

10-Q 1 a2050575z10-q.txt FORM 10-Q 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 APRIL 29, 2001 ----- 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 (I.R.S. Employer incorporation or organization) Identification
 Number) 2455 Paces Ferry Road 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 ☒ 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.
 \$.05 par value 2,333,638,407 Shares, as of May 24, 2001 Page 1 of 15 THE HOME DEPOT, INC. AND SUBSIDIARIES INDEX TO FORM
 10-Q April 29, 2001

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CONSOLIDATED STATEMENTS OF EARNINGS (Unaudited)	
(In Millions, Except	
Per Share Data)	
Three Months	
Ended -----	

----- April 29, April	
30, 2001 2000 -----	

--- Net Sales \$	
12,200 \$ 11,112	
Cost of	
Merchandise Sold	
8,545 7,838 -----	

- Gross Profit 3,655	
3,274 Operating	
Expenses: Selling	
and Store Operating	
2,394 2,026 Pre-	

Opening 27 25	
General and	
Administrative 207	
204 -----	
----- Total	
Operating Expenses	
2,628 2,255	
Operating Income	
1,027 1,019 Interest	
Income (Expense):	
Interest and	
Investment Income 6	
11 Interest Expense	
(3) (3) -----	

Interest, Net 3 8 ---	

----- Earnings	
Before Income	
Taxes 1,030 1,027	
Income Taxes 398	
398 -----	
----- Net	
Earnings \$ 632 \$	
629	

Weighted Average	
Number of Common	
Shares Outstanding	
2,326 2,308 Basic	
Earnings Per Share	
\$ 0.27 \$ 0.27	

Weighted Average	
Number of Common	
Shares Outstanding	
Assuming Dilution	
2,347 2,354 Diluted	
Earnings Per Share	
\$ 0.27 \$ 0.27	

Dividends Per Share	
\$ 0.04 \$ 0.04	

See accompanying notes to consolidated condensed financial statements. Page 3 of 15 THE HOME DEPOT, INC. AND SUBSIDIARIES
CONSOLIDATED CONDENSED BALANCE SHEETS (Unaudited)

(In Millions) April
29, January 28,
2001 2001 -----

ASSETS Current	
Assets: Cash and	
Cash Equivalents \$	
1,363 \$ 167 Short-	
Term Investments 10	
10 Receivables, Net	
1,039 835	

Merchandise
Inventories 7,240
6,556 Other Current
Assets 202 209 -----

----- Total Current
Assets 9,854 7,777
Property and
Equipment, at cost
15,978 15,232 Less:
Accumulated
Depreciation and
Amortization 2,317
2,164 -----

----- Net
Property and
Equipment 13,661
13,068 Long-Term
Investments 16 15
Notes Receivable 78
77 Cost in Excess of
the Fair Value of
Net Assets Acquired
307 314 Other 160
134 -----
----- \$
24,076 \$ 21,385

LIABILITIES AND
STOCKHOLDERS'

EQUITY Current
Liabilities: Accounts
Payable \$ 3,627 \$
1,976 Accrued
Salaries and Related
Expenses 786 627
Sales Taxes Payable
358 298 Other
Accrued Expenses
1,507 1,402 Income
Taxes Payable 379
78 Current
Installments of Long-
Term Debt 29 4 -----

----- Total Current
Liabilities 6,686
4,385 Long-Term
Debt, excluding
current installments
1,268 1,545 Other
Long-Term
Liabilities 270 245
Deferred Income
Taxes 195 195
Minority Interest 11
11 Stockholders'
Equity: Common
Stock, par value
\$0.05. Authorized:

10,000,000,000
 shares; issued and
 outstanding--
 2,329,476,000
 shares at 4/29/01
 and 2,323,747,000
 shares at 1/28/01
 116 116 Paid-In
 Capital 4,956 4,810
 Retained Earnings
 10,691 10,151
 Accumulated Other
 Comprehensive Loss
 (108) (67) Unearned
 Compensation (9)
 (6) -----
 ----- Total
 Stockholders' Equity
 15,646 15,004 -----

 --- \$ 24,076 \$
 21,385

See accompanying notes to consolidated condensed financial statements. Page 4 of 15 THE HOME DEPOT, INC. AND SUBSIDIARIES
 CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
 Three Months Ended --

