

HOME PROPERTIES INC

Form 424B5

May 02, 2012

Filed pursuant to Rule 424(b)(5)
Registration No. 333-165165

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered	Proposed Maximum Offering Price Per Unit or Share(1)	Proposed Maximum Aggregate Offering Price(1)	Amount of Registration Fee(2)
Common Stock, \$0.01 par value per share	2,967,338 shares	\$61.67	\$182,995,735	(2)

- (1) Calculated pursuant to Rule 457(c) under the U.S. Securities Act of 1933, as amended (the "Securities Act") and based upon the average of the high and low prices reported per share of common stock on the New York Stock Exchange on May 1, 2012.
- (2) On September 20, 2006, the registrant paid a filing fee of \$18,392 in connection with the registration of 3,000,000 shares of its common stock, par value \$0.01 per share, on Form S-3, File No. 333-137467 (the "Original Registration Statement"). 2,967,338 shares of common stock covered by the Original Registration Statement were re-registered on Form S-3, File No. 333-159032 (the "Second Registration Statement"), and the filing fee paid in connection with those shares pursuant to the Original Registration Statement was carried forward pursuant to Rule 415(a)(6) under the Securities Act, with respect to such unsold shares.

2,967,338 shares of common stock covered by the Original Registration Statement and the Second Registration Statement are included on this registration statement on Form S-3 and the filing fee paid in connection with those shares pursuant to the Original Registration Statement and carried forward pursuant to the Second Registration Statement is being carried forward pursuant to Rule 415(a)(6) under the Securities Act with respect to such unsold shares. Accordingly, no registration fee is due upon the filing of this prospectus supplement.

PROSPECTUS SUPPLEMENT
(To Prospectus dated March 3, 2010)

HOME PROPERTIES, INC.

Dividend Reinvestment and Direct Stock Purchase Plan

2,967,338 Shares of Common Stock

This prospectus relates to the potential sale from time to time of shares of our common stock, par value \$0.01 per share, which we refer to as our common stock, through the Home Properties, Inc. Dividend Reinvestment and Direct Stock Purchase Plan, which we refer to as the Plan. The Plan provides holders of our common stock and individuals or entities who are not currently stockholders (depending on legal residence) with a convenient method of purchasing our common stock.

The Plan allows a participant to elect to:

- Increase ownership through monthly optional cash purchases,
- Automatically reinvest quarterly dividends and/or partnership distributions,
 - Transfer shares and move money electronically, and
 - Own stock without receiving certificates.

This prospectus supplement describes the terms and conditions of the Plan and should be retained for future reference.

Our common stock is listed on the New York Stock Exchange, or the NYSE, under the symbol “HME.” The last reported sale price of our common stock on the NYSE on May 1, 2012, was \$62.17 per share.

Our principal executive offices are located at 850 Clinton Square, Rochester, New York 14604. Our telephone number is (585) 546-4900.

Investing in our common stock involves various risks. See “Risk Factors” beginning on page S-2 of this prospectus supplement and on page 1 of the accompanying prospectus and the risks disclosed in our periodic reports incorporated by reference in this prospectus supplement and the accompanying prospectus.

Neither the Securities and Exchange Commission, or the SEC, nor any state or other securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus supplement or the accompanying prospectus. Any representation to the contrary is a criminal offense.

The date of this prospectus supplement is May 2, 2012.

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ABOUT THIS PROSPECTUS SUPPLEMENT

We are providing information to you about our common stock and the Dividend Reinvestment and Direct Stock Purchase Plan in two separate documents. This prospectus supplement describes the specific terms of the Plan and also adds to and updates information contained in the accompanying prospectus and the documents incorporated by reference into this prospectus supplement and the accompanying prospectus. In addition, the accompanying prospectus provides general information about securities we may offer from time to time, including the common stock being offered by this prospectus supplement. Some of the information in the accompanying prospectus may not apply to the Plan. If the information in this prospectus supplement is inconsistent with the accompanying prospectus, you should rely on this prospectus supplement.

In making your investment decision, you should rely only on the information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus and any relevant free writing prospectus. We have not authorized anyone to provide you with any other information. If you receive any information not authorized by us, you should not rely on it. We are not making an offer to sell the common stock to anyone in any jurisdiction where the offer or sale is not permitted. You should not assume that the information contained or incorporated by reference in this prospectus supplement or the accompanying prospectus or any relevant free writing prospectus is accurate as of any date other than its respective date. Our business, financial condition, results of operations, and prospects may have changed since those dates.

References to “Home Properties,” “we,” “our,” “us,” or “the Company” in this prospectus supplement refer to, unless the context otherwise requires, Home Properties, Inc., a Maryland corporation, and its direct and indirect subsidiaries, including Home Properties, L.P., a New York limited partnership (which we refer to as the “operating partnership”).

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus supplement, the accompanying prospectus, and the information incorporated by reference in them include “forward-looking statements” within the meaning of the safe harbor provisions of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Some examples of forward-looking statements include statements related to acquisitions (including any related pro forma financial information), future capital expenditures, potential development and redevelopment opportunities, projected costs and rental rates for development and redevelopment projects, financing sources and availability, and the effects of environmental and other regulations on our business or prospects. Although we believe that the expectations reflected in those forward-looking statements are based upon reasonable assumptions, those statements are subject to known and unknown uncertainties, including risks that are material to us, as well as those we believe are not currently material to us but that may adversely affect us in the future. The actual events or results may differ materially and we can give no assurance that our expectations will be achieved. Some of the words used to identify forward-looking statements include “believes,” “anticipates,” “plans,” “expects,” “seeks,” “estimates,” and similar expressions. Information which is not based on historical facts is forward-looking and is not a representation that the expectations reflected in such statements will be achieved or that our current plans and objectives will be realized. You should exercise caution in interpreting forward-looking statements because they involve known and unknown uncertainties and other factors which are, in some cases, beyond our control and which could materially affect our actual results, performance or achievements.

Factors that may cause our actual results, performance or achievements to differ materially from our stated expectations include, among others:

- general economic conditions,
- local real estate conditions in the markets where our properties are located,
- the weather and other conditions that might affect operating expenses,
- the timely completion of repositioning activities and development within anticipated budgets,
- the actual pace of future development, acquisitions and sales, and
- continued access to capital to fund growth.

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For a more detailed discussion of some of the risk factors we have identified, see the section entitled “Risk Factors” below and in the accompanying prospectus as well as the risks described in our periodic reports incorporated by reference in this prospectus supplement and the accompanying prospectus. You are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date they are made. We do not undertake to update our forward-looking statements to reflect the impact of circumstances or events that arise after the date of the forward-looking statements, except as required by applicable law.

RISK FACTORS

An investment in our common stock is subject to uncertainties and risks. Please carefully consider the risk factors described below, in the accompanying prospectus, and in our periodic reports filed with the SEC, including the risk factors incorporated by reference from our most recent annual report on Form 10-K, as updated by our quarterly reports on Form 10-Q, as well as other information we include or incorporate by reference in this prospectus supplement and the accompanying prospectus. See “Where You Can Find More Information” below. Additional uncertainties and risks not presently known to us or that we currently deem immaterial may also adversely affect us. The risk factors we describe contain or refer to certain forward-looking statements. You should review the explanation of the limitations of forward-looking statements contained in the “Special Note Regarding Forward-Looking Statements.”

Set forth below are specific risks you should consider in connection with purchases of our common stock under the Plan as described herein.

Your investment in the Plan is not protected from losses. Your investment in the Plan is no different from any investment in common stock held by you. If you choose to participate in the Plan, then you should recognize that neither the Company nor Computershare Trust Company, N.A., which we refer to as the Plan Administrator, can assure you of a profit or protect you against loss on the common stock that you purchase under the Plan. You bear the risk of loss in value and enjoy the benefits of gains with respect to all your shares of common stock. You need to make your own independent investment and participation decisions consistent with your situation and needs. Neither the Company nor the Plan Administrator can guarantee liquidity in the markets, and the value and marketability of your shares may be adversely affected by market conditions. Your ability to liquidate or otherwise dispose of your shares of common stock in the Plan is subject to the terms of the Plan and the withdrawal procedures thereunder. You may not be able to withdraw or sell your shares of common stock in the Plan in time to react to market conditions.

