HOME DEPOT INC
Form 10-Q
May 24, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q
(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended April 29, 2012
- 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 | 95-3261426 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification Number) |
| 2455 Paces Ferry Road N.W., Atlanta, Georgia | 30339 |
| (Address of principal executive offices) | (Zip Code) |

(770) 433-8211
(Registrant's telephone number, including area code)
(Former name, former address and former fiscal year, if changed since last report)
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 x 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 x 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 x | Accelerated filer ¨ | Non-accelerated filer ¨ (Do not check if a smaller reporting company) | 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 x
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.
1,530,662,299 shares of common stock, $0.05 par value, as of May 16, 2012

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

THE HOME DEPOT, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Unaudited)

| amounts in millions, except share and per share data | April 29, 2012 | January 29, 2012 |
|---|---|---|
| ASSETS | | |
| Current Assets: | | |
| Cash and Cash Equivalents | $3,191 | $1,987 |
| Receivables, net | 1,519 | 1,245 |
| Merchandise Inventories | 11,582 | 10,325 |
| Other Current Assets | 1,060 | 963 |
| Total Current Assets | 17,352 | 14,520 |
| Property and Equipment, at cost | 39,306 | 38,975 |
| Less Accumulated Depreciation and Amortization | 14,935 | 14,527 |
| Net Property and Equipment | 24,371 | 24,448 |
| Goodwill | 1,139 | 1,120 |
| Other Assets | 438 | 430 |
| Total Assets | $43,300 | $40,518 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current Liabilities: | | |
| Accounts Payable | $7,135 | $4,856 |
| Accrued Salaries and Related Expenses | 1,263 | 1,372 |
| Sales Taxes Payable | 545 | 391 |
| Deferred Revenue | 1,219 | 1,147 |
| Income Taxes Payable | 450 | 23 |
| Current Installments of Long-Term Debt | 33 | 30 |
| Other Accrued Expenses | 1,454 | 1,557 |
| Total Current Liabilities | 12,099 | 9,376 |
| Long-Term Debt, excluding current installments | 10,792 | 10,758 |
| Other Long-Term Liabilities | 2,112 | 2,146 |
| Deferred Income Taxes | 322 | 340 |
| Total Liabilities | 25,325 | 22,620 |
| STOCKHOLDERS' EQUITY | | |
| Common Stock, par value $0.05; authorized: 10 billion shares; issued: 1.745 billion shares at April 29, 2012 and 1.733 billion shares at January 29, 2012; outstanding: 1.53087 billion shares at April 29, 2012 and 1.537 billion shares at January 29, 2012 | | 87 |
| Paid-In Capital | 7,221 | 6,966 |
| Retained Earnings | 17,837 | 17,246 |
| Accumulated Other Comprehensive Income | 453 | 293 |
| Treasury Stock, at cost, 215 million shares at April 29, 2012 and 196 million shares at January 29, 2012 | (7,623) | (6,694) |
| Total Stockholders' Equity | 17,975 | 17,898 |

| | | |
|---|---|---|
| Total Liabilities and Stockholders' Equity | $43,300 | $40,518 |

See accompanying Notes to Consolidated Financial Statements.

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

| amounts in millions, except per share data | Three Months Ended April 29, 2012 | May 1, 2011 |
|---|---|---|
| NET SALES | $17,808 | $16,823 |
| Cost of Sales | 11,625 | 10,995 |
| GROSS PROFIT | 6,183 | 5,828 |
| Operating Expenses: | | |
| Selling, General and Administrative | 4,086 | 4,009 |
| Depreciation and Amortization | 383 | 397 |
| Total Operating Expenses | 4,469 | 4,406 |
| OPERATING INCOME | 1,714 | 1,422 |
| Interest and Other (Income) Expense: | | |
| Interest and Investment Income | (5) | (2) |
| Interest Expense | 156 | 141 |
| Other | (67) | — |
| Interest and Other, net | 84 | 139 |
| EARNINGS BEFORE PROVISION FOR INCOME TAXES | 1,630 | 1,283 |
| Provision for Income Taxes | 595 | 471 |
| NET EARNINGS | $1,035 | $812 |
| Weighted Average Common Shares | 1,522 | 1,599 |
| BASIC EARNINGS PER SHARE | $0.68 | $0.51 |
| Diluted Weighted Average Common Shares | 1,531 | 1,611 |
| DILUTED EARNINGS PER SHARE | $0.68 | $0.50 |
| Dividends Declared Per Share | $0.29 | $0.25 |