----- (In
 Millions) April 29, April
 30, 2001 2000 -----

 CASH PROVIDED
 FROM
 OPERATIONS: Net
 Earnings \$ 632 \$ 629
 Reconciliation of Net
 Earnings to Net Cash
 Provided by
 Operations:
 Depreciation and
 Amortization 177 137
 Increase in
 Receivables, Net (205)
 (160) Increase in
 Merchandise
 Inventories (692) (914)
 Increase in Accounts
 Payable and Accrued
 Expenses 1,999 1,731
 Increase in Income
 Taxes Payable 349 367
 Other (39) (67) -----

 Net Cash Provided by
 Operations 2,221
 1,723 -----

----- CASH
 FLOWS FROM
 INVESTING
 ACTIVITIES: Capital

Expenditures (816)
 (673) Proceeds from
 Sales of Property and
 Equipment 39 19
 Payments for
 Businesses Acquired,
 Net ---- (5) Purchases
 of Investments (7) (6)
 Proceeds from
 Maturities of
 Investments 8 ----
 Advances Secured by
 Real Estate, Net (2)
 (21) -----
 ----- Net Cash
 Used in Investing
 Activities (778) (686) --

----- CASH FLOWS
 FROM FINANCING
 ACTIVITIES:

Repayments of
 Commercial Paper
 Obligations, Net (754)
 ---- Proceeds from
 Long-Term Borrowings
 504 3 Repayments of
 Long-Term Debt ----
 (3) Proceeds from Sale
 of Common Stock, Net
 99 87 Cash Dividends
 Paid to Stockholders
 (93) (92) -----

----- Net
 Cash Used in Financing
 Activities (244) (5) ----

----- Effect of Exchange
 Rate Changes on Cash
 and Cash Equivalents
 (3) 2 -----

----- Increase
 in Cash and Cash
 Equivalents 1,196
 1,034 Cash and Cash
 Equivalents at
 Beginning of Period
 167 168 -----

----- Cash
 and Cash Equivalents at
 End of Period \$ 1,363
 \$ 1,202

(In Millions) Three
Months Ended -----

----- April 29,
April 30, 2001 2000

----- Net
Earnings \$ 632 \$
629 Other
Comprehensive
Income (1) : Foreign
Currency Translation
Adjustments (26)
(18) Cumulative
Effect of Adopting
SFAS 133 (5) ---
Change in Fair
Value of Derivatives
Accounted for as
Hedges (6) ---
Derivative Losses
Reclassified to
Earnings 1 -----

Total Other
Comprehensive
Income (36) (18) ---

Comprehensive
Income \$ 596 \$ 611

(1) Components of comprehensive income are reported net of related taxes. See accompanying notes to consolidated condensed financial statements. Page 6 of 15 THE HOME DEPOT, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Unaudited) 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: Basis of Presentation - The accompanying consolidated condensed 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 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 28, 2001, as filed with the Securities and Exchange Commission (File No. 1-8207). 2. ISSUANCE OF SENIOR NOTES: On April 12, 2001, the Company issued \$500,000,000 of 5 3/8% Senior Notes ("Senior Notes") due April 1, 2006. The Company will pay interest semiannually on April 1 and October 1 of each year commencing October 1, 2001. The Company, at its option, may at any time redeem all or any portion of the Senior Notes by notice to the holders. The Senior Notes are redeemable at a 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 value of the remaining scheduled payments of principal and interest to maturity. The Senior Notes are not subject to sinking fund requirements. 3. IMPLEMENTATION OF NEW ACCOUNTING STANDARD: On January 29, 2001, the Company adopted Statement of Financial Accounting Standards No. 133 ("SFAS 133"), "Accounting for Derivative Instruments and Hedging Activities," as amended. Under SFAS 133, all derivatives are carried on the balance sheet at fair value with changes in fair value recognized immediately in earnings, unless the derivatives qualify as hedges. For a derivative qualifying as a hedge, the effective portion of the derivative's gain or loss is recorded temporarily in accumulated other comprehensive loss, and then recognized in earnings along with the related effect of the hedged item. The ineffective portion of the derivative's gain or loss is reported in earnings as it occurs. The adoption of SFAS 133 did not have a material impact on the Company's financial results. 4. SUBSEQUENT EVENT: On May 2, 2001, the Company signed a definitive agreement to acquire Total HOME de Mexico, S.A. de C.V. ("Total HOME"), a four-store chain of home improvement stores in Mexico. Page 7 of 15 THE HOME DEPOT, INC. AND SUBSIDIARIES Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION The data below reflect selected sales data, the percentage relationship between sales and major categories in the Consolidated Statements of Earnings and the percentage change in the dollar amounts of each of the items.