Plan accounts are not insured or protected by the Securities Investor Protection Corporation or any other entity and are not guaranteed by the Federal Deposit Insurance Corporation or any government agency.

The Company and the Plan Administrator will have limited liability to you with respect to the Plan. Neither the Company nor the Plan Administrator will be liable for any act, or for any failure to act, as long as we or they have made good faith efforts to carry out the terms of the Plan, as provided in the Plan and as described in this prospectus supplement and on the forms that are designed to accompany each investment, sale or activity.

The purchase price for shares of common stock purchased or sold under the Plan will vary. The purchase price for any shares of common stock that you purchase or sell under the Plan will vary and cannot be predicted. You may purchase or sell shares of common stock at a price that is different from (more or less than) the price that you would face if you acquired or sold shares on the open market on the investment date.

You will not earn any interest on your dividends or cash pending investment. No interest will be paid on dividends, cash or other funds held by the Plan Administrator pending investment or disbursement.

You may incur tax obligations without receiving cash with which to pay those obligations. If you reinvest dividends under the Plan, you may be treated for federal income tax purposes as having received a dividend on the investment date, which may give rise to a tax payment obligation without providing you with cash to pay such tax when it becomes due. See “Details about the Dividend Reinvestment Plan and Direct Stock Purchase Plan – Income Tax Information” below for a description of federal income tax consequences of participating in the Plan.

The market price for our common stock varies, and you should purchase common stock for long-term investment only. Although our common stock is currently traded on the NYSE we cannot assure you that there will, at any time in the future, be an active trading market for our common stock. Even if there is an active trading market for our common stock, we cannot assure you that you will be able to sell all of your shares of common stock at one time or at a favorable price, if at all. As a result, you should participate in the Plan only if you are capable of, and seeking, to make a long-term investment in our common stock.

The market value of our common stock could be substantially affected by various factors. Market volatility may adversely affect the market price of our common stock. As with other publicly traded securities, the market price of our common stock depends on many factors, which may change from time to time, including:

- our financial condition, performance, liquidity and prospects;
- the market for similar securities issued by REITs;
- changes in earnings estimates by us or analysts;
- our ability to meet analysts' earnings estimates;
- our compliance with generally accepted accounting principles;
- our compliance with applicable laws and regulations and the listing requirements of the NYSE;
- prevailing interest rates;
- our credit rating; and
- general economic, capital markets and real estate market conditions.

HOME PROPERTIES

Home Properties is a self-administered and self-managed real estate investment trust, or REIT, that owns, operates, acquires, develops and rehabilitates apartment communities. The Company's properties are regionally focused, primarily in selected Northeast and Mid-Atlantic markets of the United States. The Company was formed in November 1993 to continue and expand the operations of Home Leasing Corporation.

Home Properties conducts its business through its operating partnership and a management company – Home Properties Resident Services, Inc., which is a Maryland corporation. At December 31, 2011, the Company held 81.8% (77.1% at December 31, 2010) of the limited partnership units in the operating partnership.

The Company's mission is to maximize long-term shareholder value by acquiring, redeveloping, repositioning, developing and managing market-rate apartment communities while enhancing the quality of life for its residents and providing employees with opportunities for growth and accomplishment. Our vision is to be a prominent owner and manager of market-rate apartment communities that are located in selected high barrier-to-entry, high growth, East Coast markets. The areas we have targeted for growth are the suburbs of Baltimore, Boston, New York City, Philadelphia and Washington, D.C. We expect to maintain or grow portfolios in markets that profitably support our mission as economic conditions permit.

As of December 31, 2011, the Company owned and operated 124 communities with 41,951 apartment units.

Our common stock is listed on the New York Stock Exchange under the symbol "HME." Our principal executive offices are located at 850 Clinton Square, Rochester, New York 14604. Our telephone number is (585) 246-4900. You can find additional information regarding the Company in its filings with the SEC referenced in the section of this document entitled "Where You Can Find More Information" on page S-13.

USE OF PROCEEDS

Proceeds from any newly issued shares of common stock purchased directly from us under the Plan will be available for general corporate purposes. We have no basis for estimating either the number of shares of common stock that will ultimately be purchased directly from us, if any, under the Plan or the prices at which such shares will be sold. If the Plan Administrator purchases shares of common stock in the open market under the Plan, we will not receive any proceeds.

DETAILS ABOUT THE DIVIDEND REINVESTMENT AND DIRECT STOCK PURCHASE PLAN

Purpose of the Plan

The Home Properties Dividend Reinvestment and Direct Stock Purchase Plan, which we refer to as the Plan, was established to promote long-term ownership in Home Properties and is designed to give our shareholders, residents, employees, limited partners and others a simple, convenient, and economical way to purchase our common stock.

We have periodically revised the Plan to provide new features, amend existing features and to clarify it. If you have previously participated in the Plan, you may participate in its amended version without any further action on your part.

Please read this prospectus supplement, the accompanying prospectus, and the other information referred to carefully before you invest. If you require an additional Plan prospectus, enrollment form, or further assistance, simply contact us or the Plan Administrator at the address set forth at the end of this prospectus supplement.

Home Properties' and the Plan Administrator's Responsibilities

Computershare Trust Company, N.A. administers the Plan. Certain administrative support will be provided to the Plan Administrator by its designated affiliates.

The Plan Administrator, along with its affiliates, purchases and holds shares of stock for Plan participants, keeps records, mails statements, and performs other duties required by the Plan.

Neither Home Properties nor the Plan Administrator is liable for any act, or for any failure to act, as long as we make good faith efforts to carry out the terms of the Plan as provided in the Plan and as described in this prospectus supplement and on the forms that accompany each investment or activity. This release from liability does not apply to violations of federal securities laws.

Neither Home Properties nor the Plan Administrator promises a profit or protects against a loss on the common stock purchased under the Plan.

Cash Dividends Paid by Home Properties

Home Properties has historically paid cash dividends four times a year, in February, May, August and November. To receive a cash dividend, you must be a stockholder of Home Properties on the applicable record dates, which are approximately ten days prior to the dividend payment dates. Dividends are declared by the board of directors.

Plan Service Fees

The following fees will be paid to the Plan Administrator by Plan participants:

Optional Cash Purchase of Shares (Initial):	
By check or debit	\$15.00
Optional Cash Purchase of Shares (Subsequent):	
By check	\$5.00
	\$2.00

By pre-authorized debit from bank
account

Trading Fees (for all market purchase investments): \$0.06 per share

Sale of Shares of Common Stock:

Batch Order	\$15.00 plus \$0.12 per share
Market Order	\$25.00 plus \$0.12 per share
Day Limit Order	\$25.00 plus \$0.12 per share
GTC Limit Order	\$25.00 plus \$0.12 per share

Alternative Currency Disbursement

Fees

U.S.\$ or Foreign Currency Wire	\$50.00 per transaction
Foreign Check	\$15.00 per transaction
EFT (Direct Deposit – U.S.\$ only)	\$10.00 per transaction

Convenience Fees

CSR Assisted Sale	\$15.00 per transaction
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In addition, the Plan Administrator will charge a fee of \$35.00 for insufficient funds or rejected automatic debits. There are no fees for the share safekeeping service.

Home Properties will pay the Plan Administrator fees in connection with dividend reinvestments and optional cash purchases made by employees by means of payroll deduction.

In all other cases, Plan Administrator fees, including trading fees incurred in connection with Plan purchases of shares of common stock in the open market will be added to and considered part of the purchase price of such shares and service fees will be deducted from investment funds.

When shares of our common stock are sold by the Plan Administrator for a participant, the participant will be responsible for any trading fees, expenses, service charges or other expenses incurred pursuant to the sale of such shares of common stock.

Who May Participate

All U.S. citizens are eligible to join the Plan, whether or not they are currently Home Properties shareholders. Foreign citizens are eligible to participate as long as their participation does not violate any laws in their home countries.

How to Enroll

Join the Plan at any time on-line through Investor ServiceDirect®. New investors establish a Personal Identification Number (PIN) when setting up their account. To access Investor ServiceDirect please visit www.bnymellon.com/shareowner/equityaccess. Your initial investment can be made via on-line enrollment by authorizing a one-time deduction from your bank account, or by opening your account on-line and sending your initial investment.

