

HOME DEPOT INC
Form 10-Q
September 01, 2011
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

For the quarterly period ended July 31, 2011

- OR -

- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

For the transition period from to

Commission file number 1-8207

THE HOME DEPOT, INC.

(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction of

incorporation or organization)
2455 Paces Ferry Road N.W., Atlanta, Georgia
(Address of principal executive offices)

(770) 433-8211

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

95-3261426
(I.R.S. Employer Identification Number)

30339
(Zip Code)

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Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). Yes No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

1,564,291,782 shares of common stock, \$0.05 par value, as of August 25, 2011

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THE HOME DEPOT, INC. AND SUBSIDIARIES

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THE HOME DEPOT, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EARNINGS

(Unaudited)

| <i>amounts in millions, except per share data</i> | 0000000 | 0000000 | 0000000 | 0000000 |
|---|---------------------------|---------------------------|-------------------------|-------------------------|
| | Three Months Ended | Three Months Ended | Six Months Ended | Six Months Ended |
| | July 31, | August 1, | July 31, | August 1, |
| | 2011 | 2010 | 2011 | 2010 |
| NET SALES | \$20,232 | \$19,410 | \$37,055 | \$36,273 |
| Cost of Sales | 13,356 | 12,828 | 24,351 | 23,897 |
| GROSS PROFIT | 6,876 | 6,582 | 12,704 | 12,376 |
| Operating Expenses: | | | | |
| Selling, General and Administrative | 4,186 | 4,127 | 8,195 | 8,205 |
| Depreciation and Amortization | 396 | 406 | 793 | 817 |
| Total Operating Expenses | 4,582 | 4,533 | 8,988 | 9,022 |
| OPERATING INCOME | 2,294 | 2,049 | 3,716 | 3,354 |
| Interest and Other (Income) Expense: | | | | |
| Interest and Investment Income | (3) | (3) | (5) | (7) |
| Interest Expense | 149 | 151 | 290 | 293 |
| Other | - | - | - | 51 |
| Interest and Other, net | 146 | 148 | 285 | 337 |
| EARNINGS BEFORE PROVISION FOR INCOME TAXES | 2,148 | 1,901 | 3,431 | 3,017 |
| Provision for Income Taxes | 785 | 709 | 1,256 | 1,100 |
| NET EARNINGS | \$ 1,363 | \$ 1,192 | \$ 2,175 | \$ 1,917 |
| Weighted Average Common Shares | 1,568 | 1,653 | 1,585 | 1,666 |
| BASIC EARNINGS PER SHARE | \$ 0.87 | \$ 0.72 | \$ 1.37 | \$ 1.15 |
| Diluted Weighted Average Common Shares | 1,577 | 1,663 | 1,595 | 1,676 |
| DILUTED EARNINGS PER SHARE | \$ 0.86 | \$ 0.72 | \$ 1.36 | \$ 1.14 |
| Dividends Declared Per Share | \$0.25 | \$0.23625 | \$0.50 | \$0.4725 |

See accompanying Notes to Consolidated Financial Statements.

Table of Contents**THE HOME DEPOT, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS****(Unaudited)**

| <i>amounts in millions, except share and per share data</i> | 00000000 July 31, 2011 | 00000000 January 30, 2011 |
|--|--------------------------------------|---|
| ASSETS | | |
| Current Assets: | | |
| Cash and Cash Equivalents | \$ 2,551 | \$ 545 |
| Receivables, net | 1,332 | 1,085 |
| Merchandise Inventories | 10,756 | 10,625 |
| Other Current Assets | 1,218 | 1,224 |
| Total Current Assets | 15,857 | 13,479 |
| Property and Equipment, at cost | 38,897 | 38,385 |
| Less Accumulated Depreciation and Amortization | 14,099 | 13,325 |
| Net Property and Equipment | 24,798 | 25,060 |
| Goodwill | 1,177 | 1,187 |
| Other Assets | 445 | 399 |
| Total Assets | \$42,277 | \$40,125 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| Current Liabilities: | | |
| Accounts Payable | \$ 5,890 | \$ 4,717 |
| Accrued Salaries and Related Expenses | 1,262 | 1,290 |
| Sales Taxes Payable | 509 | 368 |
| Deferred Revenue | 1,178 | 1,177 |
| Income Taxes Payable | 306 | 13 |
| Current Installments of Long-Term Debt | 44 | 1,042 |
| Other Accrued Expenses | 1,758 | 1,515 |
| Total Current Liabilities | 10,947 | 10,122 |
| Long-Term Debt, excluding current installments | 10,731 | 8,707 |
| Other Long-Term Liabilities | 2,136 | 2,135 |
| Deferred Income Taxes | 230 | 272 |
| Total Liabilities | 24,044 | 21,236 |
| STOCKHOLDERS EQUITY | | |
| Common Stock, par value \$0.05; authorized: 10 billion shares; issued: 1.728 billion | 86 | 86 |

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| | | |
|--|-----------------|-----------------|
| shares at July 31, 2011 and 1.722 billion shares at January 30, 2011; outstanding: 1.569 | | |
| billion shares at July 31, 2011 and 1.623 billion shares at January 30, 2011 | | |
| Paid-In Capital | 6,665 | 6,556 |
| Retained Earnings | 16,372 | 14,995 |
| Accumulated Other Comprehensive Income | 603 | 445 |
| Treasury Stock, at cost, 159 million shares at July 31, 2011 and 99 million shares at | | |
| January 30, 2011 | (5,493) | (3,193) |
| Total Stockholders' Equity | 18,233 | 18,889 |
| Total Liabilities and Stockholders' Equity | \$42,277 | \$40,125 |

See accompanying Notes to Consolidated Financial Statements.