THREE MONTHS
ENDED -----

----- Percentage
Increase SELECTED
CONSOLIDATED
April 29, April 30,
(Decrease) in
STATEMENTS OF
EARNINGS DATA
2001 2000 Dollar
Amounts -----

----- Net Sales
100.0% 100.0% 9.8%
Gross Profit 30.0 29.5
11.6 Operating
Expenses: Selling and
Store Operating 19.6
18.3 18.2 Pre-Opening
0.2 0.2 8.0 General
and Administrative 1.7
1.8 1.5 -----

----- Total Operating
Expenses 21.5 20.3
16.5 Operating Income
8.5 9.2 0.8 Interest
Income (Expense):
Interest and Investment
Income 0.0 0.1 (45.5)
Interest Expense 0.0
0.0 0.0 -----

----- Interest, Net 0.0
0.1 (62.5) Earnings
Before Income Taxes
8.5 9.3 0.3 Income
Taxes 3.3 3.6 0.0 -----

----- Net
Earnings 5.2 % 5.7 %
0.5 %
=====

=====

SELECTED
CONSOLIDATED
SALES DATA
Number of
Transactions (000's)
249,477 222,643
12.1% Average Sale
Per Transaction \$
48.64 \$ 49.53 (1.8)
Weighted Average
Weekly Sales Per
Operating Store (000's)
\$ 807 \$ 892 (9.5)
Weighted Average
Sales Per Square Foot
\$ 386 \$ 429 (10.0)

Page 8 of 15 THE HOME DEPOT, INC. AND SUBSIDIARIES MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION (CONTINUED) FORWARD-LOOKING STATEMENTS Certain written and oral statements made by us or our authorized executive officers on our behalf constitute "forward-looking statements" as defined under the Private Securities Litigation Reform Act of 1995. Words or phrases such as "should result," "are expected to," "we anticipate," "we estimate," "we project" or similar expressions are intended to identify forward-looking statements. These statements are subject to certain risks and uncertainties that could cause actual results to differ materially from our historical experience and our present expectations or projections. These risks and uncertainties include, but are not limited to, unanticipated weather conditions; stability of costs and commodity prices and availability of sourcing channels; the ability to attract, train and retain highly-qualified associates; conditions affecting the availability, acquisition, development and ownership of real estate; general economic conditions; the impact of competition; and regulatory and litigation matters. You should not place undue reliance on forward-looking statements, since such statements speak only as of the date of the making of such statements. Additional information concerning these risks and uncertainties is contained in our filings with the Securities and Exchange Commission, including our Annual Report on Form 10-K for the year ended January 28, 2001.

RESULTS OF OPERATIONS Net sales for the first quarter of fiscal 2001 increased 9.8% to \$12.2 billion from \$11.1 billion for the first quarter of fiscal 2000. The sales increase was primarily attributable to new stores opened since the end of the first fiscal quarter last year (1,178 stores open at the end of the first quarter of fiscal 2001 compared to 971 at the end of the first quarter of fiscal 2000). The increase in sales was partially offset by a 3% decline in comparable store-for-store sales. Price deflation in lumber and certain building material products negatively impacted comparable store-for-store sales by approximately 1% for the first quarter of fiscal 2001. We expect the impact of price deflation in lumber and certain building material products to be less significant in the second quarter of fiscal 2001, as we begin to anniversary cost declines in the previous year. Gross profit as a percent of sales was 30.0% for the first quarter of fiscal 2001 compared to 29.5% for the first quarter of fiscal 2000. The gross profit rate increase was primarily attributable to lower costs of merchandise resulting from ongoing benefits of product line reviews; reduced penetration of lower margin lumber sales; and the addition of tool rental centers. At the end of the first quarter of fiscal 2001, we were operating 381 tool rental centers compared to 177 at the end of the first quarter of fiscal 2000. The increase in the gross profit rate was partially offset by increased sales penetration of appliances, which typically carry a lower margin rate.