Alternatively you may enroll by completing an Enrollment Form and returning it to the Plan Administrator. If you own shares in a brokerage account, request the broker to enroll you, or you may direct your broker to register all or any number of whole shares in your own name through the Direct Registration System so you can participate as a registered owner as indicated above.

If you are already a Home Properties shareholder of record and would like to begin making optional cash purchases or switch your account to dividend reinvestment, you may do so online at www.bnymellon.com/shareowner/equityaccess through Investor ServiceDirect. Simply type in your Investor ID and PIN (first-time users will need to “Establish Pin” first). Be sure to select one of the following investment options when enrolling.

Investment Options

Dividend Reinvestment

If you are a shareholder of record owning fewer than 100 shares, you can choose to fully reinvest your quarterly dividend. You will have full Internet access to your account and you will receive an annual statement detailing all of your transactions for the year along with 1099-DIV tax reporting information. If you are a shareholder of record owning 100 shares or more, you may elect to reinvest all or part of your dividends. You will also have the convenience of access to your account over the Internet and will receive quarterly account statements. As a participant, the dividends payable on your participating shares will purchase additional shares of common stock at the Plan Purchase Price (described below). Your reinvested dividends will purchase whole and fractional shares, computed to four decimal places.

Optional Cash Purchase

As a Plan participant, you may elect to make optional cash purchases whether or not you are reinvesting dividends. The Plan Administrator will initiate an investment at least once every five business days. You will purchase whole and fractional shares, computed to four decimal places. You will not receive interest on optional cash funds held pending a purchase. Dividends paid on shares that are purchased for your account with optional cash payments will be reinvested automatically in common stock, unless you instruct the Plan Administrator otherwise.

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Investment Amounts

If you are not a Home Properties stockholder of record or employee, you must invest at least \$1,000 initially. If you are a Home Properties stockholder of record or employee participating by means of payroll deduction, your initial investment can be as little as \$50.

After the initial investment, participants can make optional cash purchases for a minimum of \$50 up to a maximum of \$10,000 per month. For purposes of this \$10,000 limitation, Home Properties reserves the right to aggregate all cash purchases from any participant with more than one Plan account using the same name, address or social security/taxpayer identification number. Also for purposes of this \$10,000 limitation, all Plan accounts that Home Properties believes to be under common control or management or to have common ultimate beneficial ownership may be aggregated.

How to Make an Optional Cash Payment or an Automatic Optional Cash Payment from Your Bank Account

Make an optional cash payment by sending a check or by authorizing the Plan Administrator to automatically withdraw from your bank account. Do not send cash to the Plan Administrator. If you pay by check, please use the transaction stub located on the bottom of your Plan statement, make your check payable to Computershare/HME and mail to the Plan Administrator's address. To authorize individual or monthly automatic deductions from your bank account, logon to your account in Investor ServiceDirect, or complete the appropriate section of the Enrollment Form.

The Source of Plan Shares and Use of Proceeds

Common stock is either purchased directly from Home Properties or is purchased by the Plan Administrator in open trading. Home Properties designates the source of the shares but cannot change the source more than once every three months and only if required by law or for another valid reason. Proceeds received by Home Properties from direct sale of shares to the Plan will be used for general corporate purposes. Share purchases in the open market can be made on any exchange where our common stock is traded or through negotiated transactions, on such terms as the Plan Administrator determines. Neither Home Properties nor any participant will have the authority to direct the date, time or price at which shares may be purchased by the Plan Administrator.

The Purchase Date

Home Properties typically pays cash dividends on a quarterly basis. If these cash dividends are used to purchase new shares of common stock directly from Home Properties, the Plan Administrator will reinvest dividends on the applicable date on which Home Properties pays dividends, which we refer to as a Dividend Payment Date. If these cash dividends are used to acquire shares through open market purchases, the Plan Administrator will purchase all shares within 30 days of the applicable Dividend Payment Date. If the dividends are not able to be fully invested within this 30-day period, dividends will be distributed in full, without interest, by the Plan Administrator to the stockholders participating in the Plan.

Funds for optional cash purchases of less than \$10,000 per month may be deposited into your Plan account at any time and will be used to acquire shares at least once every five business days, which we refer to as a Cash Purchase Investment Date. If these funds deposited during a particular investment period are used to acquire new shares directly from Home Properties, they will be invested on the next Cash Purchase Investment Date. If these funds are used to acquire shares through open market purchases, the Plan Administrator will purchase all shares within 30 days of the next Cash Purchase Investment Date. If funds deposited for optional cash purchases are not able to be fully invested within this 30-day period, the funds will be returned in full, without interest, by the Plan Administrator to the

applicable stockholders and/or new investors.

The Plan Purchase Price

The Plan Purchase Price for shares of common stock purchased directly from Home Properties with reinvested cash dividends or optional cash payments will be the average of the daily high and low trading prices, computed up to seven decimal places, if necessary, of our common stock on the applicable purchase date. For shares purchased by the Plan Administrator in open trading with reinvested cash dividends or optional cash payments, the Plan Purchase Price will be the weighted average price paid by the Plan Administrator for all shares purchased by it for participants with the invested funds on the applicable purchase date, including all trading fees and service charges.

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Waiver Purchase

Optional Cash Purchase in excess of \$10,000 per month

Home Properties considers requests for optional cash purchases greater than \$10,000 per month on a month-by-month basis and approves requests based on various corporate factors and market conditions. Such waivers require a signed Request for Waiver Form submitted by the participant and approved by Home Properties. Home Properties may deny such purchases for any reason.

If a request for waiver is approved, the price of shares purchased pursuant to the request for waiver will be determined using a pricing period of not less than one but not more than ten trading days as determined by Home Properties, which we refer to as the Pricing Period, commencing on a date set by us. Optional cash payments or initial investments made pursuant to a request for waiver will be used to purchase shares of our common stock as soon as practicable on or after the business day following the last day of the Pricing Period, which such date we refer to as the Waiver Investment Date. The Plan Administrator will apply all good funds received on or before the last business day before the Pricing Period to purchase of shares of our common stock. Funds received after this date will be returned to you.

For purposes of determining the price per share on the Waiver Investment Date, the price will be equal to the average of the high and low sale prices of our shares, computed up to seven decimal places, if necessary, as quoted on the NYSE, for the trading days during the Pricing Period immediately preceding the Waiver Investment Date. The purchase price on any waiver investment date may be reduced by the waiver discount (discussed below), if any.

For any Pricing Period, we may establish a minimum purchase price per share, which we refer to as the Threshold Price, applicable to optional cash payments and initial investments made pursuant to a request for waiver. At least two business days prior to the first day of the applicable Pricing Period, we will decide whether to establish a Threshold Price, and if so, its amount. We will notify the Plan Administrator as to the amount of the Threshold Price, if any. We will make this determination at our discretion after a review of current market conditions, the level of participation in the Plan and current and projected capital needs.

If a Threshold Price is established for any Pricing Period, it will be fixed as a dollar amount that the average of the high and low sale prices of our common stock as quoted on the NYSE for each trading day during the applicable Pricing Period must equal or exceed (not adjusted for a waiver discount, if any). In the event that the Threshold Price is not satisfied for a trading day in the Pricing Period, then that trading day will be excluded from the Pricing Period and all trading prices for that trading day will be excluded from the determination of the purchase price. In addition, we will exclude from the pricing period and from the determination of the purchase price, any trading day in which no trades of common stock are made on the NYSE. Thus, for example, for a five-day Pricing Period, if the Threshold Price is not satisfied or no trades of our common stock are reported for one of the five trading days in the Pricing Period, then the purchase price will be based on the remaining four trading days in which the Threshold Price is satisfied.

In addition, a portion of each optional cash payment or initial investment will be returned for each trading day of a Pricing Period in which the Threshold Price is not satisfied or for each trading day in which no trades of our common stock are reported on the NYSE. The amount returned will be equal to a pro rata portion of the amount of the optional cash payment or initial investment (not just the amount in excess of \$10,000) for each trading day that the Threshold Price is not satisfied or in which no trades of our common stock are reported. For example, for a five-day pricing period, if the Threshold Price is not satisfied or no trades of our common stock are reported for one of the five trading days in the Pricing Period, then 1/5 (or 20%) of the optional cash payment or initial investment will be returned

without interest.