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THE HOME DEPOT, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

| <i>amounts in millions</i> | 00000000 Six Months Ended July 31, 2011 | 00000000 Six Months Ended August 1, 2010 |
|--|--|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net Earnings | \$ 2,175 | \$ 1,917 |
| Reconciliation of Net Earnings to Net Cash Provided by Operating Activities: | | |
| Depreciation and Amortization | 849 | 866 |
| Stock-Based Compensation Expense | 108 | 112 |
| Changes in Assets and Liabilities: | | |
| Receivables, net | (238) | (246) |
| Merchandise Inventories | (65) | (526) |
| Other Current Assets | (40) | (47) |
| Accounts Payable and Accrued Expenses | 1,419 | 1,193 |
| Deferred Revenue | (4) | (13) |
| Income Taxes Payable | 308 | 161 |
| Deferred Income Taxes | 4 | (78) |
| Other | (29) | 24 |
| Net Cash Provided by Operating Activities | 4,487 | 3,363 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Capital Expenditures | (469) | (407) |
| Proceeds from Sales of Property and Equipment | 27 | 44 |
| Net Cash Used in Investing Activities | (442) | (363) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from Long-Term Borrowings, net of discount | 1,994 | - |
| Repayments of Long-Term Debt | (1,014) | (17) |
| Repurchases of Common Stock | (2,251) | (1,209) |
| Proceeds from Sales of Common Stock | 83 | 52 |
| Cash Dividends Paid to Stockholders | (798) | (793) |
| Other Financing Activities | (54) | (63) |
| Net Cash Used in Financing Activities | (2,040) | (2,030) |
| Change in Cash and Cash Equivalents | 2,005 | 970 |
| Effect of Exchange Rate Changes on Cash and Cash Equivalents | 1 | 4 |
| Cash and Cash Equivalents at Beginning of Period | 545 | 1,421 |
| Cash and Cash Equivalents at End of Period | \$ 2,551 | \$ 2,395 |

See accompanying Notes to Consolidated Financial Statements.

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THE HOME DEPOT, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

| <i>amounts in millions</i> | 0000000 | 0000000 | 0000000 | 0000000 |
|--|---------------------------|---------------------------|--------------------------|---------------------------|
| | Three Months Ended | | Six Months Ended | |
| | July 31, 2011 | August 1, 2010 | July 31, 2011 | August 1, 2010 |
| Net Earnings | \$ 1,363 | \$ 1,192 | \$ 2,175 | \$ 1,917 |
| Other Comprehensive Income: | | | | |
| Foreign Currency Translation Adjustments | (12) | (39) | 174 | 112 |
| Cash Flow Hedges ⁽¹⁾ | 2 | (75) | (1) | (82) |
| Other | - | - | (15) | - |
| Total Other Comprehensive Income | (10) | (114) | 158 | 30 |
| Comprehensive Income | \$ 1,353 | \$ 1,078 | \$ 2,333 | \$ 1,947 |

(1) This component of comprehensive income is reported net of income taxes.
See accompanying Notes to Consolidated Financial Statements.

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THE HOME DEPOT, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying Consolidated Financial Statements have been prepared in accordance with the instructions to Form 10-Q and do not include all of the information and footnotes required by generally accepted accounting principles (GAAP) for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. These statements should be read in conjunction with the Consolidated Financial Statements and notes thereto included in the Company s Annual Report on Form 10-K for the year ended January 30, 2011, as filed with the Securities and Exchange Commission.

Business

The Home Depot, Inc. and subsidiaries (the Company) operate The Home Depot stores, which are full-service, warehouse-style stores averaging approximately 105,000 square feet in size. The stores stock approximately 30,000 to 40,000 different kinds of building materials, home improvement supplies and lawn and garden products that are sold to do-it-yourself customers, do-it-for-me customers and professional customers.

Valuation Reserves

As of July 31, 2011 and January 30, 2011, the valuation allowances for Merchandise Inventories and uncollectible Receivables were not material.

2. LONG-TERM DEBT

In March 2011, the Company issued \$1.0 billion of 4.40% Senior Notes due April 1, 2021 at a discount of \$2 million and \$1.0 billion of 5.95% Senior Notes due April 1, 2041 at a discount of \$4 million (together, the March 2011 issuance). Interest on these Senior Notes is due semi-annually on April 1 and October 1 of each year, beginning October 1, 2011. The net proceeds of the March 2011 issuance were used to repurchase \$1.0 billion of the Company s common stock through an Accelerated Share Repurchase (ASR) agreement and the balance of the net proceeds were used to repay the Company s 5.20% Senior Notes that matured March 1, 2011 in the aggregate principal amount of \$1.0 billion. The \$6 million discount associated with the March 2011 issuance is being amortized over the term of the Senior Notes using the effective interest rate method. Issuance costs were approximately \$15 million and are being amortized over the term of the Senior Notes.

The Senior Notes may be redeemed by the Company at any time, in whole or in part, at the redemption price plus accrued interest up to the redemption date. The redemption price is equal to the greater of (1) 100% of the principal amount of the Senior Notes to be redeemed, or (2) the sum of the present values of the remaining scheduled payments of principal and interest to maturity. Additionally, if a Change in Control Triggering Event occurs, as defined by the terms of the March 2011 issuance, holders of the March 2011 issuance have the right to require the Company to redeem those notes at 101% of the aggregate principal amount of the notes plus accrued interest up to the redemption date. The Company is generally not limited under the indenture governing the Senior Notes in its ability to incur additional indebtedness or required to maintain financial ratios or specified levels of net worth or liquidity. Further, while the indenture governing the Senior Notes contains various restrictive covenants, none is expected to impact the Company s liquidity or capital resources.

