Excerpt from Home Depot proxy statement dated April 13, 2007

- **Long-Term Incentives:** To better align the interests of management with long-term shareholder interests, we provide long-term incentives to executive officers. We deliver long-term incentives typically in the form of a cash-based long-term incentive plan, shares of restricted stock and deferred shares or deferred stock units, stock options and, beginning in Fiscal 2007, we awarded performance shares to all our executive officers and performance vested options instead of traditional stock options to our Chief Executive Officer. The long-term incentives are designed to reward executives for increasing long-term shareholder value and to retain them at the Company. They also encourage a high level of performance from our executives, as the ultimate payout to the executive depends on our financial performance and the price of our stock. In addition, our Chief Executive Officer's ability to receive any compensation under performance-vested options is conditioned on achievement of a minimum level of stock price appreciation, and the compensation payable under performance shares is determined based on the total return received by our shareholders relative to shareholders of other companies in the Standard & Poor's 500.

  For Fiscal 2006, the Company moved to 100% restricted stock as its long-term equity incentive for all Company associates, including named executive officers. For equity grants made after Fiscal 2006, the Company has moved to a grant methodology of 50% restricted stock, 25% stock options and 25% performance shares. The total value of awards granted is based on an overall review of both individual and corporate performance and the value of equity grants of similar officers at comparable companies. Equity grants may also be made to newly hired executive officers outside of our annual grant process, upon commencement of employment and, on occasion, to executive officers in connection with a significant change in job responsibility.

  During Fiscal 2006, the Company also made restricted stock grants of $1 million to Mr. Blake and to Ms. Tomé in consideration of the assumption of additional responsibilities. In each case, the award cliff vests 100% on the fifth anniversary of the grant, and thereby also serves as a significant retention tool.

  - **Long Term Incentive Plan:** Executive officers are eligible to participate in the Company's LTIP. For performance periods beginning before 2007, awards are payable only if the Company achieves specified levels of average diluted earnings per share ("EPS") growth during a three-year performance period. Average diluted EPS is determined by averaging the diluted percentage increase in EPS for each fiscal year in the performance period, inclusive of the impact of any share repurchase program during the performance period for performance periods beginning in Fiscal 2006. Awards are payable in cash at the end of the performance period. We have historically used EPS as a measure of long-term financial performance to provide continuing emphasis on specified financial performance goals that the Committee considers important contributors to long-term shareholder value. Beginning with the performance period commencing in Fiscal 2007, the LTIP program was revised to add a return on invested capital ("ROIC") performance goal, with the revised LTIP payout being equally weighted to achievement of the EPS and ROIC performance metrics. The decision to include ROIC as an additional performance measure was based on the Company's desire to focus management on the efficient use of capital.

    During the Fiscal 2004-2006 performance period, average diluted EPS, adjusted for the impact of share repurchases, grew 13.1%. Because we exceeded the maximum performance level established for the Fiscal 2004-2006 performance period, pursuant to the terms of the plan, LTIP payments were made to the named executive officers at 150% of target levels for the performance period.

- **Stock Options:** Historically, we have provided annual stock option grants as part of our long-term incentive compensation. The Company grants stock options with an exercise price equal to the fair market value of the Company's stock on the date of grant. Generally, stock options may be exercised, once vested, over the remainder of the ten-year option term, and, for executive officers, vest 25% per year beginning on the second anniversary of the grant date. The number of shares subject to equity awards is determined by the Committee based on the individual's position within the Company, job performance, future potential, and other factors, with total equity compensation awarded within the standard, enhanced and premium levels described below. Additionally, Messrs. Nardelli, Donovan and Fernandez had employment agreements that provided for awards of a specified minimum number of stock options to be made to such officers, as described under "What are the Terms of Employment Agreements with the Company's Named Executive Officers?" in this Proxy Statement.

  For the March 2006 annual awards, the Company moved away from stock options to restricted stock as the primary vehicle of equity compensation for all associates of the Company, including executive officers, in an effort to better utilize the associated equity expense recognized. We also believed that providing restricted stock in lieu of stock options was an effective reward and retention vehicle. For Fiscal 2006, Messrs. Nardelli, Donovan and Fernandez each accepted the restricted stock award reported under Grants of Plan-Based Awards in satisfaction of the Company's obligation to provide a stock option grant to the executive under his employment agreement.

- **Restricted Stock:** Prior to Fiscal 2002, restricted stock was not a core component of our compensation programs. In Fiscal 2002, we began to grant restricted stock to executive officers to (i) increase the alignment of management and shareholder interests by delivering ownership; (ii) to provide an enhanced retention mechanism; and (iii) in some instances, to offset the less than competitive retirement benefits.