The establishment of the Threshold Price and the possible return of a portion of an optional cash payment or initial investment applies only to optional cash payments and initial investments made pursuant to a request for waiver. Setting a Threshold Price for a Pricing Period will not affect the setting of a Threshold Price for a subsequent Pricing Period. We may waive our right to set a Threshold Price for any Pricing Period. Neither we nor the Plan Administrator is required to provide you with any written notice as to the Threshold Price for any Pricing Period. You may contact the Plan Administrator's Waiver Department at (201) 680-5300 to find out if a Threshold Price has been fixed or waived for any given Pricing Period.

For each Pricing Period, we may establish a discount from the market price applicable to optional cash payments and initial investments made pursuant to a request for waiver. This waiver discount, if any, will range from 0% to 5% of the purchase price determined by the Pricing Period and may vary for each Pricing Period. The waiver discount, if any, will be established at our sole discretion after a review of current market conditions, the level of participation in the Plan, the attractiveness of obtaining additional funds through the sale of our common stock as compared to other sources of funds and current and projected capital needs. You may obtain information regarding the maximum waiver discount, if any, by contacting the Plan Administrator's Waiver Department at (201) 680-5300. Setting a waiver discount for a particular Pricing Period will not affect the setting of a waiver discount for any subsequent Pricing Period. The waiver discount, if any, will apply only to optional cash payments and initial investments in excess of \$10,000. The waiver discount will apply to the entire optional cash payment or initial investment made pursuant to a waiver and not just the portion in excess of \$10,000.

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We only will establish a Threshold Price or waiver discount for shares of common stock that are purchased directly from us.

You may obtain a Request for Waiver Form and information about any discount by contacting the Plan Administrator at (201) 680-5300. Completed Request for Waiver Forms should be faxed to the Plan Administrator at (201) 680-4638, no later than three business days prior to the applicable Waiver Investment Date.

Tracking Your Investment in the Plan

If you own 100 shares or more and you participate in dividend reinvestment, the Plan Administrator mails you a quarterly statement showing all transaction details for your account including year-to-date and other information. If you own fewer than 100 shares and you elect to fully reinvest your dividends, the Plan Administrator mails you an annual statement detailing all transactions for the year. The Plan Administrator sends supplemental statements or notices when you make an initial or optional cash purchase or a deposit, transfer, sale or withdrawal of shares. If you do not participate in dividend reinvestment, you receive a statement or notice confirming any transaction you make. An annual statement of your holdings is sent even if there was no activity during the year in your account.

You can also access your Plan account statement through the Plan Administrator's on-line program, MLinkSM. Convenient and easy on-line access to your shareowner communications is only a click away. Besides your Plan account statements, you may access your 1099 tax documents, notification of ACH transmissions, transaction advices, annual meeting materials and selected correspondence on-line.

Enrollment is simple and quick. Logon to Investor ServiceDirect® to enjoy the many benefits MLinkSM offers, including:

- Faster delivery of important documents,
- Electronic notification of account activity via email,
- Secure access to your mailbox 24 hours a day, 7 days a week, and
- Convenience of managing your documents – view, print, download.

Please visit www.bnymellon.com/shareowner/equityaccess for more information.

If the address on your account changes, please notify the Plan Administrator either in writing or online by following the above instructions and then clicking "Manage Account Info," then "Edit Account Address."

Remember to save your account statements, along with this prospectus supplement, the accompanying prospectus, and other pertinent tax information related to Home Properties Dividend Reinvestment and Direct Stock Purchase Plan, to establish the cost basis of your common stock purchased in the Plan.

Safekeeping Your Stock Certificates

Shares of Home Properties common stock that you purchase in the Plan are maintained in your Plan account for safekeeping in book-entry form. You do not receive a certificate for those shares unless you request one. You do receive a periodic statement detailing the status of your holdings.

Any Home Properties shareholder may use the Plan's safekeeping service for other Home Properties stock certificates. Safekeeping is beneficial since you do not bear the risk and cost associated with the loss, theft, or destruction of stock certificates. With safekeeping, you retain the option to receive cash dividends or reinvest your dividends.

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To deposit other Home Properties shares in the Plan's safekeeping service, you may deposit your certificates for those shares free of charge with the Plan Administrator. The Plan Administrator will provide mail loss insurance coverage for certificates with a value not exceeding \$100,000 in any one shipping package that you mail to its address at 500 Ross Street, Room 0675, Pittsburgh, PA 15262 by USPS registered mail or by overnight courier.

Note: Mail loss insurance covers only the replacement of shares of stock and in no way protects any loss resulting from fluctuations in the value of such shares.

Contact the Plan Administrator for additional information about direct registration of shares under the Plan, safekeeping of stock certificates and accounts held through brokers.

Obtaining Stock Certificates

You can withdraw shares in certificate form from your Plan account without charge by notifying the Plan Administrator. The Plan Administrator issues certificates in the name registered on the account, unless you instruct the Plan Administrator to issue them in another person's name or deliver a stock power to the Plan Administrator with your instructions. In order for certificates to be issued to another person, the signature on the stock power must be guaranteed by a financial institution. This ensures that the individual signing a stock certificate or stock power is in fact the registered owner named on the stock certificate or stock power. Contact your bank or broker for more information regarding this guarantee.

The Plan Administrator issues certificates for whole shares only. The Plan Administrator mails a check for the value of the fractional shares to you.

Selling Shares in Your Plan Account

You can sell your Plan shares at any time by contacting the Plan Administrator. All sales transactions under the Plan are made through a broker affiliated with the Plan Administrator that will receive brokerage commissions in connection with such sales. Shares are sold on the exchange on which the common shares of Home Properties trade. The selling price may not be known until the sale is complete.

You may instruct the Plan Administrator to sell your shares under the Plan in one of four ways – through a Batch Order, Market Order, Day Limit Order or Good-Till-Cancelled (GTC) Limit Order.

Batch Order: In a Batch Order, the Plan Administrator will combine the shares you want to sell through the Plan with shares that are being sold by other Plan participants. Shares are then periodically submitted in bulk to an affiliated broker for sale on the open market. Your shares will usually be sold within one business day after the Plan Administrator receives your request, but no later than five business days (except where deferral is necessary under state or federal regulations). Depending on the number of shares being sold and current trading volume in the shares, bulk sales may be executed in multiple transactions and over more than one day. Once entered, a Batch Order request cannot be cancelled. Sales proceeds in a Batch Order transaction equal the market price that the broker receives for your shares (or, if more than one trade is necessary to sell all of the Plan shares submitted to the broker on that day, the weighted average price for all such shares sold on the applicable trade date or dates), less applicable taxes and fees. Requests for Batch Orders may be placed online at www.bnymellon.com/shareowner/equityaccess, by telephone using the IVR system, through a CSR or in writing by completing and signing the tear-off portion of your account statement and mailing the instructions to the Plan Administrator.

Market Order: A Market Order is a request to sell your shares at the prevailing market price when the trade is executed. If such an order is placed during market hours, the Plan Administrator will promptly submit your shares to

an affiliated broker for sale on the open market (such orders cannot be cancelled). If such an order is placed outside of market hours, the Plan Administrator will submit your shares to an affiliated broker on the next trading day (any requests to cancel such an order will be honored on a best efforts basis).

Day Limit Order: A Day Limit Order is an order to sell your shares when and if the stock reaches a specific price on a specific day. The order is automatically cancelled if the price is not met by the end of that trading day (or, for orders placed outside of market hours, the next trading day). Depending on the number of shares being sold and current trading volume in the shares, your order may only be partially filled, in which case the remainder of your order will be cancelled. Any request to otherwise cancel a pending Day Limit Order will be honored on a best efforts basis.

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Good-Till-Cancelled (GTC) Limit Order: A GTC Limit Order is an order to sell your shares when and if the stock reaches a specific price at any time while the order remains open (up to 90 days). Depending on the number of shares being sold and current trading volume in the shares, sales may be executed in multiple transactions and may be traded on more than one day. The order (or any unexecuted portion thereof) is automatically cancelled if the price is not met by the end of the order period. The order also may be cancelled by the applicable stock exchange or by shareholder request.