Page 9 of 15 THE HOME DEPOT, INC. AND SUBSIDIARIES MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION (CONTINUED) RESULTS OF OPERATIONS - (Continued) Selling and store operating expenses as a percent of sales were 19.6% for the first quarter of fiscal 2001 compared to 18.3% for the same period in fiscal 2000. The increase was primarily attributable to higher store selling payroll expenses resulting mainly from continued market wage pressures, partially offset by an increase in labor productivity as measured by sales per labor hour. The addition of 204 tool rental centers also increased payroll, depreciation and other costs, while increasing gross margin. In addition, medical insurance costs were higher during the first quarter of fiscal 2001 compared to the same period of fiscal 2000, due to expansion in the insured base of associates and rising healthcare costs. Finally, store occupancy costs, including property taxes, property rent and utilities, increased due to new store growth and energy rate increases. Pre-opening expenses as a percent of sales were 0.2% for the first quarters of fiscal 2001 and fiscal 2000. We opened 44 stores and relocated two stores during the first quarter of fiscal 2001 compared with 41 new stores and one store relocation during the first quarter of fiscal 2000. For the first quarter of fiscal 2001, pre-opening expenses averaged \$585,000 per store compared to \$587,000 for the first quarter of fiscal 2000. General and administrative expenses as a percent of sales were 1.7% for the first quarter of fiscal 2001 compared to 1.8% for the first quarter of fiscal 2000. The decrease was related to our continued focus on expense control, which has not affected our continuing investment in long-term growth and strategic initiatives. As a percent of sales, interest and investment income was 0.0% for the first quarter of fiscal 2001 compared to 0.1% for the first quarter of fiscal 2000. Interest expense as a percent of sales was 0.0% for the first quarters of fiscal 2001 and fiscal 2000. Our combined federal and state effective income tax rate decreased to 38.6% for the first quarter of fiscal 2001 from 38.8% for the first quarter of fiscal 2000. The decrease is attributable to higher projected tax credits during fiscal 2001 compared to fiscal 2000. Net earnings as a percent of sales were 5.2% for the first quarter of fiscal 2001 compared to 5.7% for the first quarter of fiscal 2000. The decrease was attributable to higher selling and store operating expenses as a percent of sales, which was partially offset by a higher gross profit rate as described above.

Page 10 of 15 THE HOME DEPOT, INC. AND SUBSIDIARIES MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION (CONTINUED) RESULTS OF OPERATIONS - (Continued) Diluted earnings per share were \$0.27 for the first quarters of fiscal 2001 and fiscal 2000.

LIQUIDITY AND CAPITAL RESOURCES Cash flow generated from store operations provides a significant source of liquidity. During the first quarter of fiscal 2001, cash provided by operations increased to \$2.2 billion compared to \$1.7 billion in the same period of fiscal 2000. The increase was primarily due to a decrease in average inventory per store of approximately 7% and because days payable outstanding increased at a higher rate in the first quarter of fiscal 2001 compared to the same period last year. Cash used in investing activities in the first quarter of fiscal 2001 was \$778 million compared to \$686 million in the same quarter of the prior year. The increase was primarily due to an increase in capital expenditures relating to the planned opening of 118 new stores in the first half of 2001 compared to 81 stores opened during the first half of 2000. We plan to open a total of 200 new stores and relocate 4 stores during fiscal 2001, exclusive of the addition of 4 Total HOME stores. It is anticipated that 92% of these locations will be owned, and the remainder will be leased. The cost of new stores to be constructed and owned varies widely, principally due to land costs, and is expected to average approximately \$14.9 million per location. The cost to remodel and/or fixture stores to be leased is expected to average approximately \$5.1 million per store. In addition, each new store is projected to require approximately \$3.5 million to finance inventories, net of vendor financing. On May 2, 2001, we agreed to acquire Total HOME, a four-store chain of home improvement stores in Mexico. We anticipate that the transaction will close in the second quarter of fiscal 2001 after receipt of regulatory approvals. In the first quarter of fiscal 2001, cash used in financing activities increased to \$244 million compared to \$5 million in the same quarter of fiscal 2000 due to the repayment of \$754 million of commercial paper obligations outstanding as of January 28, 2001. This repayment was funded through cash provided by operations. In addition, we raised \$500 million from the issuance of 5 3/8% Senior Notes on April 12, 2001. The Senior Notes are due on April 1, 2006 and pay interest semiannually on April 1 and October 1 of each year commencing October 1, 2001. The net proceeds from the Senior Notes will be used to finance a portion of our capital expenditure programs, for working capital needs and for general corporate purposes.