In May 2010, the Company entered into a forward starting interest rate swap agreement with a notional amount of \$500 million, which was accounted for as a cash flow hedge, to hedge interest rate fluctuations in anticipation of the March 2011 issuance. Upon the March 2011 issuance, the Company settled this forward starting interest rate swap agreement for an immaterial amount.

Table of Contents**THE HOME DEPOT, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****3. ACCELERATED SHARE REPURCHASE**

In March 2011, the Company entered into an ASR agreement with a third-party financial institution to repurchase \$1.0 billion of the Company's common stock. Under the agreement, the Company paid \$1.0 billion to the financial institution, using a portion of the proceeds from the March 2011 issuance, and received an initial delivery of approximately 21 million shares in the first quarter of fiscal 2011. The transaction was completed in the second quarter of fiscal 2011, with the Company receiving an additional 6 million shares. The \$1.0 billion of shares repurchased are included in Treasury Stock in the accompanying Consolidated Balance Sheets as of July 31, 2011. The final number of shares delivered upon settlement of the agreement was determined with reference to the average price of the Company's common stock over the term of the ASR agreement.

4. DEBT GUARANTEE EXTENSION

In connection with the sale of HD Supply, Inc. (HD Supply) on August 30, 2007, the Company guaranteed a \$1.0 billion senior secured amortizing term loan of HD Supply. The Company is responsible for up to \$1.0 billion and any unpaid interest in the event of nonpayment by HD Supply. As reported in the quarterly report on Form 10-Q of HD Supply for the period ended May 1, 2011, the outstanding balance of this term loan as of May 1, 2011 was \$935 million. The guaranteed loan is collateralized by certain assets of HD Supply. The original expiration date of the guarantee was August 30, 2012. On March 19, 2010, the Company amended the guarantee to extend the expiration date to April 1, 2014. The fair value of the guarantee at August 30, 2007 was \$16 million and was recorded as a liability of the Company in Other Long-Term Liabilities. The extension of the guarantee increased the fair value of the guarantee to \$67 million, resulting in a \$51 million charge to Interest and Other, net, for the first quarter and first six months of fiscal 2010.

5. FAIR VALUE MEASUREMENTS

The fair value of an asset is considered to be the price at which the asset could be sold in an orderly transaction between unrelated knowledgeable and willing parties. A liability's fair value is defined as the amount that would be paid to transfer the liability to a new obligor, rather than the amount that would be paid to settle the liability with the creditor. Assets and liabilities recorded at fair value are measured using a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include:

- Level 1 Observable inputs that reflect quoted prices in active markets
- Level 2 Inputs other than quoted prices in active markets that are either directly or indirectly observable
- Level 3 Unobservable inputs in which little or no market data exists, therefore requiring the Company to develop its own assumptions

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The assets and liabilities of the Company that are measured at fair value on a recurring basis as of July 31, 2011 and January 30, 2011 were as follows (amounts in millions):

| | 000,000 | 000,000 | 000,000 | 000,000 | 000,000 | 000,000 |
|-------------------------------------|-----------------------------------|--------------|-----------|--------------------------------------|-------------|-----------|
| | Fair Value at July 31, 2011 Using | | | Fair Value at January 30, 2011 Using | | |
| | Level 1 | Level 2 | Level 3 | Level 1 | Level 2 | Level 3 |
| Derivative agreements - assets | \$ | \$ 85 | \$ | \$ | \$ 47 | \$ |
| Derivative agreements - liabilities | | (56) | | | (40) | |
| Total | \$ | \$ 29 | \$ | \$ | \$ 7 | \$ |

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The Company uses derivative financial instruments from time to time in the management of its interest rate exposure on long-term debt and its exposure on foreign currency fluctuations. The fair value of the Company's derivative financial instruments was measured using level 2 inputs.

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THE HOME DEPOT, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

The assets and liabilities of the Company that were measured at fair value on a nonrecurring basis during the six months ended July 31, 2011 and August 1, 2010 were as follows (amounts in millions):

| | Fair Value Measured During the Six Months Ended July 31, 2011 - Level 3 | Gains (Losses) |
|---|--|---------------------------|
| Lease obligation costs, net | \$(139) | \$7 |
| Total for the first six months of fiscal 2011 | | \$7 |

| | Fair Value Measured During the Six Months Ended August 1, 2010 - Level 3 | Gains (Losses) |
|---|---|---------------------------|
| Lease obligation costs, net | \$(177) | \$ (8) |
| Guarantee of HD Supply loan | \$ (67) | (51) |
| Total for the first six months of fiscal 2010 | | \$(59) |

Lease obligation costs were related to certain store closings and the exit of certain businesses in fiscal 2009 and 2008. These charges were measured on a nonrecurring basis using fair value measurements with unobservable inputs (level 3).

The guarantee of the HD Supply loan was measured on a nonrecurring basis using fair value measurements with unobservable inputs (level 3), as further discussed in Note 4.

Long-lived assets were analyzed for impairment on a nonrecurring basis using fair value measurements with unobservable inputs (level 3). Impairment charges related to long-lived assets in the first six months of fiscal 2011 and 2010 were not material.

The Company completed an assessment on the recoverability of Goodwill for one of its reporting units in the first six months of fiscal 2011. The fair value of the Company's reporting unit was based on the potential selling price of the reporting unit. The impairment charge related to this Goodwill assessment was not material.

The aggregate fair value of the Company's Senior Notes, based on quoted market prices, was \$11.2 billion and \$9.8 billion at July 31, 2011 and January 30, 2011, respectively, compared to a carrying value of \$10.3 billion and \$9.3 billion at July 31, 2011 and January 30, 2011, respectively.