Sales proceeds in Market Orders, Day Limit Orders and GTC Limit Orders equal the market price that the broker receives for your shares, less applicable taxes and fees. Requests for such transactions may only be placed online at www.bnymellon.com/shareowner/equityaccess, by telephone using the IVR system or through a CSR. Any sale request received in writing will be processed as a Batch Order request.

A check for the proceeds of the sale of shares (in US dollars), less applicable taxes and fees, will generally be mailed to you by first class mail within four business days after the final trade settlement date. If you sell shares through a Market Order, Day Limit Order or GTC Limit Order, you may choose to receive sales proceeds in a foreign currency or by wire or direct deposit. These services are subject to additional fees and additional terms and conditions, which you must agree to when submitting the transaction.

All sales are subject to market conditions, system availability and other factors. The actual sale date or price received for any shares sold through the Plan may not be guaranteed.

The fees charged in connection with the sale of shares are listed above under “Plan Service Fees”.

If you want to sell shares through your own broker, you may request the Plan Administrator to transfer shares electronically from your Plan account to your brokerage account. Alternatively, you may request a stock certificate that you can then deliver to your broker.

Plan participants must perform their own research and must make their own investment decisions. Neither the Plan Administrator nor any of its affiliates will provide any investment recommendations or investment advice with respect to transactions made through the Plan.

Closing Your Plan Account

You may stop participating in the Plan at any time on-line through Investor ServiceDirect, by notifying the Plan Administrator in writing or by completing and returning the transaction stub of your most recent Plan account statement.

To stop automatic optional cash payments that are withdrawn from your bank account, contact the Plan Administrator at least one week before the last business day of the month.

When you close your account, you may receive:

- certificates for full shares in your account and cash for remaining fractional shares,
- certificates for any portion of full shares and cash for remaining full and fractional shares, or
- cash for all full and fractional shares.

Please note that all cash sale proceeds are less the service fee described above.

Changes/Termination of the Plan

Home Properties reserves the right to amend, suspend or discontinue the Plan at any time. The Plan Administrator will send you written notice of any significant changes to the Plan.

If we discontinue the Plan, the Plan Administrator will return any unused optional cash payments in your account.

Suspension/Termination of Your Participation

Home Properties also reserves the right at any time and from time to time to suspend or terminate your participation in the plan or refuse any optional cash payments from any person who, in our sole discretion, we determine that uses the Plan in a manner inconsistent with its intended purpose, such as excessive activity through multiple accounts. We also may suspend, terminate or refuse participation in the Plan by any person whose participation in the Plan or any increase in the number of his or her shares of common stock that would, in our opinion, jeopardize the REIT status of Home Properties. If we exercise this right, the Plan Administrator will notify you in writing and continue to safekeep your shares but will not accept optional cash payments from you or reinvest your dividends. The Plan Administrator can issue a certificate to you or transfer your shares electronically upon your request.

You may terminate your account at any time by notifying the Plan Administrator. Such notice must be received by the Plan Administrator no later than five days prior to any dividend record date for your account to be terminated and dividends to be paid directly to you; otherwise the request will not be processed until after purchases made from the dividends paid have been completed and credited to the participant's accounts.

The Plan Administrator may terminate your account upon written notice to you.

Once termination is effected, the Plan Administrator will continue to hold your shares unless you request them to be sold or issued. Upon your request, the Plan Administrator will sell the full shares held in your account and you will receive the proceeds minus any brokerage commissions, transfer taxes and a service charge. Alternatively, you may request a certificate for the full shares held in your Plan account. For any fractional shares in your account, the Plan Administrator will pay you in cash at the then current market value of shares of common stock.

Voting of Shares

For each annual or special stockholders meeting, you will receive proxy materials and a proxy card representing shares you own in certificate form and/or for whole and fractional shares owned in your Plan account. The proxy allows you to indicate how you want your shares to be voted. Your shares are voted only as you indicate. However, you must sign your proxy card or your shares will not be voted, or, alternatively, you may wait to vote your shares in person at the stockholders meeting.

Handling of Stock Splits, Stock Dividends and Other Distributions

If Home Properties declares a stock split or stock dividend, the Plan Administrator will credit your Plan account with the appropriate number of shares on the payment date.

In the event of a stock subscription or an offering by Home Properties to its stockholders rights to purchase additional shares of common stock or other securities, you will be entitled to these rights based on the number of shares in your account on the record date for these transactions. The Plan Administrator will provide you with appropriate instructions for taking any such actions to exercise such rights.

Income Tax Information

Relating to Dividends and Trading Fees

A portion of your dividends, whether or not your dividends are reinvested, is considered taxable income in the year you receive it, and a portion of your dividends is considered return of capital. You will receive an annual statement from the Plan Administrator indicating the amount of dividends reported as taxable dividend income to the IRS on Form 1099.

Relating to Transfer of Shares

You do not realize a gain or loss for U.S. federal income tax purposes when you transfer shares into the Plan or when you withdraw whole shares from the Plan. You realize a gain or loss when you sell shares held in the Plan, including cash received for fractional shares. You are required to report this gain or loss on your federal income tax return.

Withholding Taxes

Generally, if you are a foreign stockholder or if you are subject to “back-up” withholding under Section 3406(a)(1) of the U.S. Internal Revenue Code of 1986, as amended, which we refer to as the Code, the Plan Administrator shall invest in our shares in an amount equal to the reinvested dividends less the amount of tax required to be withheld. The Plan Administrator will withhold the required amount determined according to U.S. Treasury regulations. This withholding amount will be reflected in your Plan account.

Governing Law

Maryland law governs the terms and conditions of the Plan, the Enrollment Form, the account statements, and other documents relating to the Plan.

DESCRIPTION OF COMMON STOCK

A summary of some of the important terms of our common stock is set forth on page 5 in the accompanying prospectus under the heading “Description of Capital Stock.” You should review our Articles of Amendment and Restatement of Articles of Incorporation and Second Amended and Restated By-laws for a more complete description of our common stock. As of May 1, 2012, there were 48,663,235 shares of our common stock issued and outstanding. Our common stock is traded on the NYSE under the symbol “HME.”

PLAN OF DISTRIBUTION

Under the Plan, our common stock is either purchased directly from us or is purchased by the Plan Administrator in open trading. Home Properties designates the source of the shares but cannot change the source more than once every three months and only if required by law or other valid reason.

Persons who acquire shares of our common stock through the Plan and resell them shortly after acquiring them, including coverage of short positions, under certain circumstances, may be participating in a distribution of securities that would require compliance with Regulation M under the Exchange Act and may be considered to be underwriters within the meaning of the Securities Act. We will not extend to any such person any rights or privileges other than those to which he, she or it would be entitled as a participant, nor will we enter into any agreement with any such person regarding the resale or distribution by any such person of the shares of our common stock so purchased. We may, however, accept optional cash payments and initial investments made pursuant to requests for waiver by such persons.

From time to time, financial intermediaries, including brokers and dealers, and other persons may engage in positioning transactions in order to benefit from any discounts applicable to optional cash payments and initial investments made under the Plan. Those transactions may cause fluctuations in the trading volume of our common stock. Financial intermediaries and such other persons who engage in positioning transactions may be deemed to be underwriters. We have no arrangements or understandings, formal or informal, with any person relating to the sale of shares of our common stock to be received under the Plan. We reserve the right to modify, suspend or terminate participation in the Plan by otherwise eligible persons to eliminate practices that are inconsistent with the purposes of the Plan.

WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and special reports, proxy statements and other information with the SEC. You may read and copy reports, statements or other information at the SEC’s public reference facilities in Washington D.C., at 100 F Street, N.E., Washington D.C. 20549. You may call the SEC at 1-800-SEC-0330 for further information on the public

reference facilities. Our SEC filings are also available to the public from commercial document retrieval services and at the web site maintained by the SEC at <http://www.sec.gov>. You can also review copies of our SEC filings at the offices of the New York Stock Exchange, Inc., 20 Broad Street, New York, New York 10005. You may also find copies of our periodic reports, proxy statements and other SEC filings on our website at www.homeproperties.com. Information on our website, however, is not part of or incorporated by reference in this prospectus supplement or the accompanying prospectus.