See accompanying Notes to Consolidated Financial Statements.

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

| amounts in millions | Three Months Ended April 29, 2012 | May 1, 2011 |
|---|---|---|
| Net Earnings | $1,035 | $812 |
| Other Comprehensive Income: | | |
| Foreign Currency Translation Adjustments | 159 | 186 |
| Cash Flow Hedges, net of tax | 1 | (3) |
| Other | — | (15) |
| Total Other Comprehensive Income | 160 | 168 |
| Comprehensive Income | $1,195 | $980 |

See accompanying Notes to Consolidated Financial Statements.

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

| amounts in millions | Three Months Ended April 29, 2012 | May 1, 2011 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net Earnings | $1,035 | $812 |
| Reconciliation of Net Earnings to Net Cash Provided by Operating Activities: | | |
| Depreciation and Amortization | 410 | 424 |
| Stock-Based Compensation Expense | 58 | 60 |
| Changes in Assets and Liabilities: | | |
| Receivables, net | (254) | (360) |
| Merchandise Inventories | (1,204) | (990) |
| Other Current Assets | (75) | (23) |
| Accounts Payable and Accrued Expenses | 2,097 | 1,755 |
| Deferred Revenue | 69 | 65 |
| Income Taxes Payable | 462 | 399 |
| Deferred Income Taxes | (15) | 8 |
| Other | (93) | (52) |
| Net Cash Provided by Operating Activities | 2,490 | 2,098 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Capital Expenditures | (228) | (199) |
| Proceeds from Sales of Property and Equipment | 7 | 15 |
| Net Cash Used in Investing Activities | (221) | (184) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from Long-Term Borrowings, net of discount | — | 1,994 |
| Repayments of Long-Term Debt | (7) | (1,007) |
| Repurchases of Common Stock | (1,131) | (1,301) |
| Proceeds from Sales of Common Stock | 412 | 34 |
| Cash Dividends Paid to Stockholders | (444) | (403) |
| Other Financing Activities | 87 | 19 |
| Net Cash Used in Financing Activities | (1,083) | (664) |
| Change in Cash and Cash Equivalents | 1,186 | 1,250 |
| Effect of Exchange Rate Changes on Cash and Cash Equivalents | 18 | 11 |
| Cash and Cash Equivalents at Beginning of Period | 1,987 | 545 |
| Cash and Cash Equivalents at End of Period | $3,191 | $1,806 |

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 29, 2012, as filed with the Securities and Exchange Commission.

Business

The Home Depot, Inc. and its subsidiaries (the "Company") operate The Home Depot stores, which are full-service, warehouse-style stores averaging approximately 105,000 square feet of enclosed space, with approximately 24,000 additional square feet of outside garden area. 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. The Company also offers over 500,000 products through its The Home Depot and Home Decorators Collection websites.

Valuation Reserves

As of April 29, 2012 and January 29, 2012, the valuation allowances for Merchandise Inventories and uncollectible Receivables were not material.

2. ACCELERATED SHARE REPURCHASE

In March 2012, the Company entered into an Accelerated Share Repurchase ("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 cash on hand, and received an initial delivery of approximately 17 million shares in the first quarter of fiscal 2012. The fair market value of the 17 million shares on the date of purchase was $829 million and was included in Treasury Stock in the accompanying Consolidated Balance Sheets as of April 29, 2012. The remaining $171 million was included in Paid-In Capital in the accompanying Consolidated Balance Sheets as of April 29, 2012.