6. BASIC AND DILUTED WEIGHTED AVERAGE COMMON SHARES

The reconciliation of basic to diluted weighted average common shares for the three and six months ended July 31, 2011 and August 1, 2010 was as follows (amounts in millions):

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| | Three Months Ended | | Six Months Ended | |
|--|--------------------|-------------------|------------------|-------------------|
| | July 31, 2011 | August 1, 2010 | July 31, 2011 | August 1, 2010 |
| Weighted average common shares | 1,568 | 1,653 | 1,585 | 1,666 |
| Effect of potentially dilutive securities: | | | | |
| Stock plans | 9 | 10 | 10 | 10 |
| Diluted weighted average common shares | 1,577 | 1,663 | 1,595 | 1,676 |

Stock plans consist of shares granted under the Company's employee stock plans. Options to purchase 30 million and 42 million shares of common stock for the three months ended July 31, 2011 and August 1, 2010, respectively, and options to purchase 26 million and 40 million shares of common stock for the six months ended July 31, 2011 and August 1, 2010, respectively, were excluded from the computation of Diluted Earnings per Share because their effect would have been anti-dilutive.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders

The Home Depot, Inc.:

We have reviewed the Consolidated Balance Sheets of The Home Depot, Inc. and subsidiaries as of July 31, 2011, the related Consolidated Statements of Earnings and Comprehensive Income for the three-month and six-month periods ended July 31, 2011 and August 1, 2010, and the related Consolidated Statements of Cash Flows for the six-month periods ended July 31, 2011 and August 1, 2010. These Consolidated Financial Statements are the responsibility of the Company's management.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the Consolidated Financial Statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with standards of the Public Company Accounting Oversight Board (United States), the Consolidated Balance Sheet of The Home Depot, Inc. and subsidiaries as of January 30, 2011, and the related Consolidated Statements of Earnings, Stockholders' Equity and Comprehensive Income, and Cash Flows for the year then ended (not presented herein); and in our report dated March 24, 2011, we expressed an unqualified opinion on those Consolidated Financial Statements. In our opinion, the information set forth in the accompanying Consolidated Balance Sheet as of January 30, 2011, is fairly stated, in all material respects, in relation to the Consolidated Balance Sheet from which it has been derived.

/s/ KPMG LLP

Atlanta, Georgia

August 31, 2011

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

FORWARD-LOOKING STATEMENTS

Certain statements regarding our future performance constitute forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements may relate to, among other things, the demand for our products and services, net sales growth, comparable store sales, state of the economy, state of the residential construction, housing and home improvement markets, state of the credit markets, including mortgages, home equity loans and consumer credit, inventory and in-stock positions, commodity price inflation and deflation, implementation of store and supply chain initiatives, continuation of reinvestment plans, net earnings performance, earnings per share, stock-based compensation expense, capital allocation and expenditures, liquidity, the effect of adopting certain accounting standards, return on invested capital, management of our purchasing or customer credit policies, the effect of accounting charges, the planned recapitalization of the Company and the timing of its completion, the ability to issue debt on terms and at rates acceptable to us, store openings and closures, expense leverage and financial outlook.

Forward-looking statements are based on currently available information and our current assumptions, expectations and projections about future events. You are cautioned not to place undue reliance on our forward-looking statements. These statements are not guarantees of future performance and are subject to future events, risks and uncertainties many of which are beyond our control or are currently unknown to us as well as potentially inaccurate assumptions that could cause actual results to differ materially from our expectations and projections. These risks and uncertainties include, but are not limited to, those described in Item 1A, Risk Factors and elsewhere in our Annual Report on Form 10-K for the fiscal year ended January 30, 2011 as filed with the Securities and Exchange Commission (SEC) on March 24, 2011 (Form 10-K) and in Item 1A of Part II and elsewhere in this report. You should read such information in conjunction with our Consolidated Financial Statements and related notes and Management's Discussion and Analysis of Financial Condition and Results of Operations in this report. There also may be other factors that we cannot anticipate or that are not described in this report, generally because we do not currently perceive them to be material. Such factors could cause results to differ materially from our expectations.

Forward-looking statements speak only as of the date they are made, and we do not undertake to update these statements other than as required by law. You are advised, however, to review any further disclosures we make on related subjects in our periodic filings with the SEC.

EXECUTIVE SUMMARY AND SELECTED CONSOLIDATED STATEMENTS OF EARNINGS DATA

For the second quarter of fiscal 2011, we reported Net Earnings of \$1.4 billion and Diluted Earnings per Share of \$0.86 compared to Net Earnings of \$1.2 billion and Diluted Earnings per Share of \$0.72 for the second quarter of fiscal 2010. For the first six months of fiscal 2011, we reported Net Earnings of \$2.2 billion and Diluted Earnings per Share of \$1.36 compared to Net Earnings of \$1.9 billion and Diluted Earnings per Share of \$1.14 for the first six months of fiscal 2010.

Net Sales increased 4.2% to \$20.2 billion for the second quarter of fiscal 2011 from \$19.4 billion for the second quarter of fiscal 2010. For the first six months of fiscal 2011, Net Sales increased 2.2% to \$37.1 billion from \$36.3 billion for the first six months of fiscal 2010. Our comparable store sales increased 4.3% in the second quarter of fiscal 2011, driven primarily by a 3.3% increase in our comparable store average ticket. Comparable store sales for our U.S. stores increased 3.5% in the second quarter of fiscal 2011.