We have filed with the SEC a registration statement on Form S-3 covering the shares of common stock offered by this prospectus supplement. This prospectus supplement and the accompanying prospectus are part of that registration statement and, as permitted by the SEC's rules, does not contain all the information set forth in the registration statement. For further information, you may refer to the registration statement and to the exhibits and schedules filed as part of the registration statement. You can review and copy the registration statement and its exhibits and schedules at the public reference facilities maintained by the SEC as described above. The registration statement, including its exhibits and schedules, is also available on the SEC's web site. This prospectus supplement must be read in conjunction with the accompanying prospectus.

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The SEC allows us to “incorporate by reference” into this prospectus supplement and the accompanying prospectus information in other documents we file with the SEC, which means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is considered to be part of this prospectus supplement and the information that we file with the SEC later, but prior to the completion of any particular sale of our common stock offered by this prospectus supplement, will automatically update and supersede this information. We incorporate by reference the documents listed below, as amended, and any future filings we make with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of this prospectus supplement and prior to the completion of any particular sale of our common stock offered by this prospectus supplement (other than, in each case, documents or information deemed to have been furnished and not filed in accordance with SEC rules):

- Annual Report on Form 10-K for the year ended December 31, 2011, filed with the SEC on February 27, 2012;
- Our definitive Proxy Statement dated March 30, 2012, filed with the SEC on March 29, 2012, in connection with our Annual Meeting of Stockholders held on May 1, 2012;
 - Current Report on Form 8-K filed on May 2, 2012; and
- The description of the common stock set forth in our registration statement on Form 8-A, dated June 8, 1994, including all amendments and reports filed for the purpose of updating that description.

Information in this prospectus supplement and the accompanying prospectus supersedes related information in the filings listed above, and information incorporated by reference herein and therein from subsequently filed documents supersedes related information in this prospectus supplement, the accompanying prospectus and the previously incorporated filings.

You may request a copy of these filings, other than an exhibit to a filing unless that exhibit is specifically incorporated by reference into that filing, at no cost, by writing to or calling us at the following address:

Home Properties, Inc.
Attention: Investor Relations
850 Clinton Square
Rochester, New York 14604
Telephone number: (585) 546-4900

LEGAL MATTERS

The validity of the securities offered hereby will be passed upon by Nixon Peabody LLP.

EXPERTS

The financial statements and the effectiveness of the Company's internal control over financial reporting incorporated in this prospectus supplement and the accompanying prospectus by reference to the Annual Report on Form 10-K for the year ended December 31, 2011, have been so incorporated in reliance on the report of PricewaterhouseCoopers LLP, an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

PROSPECTUS

Common Stock
Preferred Stock
Debt Securities

We may offer and sell the securities listed above from time to time, together or separately, in one or more classes or series, in amounts, at prices and on terms that we will determine at the time of offering. We will provide the specific terms of any securities we actually offer for sale in supplements to this prospectus. Certain of our shares of common stock may also be offered and sold from time by selling security holders on terms described in the applicable prospectus supplement.

This prospectus describes some of the general terms that may apply to the securities we or our selling securities holders may offer or sell from time to time. We will provide prospectus supplements and other materials at later dates which will contain the specific terms of that issuance of our securities. You should read this prospectus and the accompanying prospectus supplement carefully before you purchase any of our securities. **THIS PROSPECTUS MAY NOT BE USED TO SELL SECURITIES UNLESS ACCOMPANIED BY A PROSPECTUS SUPPLEMENT.**

We may offer and sell the securities directly to you, through agents we select, or through underwriters or dealers we select. If we use agents, underwriters or dealers to sell the securities, we will name them and describe their compensation in a prospectus supplement. The net proceeds we expect to receive from such sales will be set forth in the prospectus supplement.

If this prospectus is used by selling securities holders, they may offer or sell the shares of common stock they own in the same manner as our sales or as described in the applicable prospectus supplement. We will not receive any proceeds from the sale of our common stock by selling securities holders.

Our common stock is listed on the New York Stock Exchange under the symbol "HME".

Investing in our securities involves various risks. See "Risk Factors" beginning on page 1.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

The date of the prospectus is March 3, 2010.

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References to “Home Properties,” “we” or “us” in this prospectus mean, unless the context otherwise requires, Home Properties, Inc., a Maryland corporation, Home Properties, L.P., a New York limited partnership (the “Operating Partnership”), and their subsidiaries.

HOME PROPERTIES

Home Properties is a self-administered and self-managed real estate investment trust, or a REIT. We own, operate, acquire, develop and rehabilitate apartment communities. Our properties are regionally focused primarily in select Northeast, Mid-Atlantic and southeast Florida markets of the United States. We were formed in November 1993.

We conduct our business through Home Properties, L.P., which we refer to as the Operating Partnership, a New York limited partnership, and a management company, Home Properties Residential Services, Inc., a Maryland corporation. We held a 74.7% partnership interest as of December 31, 2009 (we calculated our interest as a percentage of our outstanding shares of common stock divided by the total number of outstanding shares of common stock and limited partnership units in the Operating Partnership).

As of December 31, 2009, we operated 107 communities with 36,947 apartment units. Of these, 35,797 units in 105 communities are owned outright and 868 units in one community are managed and partially owned by us as general partner, and 282 units in one community are managed for other owners.

Our principal executive offices are located at 850 Clinton Square, Rochester, New York 14604. Our telephone number is (585) 246-4900.

RISK FACTORS

Our business is subject to uncertainties and risks. Please carefully consider the risk factors described in our periodic reports filed with the Securities and Exchange Commission, including the risk factors incorporated by reference from our most recent annual report on Form 10-K, as updated by our quarterly reports on Form 10-Q, as well as other information we include or incorporate by reference in this prospectus. See “Where You Can Find More Information” below. The prospectus supplement with respect to any securities issued under this prospectus may also disclose additional risk factors. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also impair our business operations. The risk factors we describe contain or refer to certain forward-looking statements. You should review the explanation of the limitations of forward-looking statements contained in the “Special Note Regarding Forward-Looking Statements.”

ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement filed by us with the Securities and Exchange Commission, or SEC. You should read this prospectus together with the applicable prospective supplement and additional information described under the heading “Where You Can Find More Information.” You should rely only on the information incorporated by reference or provided in this prospectus. We have not, no selling shareholder has, and no underwriter has authorized anyone else to provide you with different or additional information. We or any selling securities holders are not, and the underwriter is not, making an offer of the shares in any jurisdiction where the offer or sale is not permitted.

You should not assume that the information in this prospectus is accurate as of any date other than the date on the front of this prospectus. Other information filed by us with the SEC is incorporated into this prospectus by reference. You should assume that the reports and documents incorporated by reference are accurate only as of their respective dates. Our business, financial condition, results of operations, risk factors and forward-looking information

may have changed since these dates.

Documents which are exhibits to or incorporated by reference into this prospectus and the reports incorporated by reference may contain representations, warranties and agreements. Those representations, warranties and agreements were made solely for the benefit of the parties to those documents and may be subject to qualifications and limitations, and are not a representation, warranty or agreement for your benefit.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus and the information incorporated by reference herein include “forward-looking statements” within the meaning of the safe harbor provisions of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Exchange Act. Some examples of forward-looking statements include statements related to acquisitions (including any related pro forma financial information), future capital expenditures, potential development and redevelopment opportunities, projected costs and rental rates for development and redevelopment projects, financing sources and availability, and the effects of environmental and other regulations on our business or prospects. Although we believe that the expectations reflected in those forward-looking statements are based upon reasonable assumptions, those statements are subject to known and unknown uncertainties, including risks which we believe are not currently material to our business and prospects but that may adversely affect our results or operations in the future. The actual events or results may differ materially and we can give no assurance that our expectations will be achieved. Some of the words used to identify forward-looking statements include “believes,” “anticipates,” “plans,” “expects,” “seeks,” “estimates,” and similar expressions. Information which is not based on historical facts is forward-looking and is not a representation that the results or conditions described in such statements will be achieved or that our current plans and objectives will be realized. You should exercise caution in interpreting forward-looking statements because they involve known and unknown risks, uncertainties and other factors which are, in some cases, beyond our control and which could materially affect our actual results, performance or achievements.