Page 11 of 15 THE HOME DEPOT, INC. AND SUBSIDIARIES MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION (CONTINUED) LIQUIDITY AND CAPITAL RESOURCES - (Continued) We have a commercial paper program that allows borrowings up to a maximum of \$1 billion. As of April 29, 2001, there were no

borrowings outstanding under the program. As of April 29, 2001, we had \$1.4 billion in cash and cash equivalents. Management believes that our current cash position, internally generated funds, funds available from the \$1 billion commercial paper program and the ability to obtain alternate sources of financing should enable us to complete our capital expenditure programs through the next several fiscal years. Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK We use derivative financial instruments at various times to manage the risk associated with foreign currency and interest rate fluctuations. These contracts are insignificant to our operations and financial position. Page 12 of 15 THE HOME DEPOT, INC. AND SUBSIDIARIES PART II. OTHER INFORMATION Item 4. SUBMISSION OF MATTER TO A VOTE OF SECURITY HOLDERS During the first quarter of fiscal 2001, no matters were submitted to a vote of security holders. Item 5. OTHER INFORMATION None Item 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits
4.1
Indenture,
dated as of
April 12,
2001,
between The
Home Depot,
Inc. and The
Bank of New
York.
[FORMS-4
(FILE NO:
333-61548)
FILED MAY
24, 2001,
EXHIBIT
4.1.] 4.2
Registration
Rights
Agreement,
dated as of
April 9,
2001,
between The
Home Depot,
Inc., Credit
Suisse First
Boston
Corporation
and Invened
Associates.
[FORMS-4
(FILE NO:
333-61548)
FILED MAY
24, 2001,
EXHIBIT
4.2.] 4.3
Form of \$
3/8% Note
due April 1,
2006
(INCLUDED
IN EXHIBIT
4.1). 10.1
Employment
Agreement
between
Dennis M.
Donovan and
The Home
Depot, Inc.,

dated March
16, 2001.
[FORMS-4
(FILE NO:
333-61548-)
FILED MAY
24, 2001,
EXHIBIT
10.1.] 10.2
Employment
Agreement
between
Frank L.
Fernandez
and The
Home Depot,
Inc., dated
April 2,
2001.
[FORMS-4
(FILE NO:
333-61548)
FILED MAY
24, 2001,
EXHIBIT
10.2.] 10.3
Deferred
Stock Units
Plan and
Agreement
between
Frank L.
Fernandez
and The
Home Depot,
Inc., dated
April 2,
2001.
[FORMS-4
(FILE NO:
333-61548-)
FILED MAY
24, 2001,
EXHIBIT
10.3.] 11.1
Computation
of Basic and
Diluted
Earnings Per
Share

Page 13 of 15 THE HOME DEPOT, INC. AND SUBSIDIARIES PART II. OTHER INFORMATION (CONTINUED) (b) Report on Form 8-K Report on Form 8-K, dated February 20, 2001 and filed April 9, 2001 under Item 5, to report that Registrant issued a press release attached as Exhibit 99, thereto. Page 14 of 15 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/ Robert L. Nardelli ----- Robert L. Nardelli President & CEO /s/ Carol B. Tome ----- Carol B. Tome Executive Vice President and Chief Financial Officer MAY 29, 2001 ----- (Date) Page 15 of 15 THE HOME DEPOT, INC. AND SUBSIDIARIES INDEX TO EXHIBITS EXHIBIT DESCRIPTION ----- 11.1 Computation of Basic and Diluted Earnings Per Share