  For Fiscal 2006, the Company made two separate awards of restricted shares to the named executive officers: an annual grant and a career grant. The annual grant was intended to provide compensation for service over the previous fiscal year and to condition the receipt of this compensation on the satisfaction of a multi-year vesting schedule designed to enhance retention of the executive. The career grant was intended to partially offset the less than competitive supplemental executive retirement benefits offered to our executives other than Mr. Nardelli, whose career grant was made for retention purposes. The size of each executive's annual award was set at a standard, enhanced or premium equity grant level, based on the executive's individual performance rating for the previous fiscal year. The standard level of award is designed to deliver equity equal to 100% of the executive's base salary, the enhanced level of award to deliver 150% of base compensation, and the premium level of equity award to deliver 300% of the executive's base salary. The grant methodology for the career award had two components: a discretionary retention element and an element of additional compensation to offset the lack of competitive retirement benefits. The retention portion of the career grant was intended as additional equity to reward performance and to provide an additional retention tool in response to the competitive environment for executive talent among peer companies. The retirement component of the career grant was intended to deliver a number of shares determined based on the projected final five-year average total cash compensation earned by the executive at retirement and assuming a compensation replacement rate that is the average of (a) 60% and (b) 2% times projected years of service with the Company at age 62. The vesting provisions of career grants were designed to promote executive retention by linking 50% of the award to continued service through age 62 (age 60 for Fiscal 2006 awards).

Typically, the career grant vests 25% on the third anniversary of the date of grant, 25% on the sixth anniversary and the remaining 50% at either age 62 or the earlier of age 60 or the 10^{th} anniversary of the grant date. The annual grant vests all at once on the fifth anniversary of the date of grant, subject to the executive's continued employment through the vesting date.

For Fiscal 2006, the Company moved to 100% restricted stock as its long-term equity incentive for all Company associates, including named executive officers, for the reasons noted above. Also, beginning in Fiscal 2007, the Company has adopted an approach to annual equity grants providing a mix of 50% restricted shares, 25% stock options and 25% performance shares to executive officers other than the CEO. The Company has also eliminated the career grant, although the Company may still consider the lack of competitive retirement benefits in determining the amount of the annual equity award to be made to a given executive.

- **Deferred Shares or Deferred Stock Units:** From time to time, the Company uses deferred shares or deferred stock units to provide equity compensation to an executive officer. These awards permit officers to defer receipt of and taxation on such compensation until a future date elected by such officer. The deferred shares are nonqualified deferred compensation arrangements payable in shares of the Company's common stock and typically have the same vesting schedule as restricted stock awards, as discussed above. Deferred stock units were provided to Messrs. Nardelli, Donovan and Fernandez, in connection with their initial employment with the Company, pursuant to their employment agreements. Prior to Fiscal 2006, the Company also made deferred share awards to Mr. Nardelli in lieu of restricted stock to permit him to defer receipt of and taxation of such compensation until a future date that he elected. The use of deferred shares or deferred stock units may also help the Company optimize the tax deductibility of these awards.

- **Performance Shares:** For Fiscal 2007, to more fully align executive compensation with the creation of shareholder value, 25% of the equity compensation provided to named executive officers (50% for our Chief Executive Officer) will be in the form of performance shares. The performance share award will be paid out at the end of three years based on the Company's relative total shareholder return ("TSR") ranking compared to the TSR ranking of the individual companies included in the S&P 500 (TSR is defined by reference to our stock price appreciation and assumes the reinvestment of dividends into Company common stock). Executive officers will receive 50% of the award if the Company ranks at the 40^{th} percentile, 100% of the award if the Company ranks at the 50^{th} percentile, and 300% of the award if the Company ranks at the 100^{th} percentile of the TSR ranking of the S&P 500. Payout is interpolated for results between these percentile rankings and there is no payout for a ranking below the 40^{th} percentile. Dividends will accrue on performance share awards and be paid upon the payout of the award to the extent the award is earned.

- **Performance Vested Options:** On February 22, 2007, the Chief Executive Officer received an award of $2.5 million in performance vested options. Mr. Blake's stock options will vest only after the Company's stock price has increased 25% over the grant date price for at least 30 consecutive trading days (the "Target Closing Stock Price"). There is also a minimum one-year vesting period from the grant date in order for these options to become exercisable. The options expire on the earlier of: (a) termination of Mr. Blake's employment, (b) five years from the grant date if the Target Closing Stock Price has not been achieved, or (c) ten years from the grant date.