Factors that may cause our actual results to differ materially from our stated expectations include, among others:

- general economic conditions,
- local real estate conditions in the markets where our properties are located,
- the weather and other conditions that might affect operating expenses,
- the timely completion of repositioning activities and development within anticipated budgets,
- the actual pace of future development, acquisitions and sales, and
- continued access to capital to fund growth.

For a more detailed discussion of some of the risk factors we have identified, see the section entitled “Risk Factors” below as well as the risks described in our periodic reports incorporated by reference in this prospectus. You are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date they are made. We do not undertake to update our forward-looking statements to reflect the impact of circumstances or events that arise after the date of the forward-looking statements, except as required by applicable law.

WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and special reports, proxy statements and other information with the SEC. You may read and copy reports, statements or other information at the SEC’s public reference facilities in Washington D.C., at 100 F Street, N.E., Washington D.C. 20549. You may call the SEC at 1-800-SEC-0330 for further information on the public reference facilities. Our SEC filings are also available to the public from commercial document retrieval services and at the web site maintained by the SEC at <http://www.sec.gov>. You can also review copies of our SEC filings at the offices of the New York Stock Exchange, Inc., 20 Broad Street, New York, New York 10005. You may also find copies of our periodic reports, proxy statements and other SEC filings on our website at www.homeproperties.com (information on our website is not part of or incorporated by reference in this prospectus supplement or the

accompanying prospectus).

We have filed with the SEC a registration statement on Form S-3 to register the securities. This prospectus is part of that registration statement and, as permitted by the SEC's rules, does not contain all the information set forth in the registration statement. For further information you may refer to the registration statement and to the exhibits and schedules filed as part of the registration statement. You can review and copy the registration statement and its exhibits and schedules at the public reference facilities maintained by the SEC as described above. The registration statement, including its exhibits and schedules, is also available on the SEC's web site. We will also file and distribute a prospectus supplement with respect to any securities we, or a selling securities holder, may sell under the registration statement. This prospectus must be read with the applicable prospectus supplement.

The SEC allows us to “incorporate by reference” into this prospectus information in other documents we file with the SEC, which means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is considered to be part of this prospectus and the information that we file with the SEC later will automatically update and supersede this information. We incorporate by reference the documents listed below, as amended, and any future filings we make with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 (the “Exchange Act”) (other than, in each case, documents or information deemed to have been furnished and not filed in accordance with SEC rules):

- Annual Report on Form 10-K for the year ended December 31, 2009, and filed with the SEC on February 26, 2010;
- Our definitive Proxy Statement dated April 2, 2009, and filed with the SEC on April 1, 2009, in connection with our Annual Meeting of Stockholders held on May 5, 2009;
- Current Report on Form 8-K filed on February 18, 2010;
- The description of the common stock set forth in our registration statement on Form 8-A, dated June 8, 1994, including all amendments and reports filed for the purpose of updating that description.

Information in this prospectus supersedes related information in the documents listed above, and information incorporated herein and therein from subsequently filed documents supersedes related information in this prospectus and the previously incorporated documents.

You may request a copy of these filings, other than an exhibit to a filing unless that exhibit is specifically incorporated by reference into that filing, at no cost, by writing to or calling us at the following address:

Home Properties, Inc.
Attention: Investor Relations
850 Clinton Square
Rochester, New York 14604
Telephone number: (585) 546-4900

USE OF PROCEEDS

Unless otherwise specified in a prospectus supplement, we intend to use the net proceeds from the sale of the securities offered by this prospectus and any accompanying prospectus supplement for general corporate purposes, which may include the repayment of indebtedness, working capital, capital expenditures, acquisitions and the repurchase of shares of our equity securities. Pending use for these purposes, we may invest proceeds from the sale of the securities in short-term marketable securities. The precise amount and timing of sales of any securities will be dependent on market conditions and the availability and cost of other funds to us.

If selling securities holders make offers and sales pursuant to this prospectus and an applicable prospectus supplement, we will not receive any of the proceeds of that offering. We will incur certain expenses in connection with the registration with the SEC of the securities to be sold by the selling securities holders and preparation of the applicable prospectus supplement pursuant to the terms of certain agreements we made with those securities holders at the time they acquired their securities.

RATIO OF EARNINGS TO FIXED CHARGES

The following table sets forth our ratio of earnings to fixed charges for each of the periods indicated. For purposes of calculating this ratio, earnings consist of income (loss) before income taxes, plus fixed charges, less capitalized interest. Fixed charges include interest expense (including the amortization of debt issuance costs), the portion of rent expense representative of the interest factor, and capitalized interest.

	Year Ended December 31,				
	2005	2006	2007	2008	2009
	1.21x	1.23x	1.23x	1.26x	1.13x

Additional information regarding the calculation of the ratio of earnings to fixed charges is contained in the “Statement of Computation of Ratio of Earnings to Fixed Charges and Ratio of Earnings to Combined Fixed Charges and Preferred Dividends” filed as Exhibit 12.1 to the registration statement of which this prospectus forms a part. See “Where You Can Find More Information” above.

RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS

The following table sets forth our ratio of earnings to combined fixed charges and preferred stock dividends for each of the periods indicated is as follows:

	Year Ended December 31,				
	2005	2006	2007	2008	2009
	1.15x	1.18x	1.20x	1.26x	1.13x

The ratios of earnings to combined fixed charges and preferred stock dividends were computed by dividing earnings by combined fixed charges and preferred stock dividends. For this purpose, earnings consist of pre-tax income from continuing operations before adjustment for noncontrolling interests in consolidated subsidiaries plus fixed charges less capitalized interest. Fixed charges consist of interest expense (including the amortization of debt issuance costs), the portion of rent expense representative of the interest factor, and capitalized interest.

During the five year period covered by the table above, the following series of our preferred stock were outstanding until their redemption, as noted below:

- 250,000 shares of 8.78% Series D convertible cumulative preferred stock were issued in June 2000, all of which were converted into 833,333 shares of common stock in May 2005;
- 300,000 shares of 8.55% Series E convertible cumulative preferred stock were issued in December 2000, of which 63,200 were converted into 200,000 shares of common stock in August 2002; in May 2003 and August 2003, 36,800 and 200,000 were converted into 116,456 and 632,911 shares of common stock, respectively; and
- 2,400,000 shares of 9.00% Series F cumulative redeemable preferred stock were issued in March 2002, all of which were redeemed in March 2007.

Additional information regarding the calculation of the ratio of earnings to combined fixed charges and preferred stock dividends is contained in the “Statement of Computation of Ratio of Earnings to Fixed Charges and Ratio of Earnings to Combined Fixed Charges and Preferred Dividends” filed as Exhibit 12.1 to the registration statement of which this prospectus forms a part. See “Where You Can Find More Information” above.

DESCRIPTION OF CAPITAL STOCK

The authorized capital stock of Home Properties consists of:

- 80 million shares of common stock, \$0.01 par value, of which 34,966,801 shares were outstanding on February 19, 2010;
- 10 million shares of preferred stock, \$0.01 par value, none of which were outstanding as of February 19, 2010.
- 10 million shares of “excess stock,” \$0.01 par value, none of which were outstanding on February 19, 2010.

For more detail about our Articles of Amendment and Restatement of Articles of Incorporation (sometimes referred to as our “Articles of Incorporation” or “charter”) and bylaws you should refer to the charter and bylaws, which have been filed as exhibits to other reports incorporated by reference into this prospectus. In addition, for a discussion of limitations on the ownership of our capital stock, you should refer to the section entitled “Restrictions on Transfer; Ownership Limits” in this prospectus.

Common Stock

General

All of the shares of common stock offered by this prospectus will be duly authorized, fully paid, and nonassessable when issued. Holders of the common stock have no conversion, redemption, sinking fund or preemptive rights; however, shares of common stock in excess of certain ownership limits automatically convert into shares of Excess Stock as defined below. Under the Maryland General Corporation Law (“MGCL”), stockholders are generally not liable for our debts or obligations, and the holders of shares will not be liable for further calls or assessments by us. Subject to the provisions of our Articles of Incorporation regarding Excess Stock, described below, all shares of common stock have equal dividend, distribution, liquidation and other rights and will have no preference or exchange rights.