The transaction was completed in the second quarter of fiscal 2012, with the Company receiving approximately 3 million additional shares, at which time the $171 million initially included in Paid-In Capital was reclassified to Treasury Stock. 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.

3. DEBT GUARANTEE

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. In April 2012, the term loan guarantee was terminated. As a result, the Company reversed its $67 million liability related to the guarantee, resulting in a $67 million pretax benefit to Interest and Other, net, for the first quarter of fiscal 2012.

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

4. 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 April 29, 2012 and January 29, 2012 were as follows (amounts in millions):

| | Fair Value at April 29, 2012 Using | | | Fair Value at January 29, 2012 Using | | |
|---|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Level 1 | Level 2 | Level 3 |
| Derivative agreements - assets | $— | $91 | $— | $— | $91 | $— |
| Derivative agreements - liabilities | — | (35) | — | — | (27) | — |
| Total | $— | $56 | $— | $— | $64 | $— |

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.

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 three months ended April 29, 2012 and May 1, 2011 were as follows (amounts in millions):

| | Fair Value Measured During the Three Months Ended April 29, 2012 - Level 3 | Gains (Losses) |
|---|---|---|
| Lease obligation costs, net | $(138) | $— |
| Total for the first three months of fiscal 2012 | | $— |

| | Fair Value Measured During the Three Months Ended May 1, 2011 - Level 3 | Gains (Losses) |
|---|---|---|
| Lease obligation costs, net | $(148) | $3 |
| Total for the first three months of fiscal 2011 | | $3 |

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).

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 three months of fiscal 2012 and 2011 were not material.

The aggregate fair value of the Company's Senior Notes, based on quoted market prices, was $12.1 billion at both April 29, 2012 and January 29, 2012, compared to a carrying value of $10.3 billion at both April 29, 2012 and January 29, 2012.

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

5. BASIC AND DILUTED WEIGHTED AVERAGE COMMON SHARES

The reconciliation of basic to diluted weighted average common shares for the three months ended April 29, 2012 and May 1, 2011 was as follows (amounts in millions):

| | Three Months Ended | |
|---|---|---|
| | April 29, 2012 | May 1, 2011 |
| Weighted average common shares | 1,522 | 1,599 |
| Effect of potentially dilutive securities: | | |
| Stock plans | 9 | 12 |
| Diluted weighted average common shares | 1,531 | 1,611 |

Stock plans consist of shares granted under the Company’s employee stock plans. Options to purchase 2 million and 21 million shares of common stock for the three months ended April 29, 2012 and May 1, 2011, 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 Sheet of The Home Depot, Inc. and subsidiaries as of April 29, 2012, and the related Consolidated Statements of Earnings, Comprehensive Income, and Cash Flows for the three-month periods ended April 29, 2012 and May 1, 2011. 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 29, 2012, 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 22, 2012, 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 29, 2012, 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

May 24, 2012

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

FORWARD-LOOKING STATEMENTS

Certain statements contained herein 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 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 should not rely 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 29, 2012 as filed with the Securities and Exchange Commission ("SEC") on March 22, 2012 ("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 first quarter of fiscal 2012, we reported Net Earnings of $1.0 billion and Diluted Earnings per Share of $0.68 compared to Net Earnings of $812 million and Diluted Earnings per Share of $0.50 for the first quarter of fiscal 2011. The results for the first quarter of fiscal 2012 included a $67 million pretax benefit related to the termination of our guarantee of a senior secured loan of HD Supply, Inc. ("HD Supply Guarantee"). Excluding this benefit, Net Earnings were $992 million and Diluted Earnings per Share were $0.65 for the first quarter of fiscal 2012.

Net Sales increased 5.9% to $17.8 billion for the first quarter of fiscal 2012 from $16.8 billion for the first quarter of fiscal 2011. Our comparable store sales increased 5.8% in the first quarter of fiscal 2012, driven by a 3.8% increase in our comparable store customer transactions and an increase in our comparable store average ticket. Comparable store sales for our U.S. stores increased 6.1% in the first quarter of fiscal 2012.