In the first six months of fiscal 2011, we continued to focus on the following four key initiatives:

Customer Service Our focus on customer service is anchored on the principles of taking care of our associates, putting customers first and simplifying the business. The roll out of our Customers FIRST training to all store associates and support staff has brought simplification and focus across the business and is part of our ongoing commitment to improve customer service levels in our stores. In the second quarter of fiscal 2011, we piloted a new scheduling system for our associates that will eliminate approximately 30 hours per store per week of manual scheduling activity. With the time saved on scheduling activity, we can increase the time allocated to customer facing activity. We plan to have this rolled out throughout the U.S. by the end of fiscal 2011.

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Product Authority Our focus on product authority is facilitated by our merchandising transformation and portfolio strategy, including innovation, assortment and value. In an effort to improve our special order performance, we are digitizing our vendor catalogs and expect to complete this process in the third quarter of fiscal 2011. This will make the special order process both simpler and more accurate for our associates and will provide the foundation for a new special order sales dashboard that will give our merchants greater visibility into special order pricing and performance.

Productivity and Efficiency Our approach to driving productivity and efficiency starts with disciplined capital allocation focused on building best-in-class competitive advantages in information technology and supply chain, as well as building shareholder value through higher returns on invested capital and total value returned to shareholders in the form of dividends and share repurchases. Since the completion of the roll out of our Rapid Deployment Centers (RDCs) in fiscal 2010, we continue to improve delivery and service to U.S. stores and at the same time leverage the cost of moving goods. During the second quarter of fiscal 2011, we settled our \$1.0 billion Accelerated Share Repurchase (ASR) agreement. We received a total of 27 million shares under the ASR agreement in the first six months of fiscal 2011, including 6 million shares upon settlement of the ASR agreement in the second quarter of fiscal 2011. Also during the first six months of fiscal 2011, we repurchased an additional 36 million shares of our common stock through the open market.

Interconnected Retail Our focus on interconnected retail is based on the view that providing a seamless shopping experience across multiple channels will be a critical enabler for future success. Our multiple channel focus is allowing us to greatly expand our assortment of merchandise, and we are making the investment to build these capabilities, including the roll out of Buy On-Line, Pick-up in Store. We had over 100 stores with Buy On-Line, Pick-up in Store as of the end of the second quarter of fiscal 2011, and the roll out to our U.S. stores should be complete in the third quarter of fiscal 2011.

We opened one new store in Mexico and closed one store destroyed by a tornado during the second quarter of fiscal 2011, for a total store count of 2,245 at the end of the second quarter of fiscal 2011. As of the end of the second quarter of fiscal 2011, a total of 273 of these stores, or 12.2%, were located in Canada, Mexico and China compared to 268 stores, or 11.9%, as of the end of the second quarter of fiscal 2010.

We generated \$4.5 billion of cash flow from operations in the first six months of fiscal 2011. We used a portion of this cash flow to fund \$1.3 billion of share repurchases in addition to shares purchased under the ASR agreement, pay \$798 million of dividends, and fund \$469 million in capital expenditures.

At the end of the second quarter of fiscal 2011, our long-term debt-to-equity ratio was 58.9% compared to 39.7% at the end of the second quarter of fiscal 2010. Our return on invested capital (computed on net operating profit after tax for the trailing twelve months and the average of beginning and ending long-term debt and equity) was 13.5% for the second quarter of fiscal 2011 compared to 11.5% for the second quarter of fiscal 2010.

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We believe the selected sales data, the percentage relationship between Net Sales and major categories in the Consolidated Statements of Earnings and the percentage change in the dollar amounts of each of the items presented below are important in evaluating the performance of our business operations.

| | % of Net Sales | | | | % Increase (Decrease) in Dollar Amounts | |
|---|--|-------------------|--------------------------------------|-------------------|--|---------------|
| | Three Months Ended July 31, 2011 | August 1, 2010 | Six Months Ended July 31, 2011 | August 1, 2010 | Three Months | Six Months |
| NET SALES | 100.0% | 100.0% | 100.0% | 100.0% | 4.2% | 2.2% |
| GROSS PROFIT | 34.0 | 33.9 | 34.3 | 34.1 | 4.5 | 2.7 |
| Operating Expenses: | | | | | | |
| Selling, General and Administrative | 20.7 | 21.3 | 22.1 | 22.6 | 1.4 | (0.1) |
| Depreciation and Amortization | 2.0 | 2.1 | 2.1 | 2.3 | (2.5) | (2.9) |
| Total Operating Expenses | 22.6 | 23.4 | 24.3 | 24.9 | 1.1 | (0.4) |
| OPERATING INCOME | 11.3 | 10.6 | 10.0 | 9.2 | 12.0 | 10.8 |
| Interest and Other (Income) Expense: | | | | | | |
| Interest and Investment Income | - | - | - | - | - | (28.6) |
| Interest Expense | 0.7 | 0.8 | 0.8 | 0.8 | (1.3) | (1.0) |
| Other | - | - | - | 0.1 | - | (100.0) |
| Interest and Other, net | 0.7 | 0.8 | 0.8 | 0.9 | (1.4) | (15.4) |
| EARNINGS BEFORE PROVISION FOR INCOME TAXES | 10.6 | 9.8 | 9.3 | 8.3 | 13.0 | 13.7 |
| Provision for Income Taxes | 3.9 | 3.7 | 3.4 | 3.0 | 10.7 | 14.2 |
| NET EARNINGS | 6.7% | 6.1% | 5.9% | 5.3% | 14.3% | 13.5% |

SELECTED SALES DATA

| | | | | | | |
|--|-----------|-----------|-----------|-----------|------|--------|
| Number of Customer Transactions (in millions) | 373 | 369 | 689 | 692 | 1.1% | (0.4)% |
| Average Ticket | \$ 54.04 | \$ 52.30 | \$ 53.72 | \$ 52.41 | 3.3% | 2.5% |
| Weighted Average Weekly Sales Per | | | | | | |
| Operating Store (in thousands) | \$ 690 | \$ 662 | \$ 634 | \$ 621 | 4.2% | 2.1% |
| Weighted Average Sales per Square Foot | \$ 342.70 | \$ 328.27 | \$ 314.89 | \$ 307.94 | 4.4% | 2.3% |
| Comparable Store Sales Increase (%) ⁽¹⁾ | 4.3% | 1.7% | 2.0% | 3.2% | N/A | N/A |

Note: Certain percentages may not sum to totals due to rounding.

