merchandising/Northeast Division

Jesse D. Behnke
Vice President–
Merchandising/Mid-South Division

Larry Mercer
Vice President–Store Operations

Lynn Martineau
Vice President–Store Operations

Donald P. McKenna
Vice President–Human Resources

Lawrence A. Smith
Vice President–Legal

Marshall L. Day
Vice President–Finance

Dick Hammill
Vice President–
Advertising & Marketing

Peter E. Cleaveland
Vice President–Distribution

Ted Kaczmarowski
Vice President–Construction

Preston R. Kirby
Controller

WESTERN DIVISION

Bill Hamlin
President and Operating Officer

Bryant Scott
Vice President–Store Operations

Kurt Plouff
Vice President–Merchandising

TRANSFER AGENT AND REGISTRAR

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

INDEPENDENT AUDITORS

KPMG Peat Marwick
Suite 1900, 245 Peachtree Center Avenue
Atlanta, Georgia 30303

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 22, 1991, at the Stouffer Waverly Hotel, 2450 Galleria Parkway, N.W., Atlanta, Georgia.

NUMBER OF STOCKHOLDERS

As of March 17, 1991, there were approximately 12,200 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 1990, the Company paid a quarterly dividend of $.02 per share in March and $.03 per share in August, September and December.

DIVIDEND REINVESTMENT/ STOCK PURCHASE PLAN

Stockholders may acquire additional shares of The Home Depot's common stock through its Dividend Reinvestment/Stock Purchase Plan. For all communication regarding this service, contact:

Wachovia Bank and Trust Company, N.A.
Dividend Reinvestment Section
P.O. Box 3001
Winston-Salem, North Carolina 27102
Phone: (919) 770-6000

FORM 10-K

A copy of the Company's Annual Report on Form 10-K for the fiscal year ended February 3, 1991 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 and Chief Financial Officer
The Home Depot, Inc.
2727 Paces Ferry Road
Atlanta, Georgia 30339

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