In the first quarter of fiscal 2012, we continued to focus on the following four key initiatives:

Customer Service – Our focus on customer service is anchored on the principles of putting customers first, taking care of our

associates and simplifying the business. In the first quarter of fiscal 2012, we began the roll out of our "First Phone Junior" to all of our stores. This version of our First Phone combines the communication features of a phone with the product and inventory lookup features of our First Phone, but without the complex business analytics and product ordering features of the First Phone. This allows us to spread the basic functionality and customer service benefits of the First Phone throughout the store at a lower cost.

Product Authority – Our focus on product authority is facilitated by our merchandising transformation and portfolio strategy,

which is aimed at delivering innovation, assortment and value. As part of this effort, we are introducing innovative new products and great values for both our professional and do-it-yourself customers in a variety of departments,

including Electrical, Hardware and Décor.

Productivity and Efficiency – Our approach to driving productivity and efficiency is advanced through 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. In the first quarter of fiscal 2012, we saw continued benefits from our supply chain investments, which improved our gross profit margin

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and asset efficiency. Our inventory turnover ratio was 4.3 times at the end of the first quarter of fiscal 2012 compared to 3.9 times at the end of the first quarter of fiscal 2011.

During the first quarter of fiscal 2012, we entered into a $1.0 billion Accelerated Share Repurchase ("ASR") agreement. We received an initial delivery of approximately 17 million shares of our common stock in the first quarter of fiscal 2012 under the ASR agreement and approximately 3 million additional shares upon completion of the ASR agreement in the second quarter of fiscal 2012. Also during the first quarter of fiscal 2012, we repurchased approximately 2 million additional 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 as of the end of the first quarter of fiscal 2012, we have over 500,000 products available online, including our Home Decorators Collection website. We also rolled out a significant upgrade of our website during the first quarter of fiscal 2012, which enhanced the layout, visual appearance and responsiveness of the site.

We opened two new stores in the U.S. during the first quarter of fiscal 2012, for a total store count of 2,254 at the end of the quarter. As of the end of the first quarter of fiscal 2012, a total of 278 of these stores, or 12.3%, were located in Canada, Mexico and China compared to 272 stores, or 12.1%, as of the end of the first quarter of fiscal 2011.

We generated $2.5 billion of cash flow from operations in the first quarter of fiscal 2012. We used a portion of this cash flow to fund $1.1 billion of share repurchases, pay $444 million of dividends and fund $228 million in capital expenditures.

At the end of the first quarter of fiscal 2012, our long-term debt-to-equity ratio increased to 60.0% from 58.9% at the end of the first quarter of fiscal 2011. 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 15.4% for the first quarter of fiscal 2012 compared to 13.0% for the first quarter of fiscal 2011.

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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 Three Months Ended | | % Increase (Decrease) in Dollar Amounts |
|---|---|---|---|
| | April 29, 2012 | May 1, 2011 | |
| NET SALES | 100.0 % | 100.0 % | 5.9 % |
| GROSS PROFIT | 34.7 | 34.6 | 6.1 |
| Operating Expenses: | | | |
| Selling, General and Administrative | 22.9 | 23.8 | 1.9 |
| Depreciation and Amortization | 2.2 | 2.4 | (3.5) |
| Total Operating Expenses | 25.1 | 26.2 | 1.4 |
| OPERATING INCOME | 9.6 | 8.5 | 20.5 |
| Interest and Other (Income) Expense: | | | |
| Interest and Investment Income | — | — | 150.0 |
| Interest Expense | 0.9 | 0.8 | 10.6 |
| Other | (0.4) | — | N/A |
| Interest and Other, net | 0.5 | 0.8 | (39.6) |
| EARNINGS BEFORE PROVISION FOR INCOME TAXES | 9.2 | 7.6 | 27.0 |
| Provision for Income Taxes | 3.3 | 2.8 | 26.3 |
| NET EARNINGS | 5.8 % | 4.8 % | 27.5 % |
| SELECTED SALES DATA | | | |
| Number of Customer Transactions (in millions) | 328.9 | 316.5 | 3.9 % |
| Average Ticket | $54.51 | $53.35 | 2.2 % |
| Weighted Average Weekly Sales Per Operating Store (in thousands) | $612 | $578 | 5.9 % |
| Weighted Average Sales per Square Foot | $304.44 | $287.14 | 6.0 % |
| Comparable Store Sales Increase (Decrease) (%)[1] | 5.8 % | (0.6)% | 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