(1) Includes Net Sales at locations open greater than 12 months, including relocated and remodeled stores. Retail stores become comparable on the Monday following their 365th day of operation. Comparable store sales is intended only as supplemental information and is not a substitute for Net Sales or Net Earnings presented in accordance with generally accepted accounting

principles.
N/A Not Applicable

Table of Contents**RESULTS OF OPERATIONS**

Net Sales for the second quarter of fiscal 2011 increased 4.2% to \$20.2 billion from \$19.4 billion for the second quarter of fiscal 2010. For the first six months of fiscal 2011, Net Sales increased 2.2% to \$37.1 billion from \$36.3 billion for the comparable period in fiscal 2010. The increase in Net Sales for the second quarter and first six months of fiscal 2011 reflects the impact of positive comparable store sales. Total comparable store sales increased 4.3% for the second quarter of fiscal 2011 compared to an increase of 1.7% for the second quarter of fiscal 2010. For the first six months of fiscal 2011, total comparable store sales increased 2.0% compared to an increase of 3.2% for the same period of fiscal 2010.

The positive comparable store sales for the second quarter and first six months of fiscal 2011 reflects a number of factors. Our performance in the second quarter of fiscal 2011 was driven by our seasonal business and outdoor projects, repair business from the harsh winter and spring storms, and strength in our core departments. The majority of our departments posted positive comparable store sales for the second quarter and first six months of fiscal 2011, and comparable store average ticket increased 3.3% and 2.5% for the second quarter and first six months of fiscal 2011, respectively. Comparable store sales for our Building Materials, Electrical, Kitchen/Bath, Indoor Garden, Outdoor Garden and Tools product categories were above the Company average, and comparable store sales for Hardware was at the Company average for the second quarter of fiscal 2011. Comparable store sales for our Paint, Plumbing and Flooring product categories were positive but less than the Company average for the second quarter of fiscal 2011. Comparable store sales in Lighting were flat while Lumber and Millwork were negative for the second quarter of 2011.

Gross Profit increased 4.5% to \$6.9 billion for the second quarter of fiscal 2011 from \$6.6 billion for the second quarter of fiscal 2010. Gross Profit increased 2.7% to \$12.7 billion for the first six months of fiscal 2011 from \$12.4 billion for the first six months of fiscal 2010. Gross Profit as a percent of Net Sales increased 8 basis points to 34.0% for the second quarter of fiscal 2011 compared to 33.9% for the second quarter of fiscal 2010. For the first six months of fiscal 2011, Gross Profit as a percent of Net Sales was 34.3% compared with 34.1% for the comparable period of fiscal 2010, an increase of 16 basis points. The increase in gross profit margin in the second quarter and first six months of fiscal 2011 was driven by benefits arising from our merchandising portfolio approach and our supply chain transformation in the U.S.

Selling, General and Administrative Expense (SG&A) increased 1.4% to \$4.2 billion for the second quarter of fiscal 2011 from \$4.1 billion for the second quarter of fiscal 2010, and was \$8.2 billion for the first six months of both fiscal 2011 and 2010. As a percent of Net Sales, SG&A was 20.7% for the second quarter of fiscal 2011 compared to 21.3% for the second quarter of fiscal 2010. For the first six months of fiscal 2011, SG&A as a percent of Net Sales was 22.1% compared to 22.6% for the same period last year. The decrease in SG&A as a percent of Net Sales for the second quarter and first six months of fiscal 2011 reflects expense leverage in the positive comparable store sales environment partially offset by a \$32 million impairment charge for a non-core carpet cleaning and cabinet refinishing business that the Company intends to sell.

Depreciation and Amortization decreased 2.5% to \$396 million for the second quarter of fiscal 2011 from \$406 million for the second quarter of fiscal 2010. For the first six months of fiscal 2011, Depreciation and Amortization decreased 2.9% to \$793 million from \$817 million for the same period of fiscal 2010. Depreciation and Amortization as a percent of Net Sales was 2.0% for the second quarter of fiscal 2011 compared to 2.1% for the second quarter of fiscal 2010, and was 2.1% for the first six months of fiscal 2011 compared to 2.3% for the same period in fiscal 2010. The decrease in Depreciation and Amortization was a function of an increased number of fully depreciated assets.

Operating Income increased 12.0% to \$2.3 billion for the second quarter of fiscal 2011 from \$2.0 billion for the second quarter of fiscal 2010. Operating Income increased 10.8% to \$3.7 billion for the first six months of fiscal 2011 from \$3.4 billion for the first six months of fiscal 2010.

In the second quarter of fiscal 2011, we recognized \$146 million of Interest and Other, net, compared to \$148 million in the second quarter of fiscal 2010. We recognized \$285 million of Interest and Other, net, in the first six months of fiscal 2011 compared to \$337 million for the same period last year. Interest and Other, net, as a percent of Net Sales was 0.7% for the second quarter of fiscal 2011 compared to 0.8% for the second quarter of fiscal 2010. For the first six months of fiscal 2011, Interest and Other, net, as a percent of Net Sales was 0.8% compared to 0.9% for the same period last year. Interest and Other, net, for the first six months of fiscal 2010 reflects a \$51 million pretax charge taken in the first quarter of fiscal 2010 related to the extension of our guarantee of a senior secured loan of HD Supply, Inc.

Our combined effective income tax rate was 36.6% for the first six months of fiscal 2011 compared to 36.5% for the comparable period of fiscal 2010.

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Diluted Earnings per Share were \$0.86 and \$1.36 for the second quarter and first six months of fiscal 2011, respectively, compared to \$0.72 and \$1.14 for the second quarter and first six months of fiscal 2010, respectively. Diluted Earnings per Share for the second quarter and first six months of fiscal 2011 reflect \$0.04 and \$0.06, respectively, of benefit from repurchases of our common stock in the last 12 months.

LIQUIDITY AND CAPITAL RESOURCES

Cash flow generated from operations provides us with a significant source of liquidity. During the first six months of fiscal 2011, Net Cash Provided by Operating Activities was \$4.5 billion compared to \$3.4 billion for the same period of fiscal 2010. This increase was primarily a result of an increase in Net Earnings, changes in inventory levels and other net working capital items.

Net Cash Used in Investing Activities for the first six months of fiscal 2011 was \$442 million compared to \$363 million for the same period of fiscal 2010. This change was primarily due to increased Capital Expenditures.

Net Cash Used in Financing Activities for the first six months of both fiscal 2011 and 2010 was \$2.0 billion. In March 2011, we issued \$1.0 billion of 4.40% Senior Notes due April 1, 2021 at a discount of \$2 million and \$1.0 billion of 5.95% Senior Notes due April 1, 2041 at a discount of \$4 million (together, the March 2011 issuance). Interest on these Senior Notes is due semi-annually on April 1 and October 1 of each year, beginning October 1, 2011. The net proceeds of the March 2011 issuance were used to repurchase \$1.0 billion of our common stock, and the balance of the net proceeds were used to repay our 5.20% Senior Notes that matured March 1, 2011 in the aggregate principal amount of \$1.0 billion.

In connection with the March 2011 issuance, we entered into an ASR agreement with a third-party financial institution to repurchase \$1.0 billion of our common stock. Under the agreement, in the first quarter of fiscal 2011 we paid \$1.0 billion to the financial institution and received an initial delivery of approximately 21 million shares. The transaction was completed in the second quarter of fiscal 2011, at which time we received an additional 6 million shares. Also during the first six months of fiscal 2011, we repurchased an additional 36 million shares of our common stock for \$1.3 billion through the open market. As of the end of the second quarter of fiscal 2011, \$7.6 billion remained under our share repurchase authorization.

In May 2010, we entered into a forward starting interest rate swap agreement with a notional amount of \$500 million, which was accounted for as a cash flow hedge, to hedge interest rate fluctuations in anticipation of the March 2011 issuance. Upon the March 2011 issuance, we settled this forward starting interest rate swap agreement for an immaterial amount.

We have commercial paper programs that allow for borrowings up to \$2.0 billion. In connection with the programs, we have a back-up credit facility with a consortium of banks for borrowings up to \$2.0 billion. As of July 31, 2011, there were no borrowings outstanding under the commercial paper programs or the related credit facility. The credit facility expires in July 2013 and contains various restrictive covenants. As of July 31, 2011, we were in compliance with all of the covenants, and they are not expected to impact our liquidity or capital resources.

As of July 31, 2011, we had \$2.6 billion in Cash and Cash Equivalents. We believe that our current cash position, access to the debt capital markets and cash flow generated from operations should be sufficient to enable us to complete our capital expenditure programs and fund dividend payments, share repurchases and any required long-term debt payments through the next several fiscal years. In addition, we have funds available from our commercial paper programs and the ability to obtain alternative sources of financing.

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Item 3. Quantitative and Qualitative Disclosures about Market Risk

Our exposure to market risks results primarily from fluctuations in interest rates. There have been no material changes to our exposure to market risks from those disclosed in our Form 10-K.

Item 4. Controls and Procedures

The Company maintains disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act) that are designed to ensure that information required to be disclosed in the Company's Securities Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures as of the end of the period covered by this report. Based upon that evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures were effective.

There have not been any changes in the Company's internal control over financial reporting (as such term is defined in Rule 13a-15(f) under the Securities Exchange Act) during the fiscal quarter ended July 31, 2011 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The following information updates, and should be read in conjunction with, Item 3, Legal Proceedings, of the Company's Form 10-K. Except as set forth below, there are no other material changes during the second quarter of fiscal 2011 to our disclosure in Item 3 of our Form 10-K.

As reported on page 12 of our Form 10-K, in September 2010, the Company was contacted by district attorneys in three counties in California within the South Coast Air Quality Management District (the SCAQMD) and the City of Los Angeles regarding allegations that the Company sold products in those counties with VOC (volatile organic compound) levels in excess of amounts permitted by SCAQMD rules. In June 2011, two related complaints were filed in the Superior Court of California County of Los Angeles against the Company. The first action was brought by the SCAQMD and alleges that the Company sold products with higher-than-permitted VOC levels. This action seeks \$30 million in civil penalties and injunctive relief. The second action was brought by the Los Angeles City Attorney and the district attorneys of each of Orange, Riverside and San Bernadino counties and alleges that the Company engaged in unfair business practices and false advertising when selling these products. This action seeks unspecified civil penalties and injunctive relief. Although the Company cannot predict the outcomes of these matters, it does not expect either to have a material adverse effect on its consolidated financial condition or results of operations.