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RESULTS OF OPERATIONS

Net Sales for the first quarter of fiscal 2012 increased 5.9% to $17.8 billion from $16.8 billion for the first quarter of fiscal 2011. The increase in Net Sales for the first quarter of fiscal 2012 reflects the impact of positive comparable store sales. Total comparable store sales increased 5.8% for the first quarter of fiscal 2012 compared to a decrease of 0.6% for the first quarter of fiscal 2011.

The positive comparable store sales for the first quarter of fiscal 2012 reflect a number of factors. Our performance in the first quarter of fiscal 2012 was driven by strength in our core departments as well as unusually warm weather. All of our departments, except for two, posted positive comparable store sales for the first quarter of fiscal 2012. Comparable store sales for our Indoor Garden, Lumber, Outdoor Garden, Electrical, Décor, Paint and Hardware product categories were above the Company average for the first quarter of fiscal 2012. Comparable store sales for our Lighting, Tools, Millwork, Building Materials, Bath and Flooring product categories were positive for the first quarter of fiscal 2012. Comparable store sales for our Plumbing product category were flat and for our Kitchen product category were slightly negative for the first quarter of 2012.

Gross Profit increased 6.1% to $6.2 billion for the first quarter of fiscal 2012 from $5.8 billion for the first quarter of fiscal 2011. Gross Profit as a percent of Net Sales increased 8 basis points to 34.7% for the first quarter of fiscal 2012 compared to 34.6% for the first quarter of fiscal 2011. The increase in gross profit margin in the first quarter of fiscal 2012 was driven primarily by benefits arising from our supply chain transformation in the U.S.

Selling, General and Administrative Expense (“SG&A”) increased 1.9% to $4.1 billion for the first quarter of fiscal 2012 from $4.0 billion for the first quarter of fiscal 2011. As a percent of Net Sales, SG&A was 22.9% for the first quarter of fiscal 2012 compared to 23.8% for the first quarter of fiscal 2011. The decrease in SG&A as a percent of Net Sales for the first quarter of fiscal 2012 reflects expense leverage resulting from the positive comparable store sales environment.

Depreciation and Amortization decreased 3.5% to $383 million for the first quarter of fiscal 2012 from $397 million for the first quarter of fiscal 2011. Depreciation and Amortization as a percent of Net Sales was 2.2% for the first quarter of fiscal 2012 compared to 2.4% for the first quarter of fiscal 2011. The decrease in Depreciation and Amortization as a percent of Net Sales for the first quarter of fiscal 2012 reflects expense leverage in the positive comparable store sales environment and an increase in fully depreciated assets that are still utilized in the business.

Operating Income increased 20.5% to $1.7 billion for the first quarter of fiscal 2012 from $1.4 billion for the first quarter of fiscal 2011. Operating Income as a percent of Net Sales was 9.6% for the first quarter of fiscal 2012 compared to 8.5% for the first quarter of fiscal 2011.

For the first quarter of fiscal 2012, we recognized $84 million of Interest and Other, net, compared to $139 million for the first quarter of fiscal 2011. Interest and Other, net, as a percent of Net Sales was 0.5% for the first quarter of fiscal 2012 compared to 0.8% for the first quarter of fiscal 2011. Interest and Other, net, for the first quarter of fiscal 2012 reflects a $67 million pretax benefit related to the termination of our HD Supply Guarantee. Excluding this benefit, Interest and Other, net, as a percent of Net Sales was 0.8% for the first quarter of fiscal 2012, flat compared to the first quarter of fiscal 2011.

Our combined effective income tax rate was 36.5% for the first quarter of fiscal 2012 compared to 36.7% for the first quarter of fiscal 2011.

Diluted Earnings per Share were $0.68 for the first quarter of fiscal 2012 compared to $0.50 for the first quarter of fiscal 2011, an increase of 36.0%. Excluding the $67 million pretax benefit related to the termination of our HD Supply Guarantee from the first quarter of fiscal 2012 results, Diluted Earnings per Share increased 30.0% to $0.65 for the first quarter of fiscal 2012.

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To provide clarity, internally and externally, about our operating performance, we supplement our reporting with non-GAAP financial measures to reflect certain adjustments. The results for the first quarter of fiscal 2012 included a $67 million pretax benefit related to the termination of our HD Supply Guarantee as described more fully in Note 3 to the Consolidated Financial Statements. There were no adjustments for the first quarter of fiscal 2011 for events of unusual nature or frequency. We believe these non-GAAP financial measures better enable management and investors to understand and analyze our performance by providing them with meaningful information relevant to events of unusual nature or frequency that impact the comparability of underlying business results from period to period. However, this supplemental information should not be considered in isolation or as a substitute for the related GAAP measures. The following reconciles the non-GAAP financial measures to the corresponding GAAP measures for the first quarter of fiscal 2012 (amounts in millions, except per share data):

| | Three Months Ended April 29, 2012 | | | | |
|---|---|---|---|---|---|
| | As Reported | Adjustment | Non-GAAP Measures | % of Net Sales | |
| Operating Income | $1,714 | $— | $1,714 | 9.6 | % |
| Interest and Other, net | 84 | (67) | 151 | 0.8 | |
| Earnings Before Provision for Income Taxes | 1,630 | 67 | 1,563 | 8.8 | |
| Provision for Income Taxes | 595 | 24 | 571 | 3.2 | |
| Net Earnings | $1,035 | $43 | $992 | 5.6 | % |
| Diluted Earnings per Share | $0.68 | $0.03 | $0.65 | N/A | |

LIQUIDITY AND CAPITAL RESOURCES

Cash flow generated from operations provides us with a significant source of liquidity. During the first quarter of fiscal 2012, Net Cash Provided by Operating Activities was $2.5 billion compared to $2.1 billion for the same period of fiscal 2011. This increase was primarily a result of increased Net Earnings and changes in net working capital items.

Net Cash Used in Investing Activities for the first quarter of fiscal 2012 was $221 million compared to $184 million for the same period of fiscal 2011. This change was primarily due to increased Capital Expenditures.

Net Cash Used in Financing Activities for the first quarter of fiscal 2012 was $1.1 billion compared to $664 million for the same period of fiscal 2011. This change was primarily the result of $1.0 billion in net proceeds from long-term borrowings in the first quarter of fiscal 2011, partially offset by $378 million more in proceeds from sales of common stock due to increased stock option exercises and $170 million less in repurchases of common stock in the first quarter of fiscal 2012 compared to the same period of fiscal 2011.

In March 2012, we entered into an ASR agreement with a third-party financial institution to repurchase $1.0 billion of our common stock. Under the agreement, we paid $1.0 billion to the financial institution, using cash on hand, and received an initial delivery of approximately 17 million shares in the first quarter of fiscal 2012. The transaction was completed in the second quarter of fiscal 2012, at which time we received approximately 3 million additional shares. The final number of shares delivered upon settlement of the agreement was determined with reference to the average price of our common stock over the term of the ASR agreement. Also in the first quarter of fiscal 2012, we repurchased approximately 2 million additional shares of our common stock for $100 million through the open market. As of the end of the first quarter of fiscal 2012, $5.3 billion remained under our share repurchase authorization.