Item 1A. Risk Factors

In addition to the other information set forth in this Form 10-Q, you should carefully consider the factors discussed under Item 1A, Risk Factors and elsewhere in our Form 10-K. These risks and uncertainties could materially and adversely affect our business, financial condition and results of operations. Our operations could also be affected by additional factors that are not presently known to us or by factors that we currently consider immaterial to our business. There have been no material changes in the risk factors discussed in our Form 10-K.

Table of Contents**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

- (a) During the second quarter of fiscal 2011, the Company issued 13,693 deferred stock units under The Home Depot, Inc. NonEmployee Directors' Deferred Stock Compensation Plan pursuant to the exemption from registration provided by Section 4(2) of the Securities Act of 1933, as amended. The deferred stock units were credited to the accounts of such nonemployee directors during the second quarter of fiscal 2011 who elected to receive board retainers in the form of deferred stock units instead of cash. The deferred stock units convert to shares of common stock on a one-for-one basis following a termination of service as described in this plan.

During the second quarter of fiscal 2011, the Company credited 1,309 deferred stock units to participant accounts under The Home Depot FutureBuilder Restoration Plan pursuant to an exemption from the registration requirements of the Securities Act of 1933 for involuntary, non-contributory plans. The deferred stock units convert to shares of common stock on a one-for-one basis following the termination of services as described in this plan.

- (c) Since the inception of the Company's share repurchase program in fiscal 2002 through the end of the second quarter of fiscal 2011, the Company has repurchased shares of its common stock having a value of approximately \$32.4 billion. The number and average price of shares purchased in each fiscal month of the second quarter of fiscal 2011 are set forth in the table below:

| Period | | Total Number of Shares Purchased ⁽¹⁾ | Average Price Paid Per Share ⁽¹⁾ | Total Number of Shares Purchased as Part of Publicly Announced Program ⁽²⁾ | Dollar Value of Shares that May Yet Be Purchased Under the Program ⁽²⁾ |
|---------------|-----------------------------|--|---|--|--|
| May 2, 2011 | May 29, 2011 ⁽³⁾ | 5,918,674 | \$37.50 | 5,871,532 | \$8,610,015,354 |
| May 30, 2011 | June 26, 2011 | 11,908,399 | \$34.57 | 11,660,426 | \$8,206,994,680 |
| June 27, 2011 | July 31, 2011 | 16,560,889 | \$36.22 | 16,481,770 | \$7,610,015,369 |

- (1) These amounts include repurchases pursuant to the Company's 1997 and 2005 Omnibus Stock Incentive Plans (the Plans). Under the Plans, participants may exercise stock options by surrendering shares of common stock that the participants already own as payment of the exercise price. Participants in the Plans may also surrender shares as payment of applicable tax withholding on the vesting of restricted stock and deferred share awards. Shares so surrendered by participants in the Plans are repurchased pursuant to the terms of the Plans and applicable award agreement and not pursuant to publicly announced share repurchase programs.
- (2) The Company's common stock repurchase program was initially announced on July 15, 2002. As of the end of the second quarter of fiscal 2011, the Board had approved purchases up to \$40.0 billion. The program does not have a prescribed expiration date.
- (3) In the first quarter of fiscal 2011, the Company paid \$1.0 billion under an ASR agreement and received an initial delivery of 21 million shares. The transaction was completed in the second quarter of fiscal 2011, with the Company receiving an additional 6 million shares to settle the agreement. The Average Price Paid Per Share was calculated with reference to the average stock price of the Company's common stock over the term of the ASR agreement. See Note 3 to the Consolidated Financial Statements included in this report.

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Item 6. Exhibits

Exhibits marked with an asterisk (*) are incorporated by reference to exhibits or appendices previously filed with the Securities and Exchange Commission, as indicated by the references in brackets. All other exhibits are filed or furnished herewith.

- 3.1 Amended and Restated Certificate of Incorporation of The Home Depot, Inc.
- *3.2 By-Laws of The Home Depot, Inc. (Amended and Restated Effective June 2, 2011) [**Form 8-K filed on June 7, 2011, Exhibit 3.1**]
- 12.1 Statement of Computation of Ratio of Earnings to Fixed Charges.
- 15.1 Letter of KPMG LLP, Acknowledgement of Independent Registered Public Accounting Firm, dated August 31, 2011.
- 31.1 Certification of the Chairman and Chief Executive Officer pursuant to Rule 13a-14(a) promulgated under the Securities Exchange Act of 1934, as amended.
- 31.2 Certification of the Chief Financial Officer and Executive Vice President – Corporate Services pursuant to Rule 13a-14(a) promulgated under the Securities Exchange Act of 1934, as amended.
- 32.1 Certification of Chairman and Chief Executive Officer furnished pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of Chief Financial Officer and Executive Vice President – Corporate Services furnished pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101 The following financial information from the Quarterly Report on Form 10-Q for the fiscal quarter ended July 31, 2011, formatted in XBRL (Extensible Business Reporting Language) and furnished electronically herewith: (i) the Consolidated Statements of Earnings; (ii) the Consolidated Balance Sheets; (iii) the Consolidated Statements of Cash Flows; (iv) the Consolidated Statements of Comprehensive Income; and (v) the Notes to the Consolidated Financial Statements.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

THE HOME DEPOT, INC.
(Registrant)

By: /s/ FRANCIS S. BLAKE
Francis S. Blake
Chairman and Chief Executive Officer

/s/ CAROL B. TOMÉ
Carol B. Tomé
Chief Financial Officer and
Executive Vice President Corporate Services

August 30, 2011
(Date)

Table of Contents**INDEX TO EXHIBITS**

| Exhibit | Description |
|--|--|
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