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 April 29, 2012, 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 April 29, 2012, we were in compliance with all of the covenants, and they are not expected to impact our liquidity or capital resources.

As of April 29, 2012, we had $3.2 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 of 1934, as amended) 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 April 29, 2012 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 were no other material changes during the first quarter of fiscal 2012 to our disclosure in Item 3 of our Form 10-K.

As reported on page 12 of our Form 10-K, in the second and third quarters of fiscal 2006, three purported, but uncertified, class actions were filed against the Company, The Home Depot FutureBuilder Administrative Committee and certain of the Company's current and former directors and employees alleging breach of fiduciary duty in violation of the Employee Retirement Income Security Act of 1974 in connection with the Company's return-to-vendor and stock option practices. These actions were joined into one case in 2007, and the joint amended complaint seeks certification as a class action, unspecified damages, costs, attorney's fees and equitable and injunctive relief. On June 7, 2010, the U.S. District Court for the Northern District of Georgia (the "District Court") in Atlanta granted with prejudice Home Depot's motion to dismiss plaintiffs' third amended complaint. On June 28, 2010, plaintiffs filed a notice of appeal with the U.S. Court of Appeals for the Eleventh Circuit (the "Circuit Court"), and on May 8, 2012, the Circuit Court affirmed the District Court's order dismissing plaintiffs' third amended complaint with prejudice. The plaintiffs may choose to appeal the Circuit Court's decision either by asking for reconsideration or by applying to the Supreme Court of the United States for review. Although the Company cannot predict the outcome of this matter, it does not expect the outcome 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.

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Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(a) During the first quarter of fiscal 2012, the Company issued 480 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 first quarter of fiscal 2012 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.

(b) During the first quarter of fiscal 2012, the Company credited 34,730 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 first quarter of fiscal 2012, the Company has repurchased shares of its common stock having a value of approximately $34.7 billion. The number and average price of shares purchased in each fiscal month of the first quarter of fiscal 2012 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] |
|---|---|---|---|---|
| January 30, 2012 – February 26, 2012 | 340,899 | $46.92 | 200,100 | $6,400,631,164 |
| February 27, 2012 – March 25, 2012[3] | 20,717,013 | $48.11 | 19,158,695 | $5,310,014,858 |
| March 26, 2012 – April 29, 2012 | 100,102 | $49.65 | — | $5,310,014,858 |

(1) These amounts include repurchases pursuant to the Company's 1997 and 2005 Omnibus Stock Incentive Plans (the "Plans"). Under the Plans, participants may surrender shares as payment of applicable tax withholding on the vesting of restricted stock and deferred share awards. Participants in the Plans may also exercise stock options by surrendering shares of common stock that the participants already own as payment of the exercise price. 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 first quarter of fiscal 2012, 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 2012, the Company paid $1.0 billion under an ASR agreement and received an initial delivery of approximately 17 million shares. The Average Price Paid Per Share was calculated using the fair market value of the shares on the date the initial shares were delivered. See note 2 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 SEC, 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. [Form 10-Q filed on September 1, 2011, Exhibit 3.1] |
| *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] |
| 10.1† | The Home Depot, Inc. Amended and Restated Employee Stock Purchase Plan, as amended and restated effective July 1, 2012 |
| 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 May 24, 2012. |
| 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 pursuant to 18 U.S.C. Section 1350, as adopted furnished 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 April 29, 2012, formatted in XBRL (Extensible Business Reporting Language) and filed electronically herewith: (i) the Consolidated Balance Sheets; (ii) the Consolidated Statements of Earnings; (iii) the Consolidated Statements of Comprehensive Income; (iv) the Consolidated Statements of Cash Flows; and (v) the Notes to the Consolidated Financial Statements. |

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†Management contract or compensatory plan or arrangement.

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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

May 23, 2012
(Date)

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INDEX TO EXHIBITS

| Exhibit | Description |
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