Distributions

Subject to the right of holders of Preferred Stock outstanding from time to time to receive preferential distributions, holders of shares of common stock are entitled to receive distributions in the form of dividends if and when declared by our Board of Directors out of funds legally available for that purpose, and, upon liquidation of Home Properties, each outstanding share of common stock will be entitled to participate pro rata in the assets remaining after payment of, or adequate provision for, all of our known debts and liabilities, including debts and liabilities arising out of our status as general partner of the Operating Partnership, and any liquidation preference of issued and outstanding Preferred Stock. We intend to continue paying quarterly distributions.

Voting Rights

The holder of each outstanding share of common stock is entitled to one vote on all matters presented to stockholders for a vote, subject to the provisions of our Articles of Incorporation regarding Excess Stock described below. As described below, our Board of Directors has, and may in the future, grant holders of one or more series of Preferred Stock the right to vote with respect to certain matters when it fixes the attributes of such series of Preferred Stock. Pursuant to the MGCL, we cannot dissolve, amend our charter, merge with or into another entity, sell all or substantially all our assets, engage in a share exchange or engage in similar transactions unless such action is approved by stockholders holding a majority of the outstanding shares entitled to vote on such matter. In addition, the

Second Amended and Restated Partnership Agreement of the Operating Partnership, as amended, requires that any merger or sale of all or substantially all of the assets of Operating Partnership be approved by partners holding a majority of the outstanding Units, excluding Operating Partnership Units held by us, directly or indirectly. Our Articles of Incorporation provide that our Bylaws may be amended by our Board of Directors.

The holder of each outstanding share of common stock is entitled to one vote in the election of directors who serve for terms of one year. Holders of the shares of common stock will have no right to cumulative voting for the election of directors. Consequently, at each annual meeting of stockholders, the holders of a majority of the shares entitled to vote in the election of directors will be able to elect all of the directors, subject to certain rights of the holders of preferred stock, described below. Directors may be removed only for cause and only with the affirmative vote of the holders of a majority of the shares entitled to vote in the election of directors.

Restrictions on Ownership

In order for us to maintain our status as a REIT under the Code, there are restrictions on the concentration of ownership of our capital stock. See the description under “Excess Stock – Ownership Limits” below.

Preferred Stock

General

We may issue shares of preferred stock from time to time, in one or more series, as authorized by our Board of Directors. The Board of Directors will fix the attributes of any preferred stock that it authorizes for issuance. Because the Board of Directors has the power to establish the preferences and rights of each series of preferred stock, it may afford the holders of any series of preferred stock preferences, powers and rights, voting or otherwise, senior to the rights of holders of shares of common stock. The issuance of preferred stock could have the effect of delaying or preventing a change in control of Home Properties.

Terms

We will include in the prospectus supplement relating to any offering of a series of preferred stock the specific terms of that series, including:

- its title and stated value;
- the number of shares of preferred stock offered, the liquidation preference per share, if applicable, and the offering price;
 - the applicable dividend rate or amount, period and payment date or method of calculation thereof;
 - the date from which dividends on that series preferred stock shall accumulate, if applicable;
 - any procedures for auction and remarketing;
 - any provision for a sinking fund;
 - any applicable provision for redemption of that series of preferred stock;
- the terms of any preference of the offered series of preferred stock over other capital stock in the payment of distributions or upon our liquidation;
- the terms and conditions of conversion into common stock or any other of securities, including the conversion price or rate or manner of calculation thereof;

- the relative ranking and preference as to dividend rights and rights upon our liquidation, dissolution or the winding up of our affairs;
- any limitations on issuance of any series of preferred stock ranking senior to or on a parity with such series of preferred stock as to dividend rights and rights upon our liquidation, dissolution or the winding up of our affairs;
- any limitations on direct or beneficial ownership and restrictions on transfer, in each case as may be appropriate to preserve our status as a REIT; and
 - any other specific terms, preferences, rights, limitations or restrictions.

Excess Stock

Ownership Limits

Our charter contains certain restrictions on the number of shares of capital stock that stockholders may own. For us to qualify as a REIT under the Code, no more than 50% in value of our outstanding shares of capital stock may be owned, directly or indirectly, by five or fewer individuals (as defined in the Code to include certain entities) during the last half of a taxable year or during a proportionate part of a shorter taxable year. The shares of our capital stock must also be beneficially owned by 100 or more persons during at least 335 days of a taxable year or during a proportionate part of a shorter taxable year. Because we expect to continue to qualify as a REIT, our charter contains restrictions on the ownership and transfer of shares of our capital stock intended to ensure compliance with these requirements. Subject to certain exceptions specified in the charter, no holder may own, or be deemed to own by virtue of the attribution provisions of the Code, more than 8.0%, referred to as the Ownership Limit, of the value of the issued and outstanding shares of our capital stock. Certain entities, such as qualified pension plans, are treated as if their beneficial owners were the holders of the common stock held by such entities. Certain holders are accepted from the Ownership Limit in our charter. Others may be accepted by action of our Board of Directors.

Our Board of Directors may increase or decrease the Ownership Limit from time to time, but may not do so to the extent that after giving effect to such increase or decrease: (i) five beneficial owners of Shares could beneficially own in the aggregate more than 49.5% of the aggregate value of our outstanding capital or (ii) any beneficial owner of capital stock would violate the Ownership Limit as a result of a decrease. The Board of Directors may waive the Ownership Limit with respect to a holder if such holder provides evidence acceptable to the Board of Directors that such holder's ownership will not jeopardize our status as a REIT. Waivers of the Ownership Limit have been granted to certain institutional investors in connection with prior sales of our certain series of our Preferred Stock, none of which are currently outstanding.

Any transfer of our outstanding capital stock that would:

- cause any holder, directly or by attribution, to own capital stock having a value in excess of the Ownership Limit,
 - result in shares of capital stock other than Excess Stock, if any, to be owned by fewer than 100 persons,
 - result in our being closely held within the meaning of section 856(h) of the Code, or
 - otherwise prevent us from satisfying any criteria necessary for us to qualify as a REIT,

is null and void, and the purported transferee acquires no rights to such outstanding capital stock.

Conversion to Excess Shares

Outstanding stock owned by or attributable to a stockholder or shares purportedly transferred to a holder which cause such holder or any other holder to own shares of capital stock in excess of the Ownership Limit automatically convert into shares of Excess Stock. Upon issuance, Excess Stock is transferred by operation of law to a separate trust, with Home Properties acting as trustee, for the exclusive benefit of the person to whom such outstanding stock may be ultimately transferred without violating the Ownership Limit. Excess Stock is not treasury stock, but rather constitutes a separate class of issued and outstanding stock of Home Properties. While the Excess Stock is held in trust, it is not entitled to vote, is not considered for purposes of any stockholder vote or the determination of a quorum for such vote and is not entitled to participate in dividends or other distributions. Any record owner or purported transferee of stock which has converted into Excess Stock who receives a distribution prior to our discovery that such stock has been converted into Excess Stock must repay such dividend or distribution upon demand.

Repurchase Right with Respect to Excess Stock

While Excess Stock is held in trust, we will have the right to purchase it from the trust for the lesser of:

- the price paid for the Outstanding Stock which converted into Excess Stock by the Excess Holder (or the market value of the Outstanding Stock on the date of conversion if no consideration was given for the Outstanding Stock) or
- the market price of shares of capital stock equivalent to the Outstanding Stock which converted into Excess Stock (as determined in the manner set forth in the Articles of Incorporation) on the date we exercise our option to purchase.

We must exercise this right within the 90-day period beginning on the date on which we receive written notice of the transfer or other event resulting in the conversion of Outstanding Stock into Excess Stock.

Effect of Liquidation

Upon our liquidation, distributions will be made with respect to such Excess Stock as if it consisted of the outstanding stock from which it was converted.

Other Terms of Excess Stock

Our Articles of Incorporation contain other terms relating to Excess Stock, which are incorporated herein by reference.

Antitakover Effect of Ownership Limits

The ownership and transfer limitations contained in our Articles of Incorporation in order to permit us to preserve our REIT status, may have the effect of precluding acquisition of control of Home Properties without the consent of our Board of Directors. All certificates representing shares of capital stock will bear a legend referring to the ownership restrictions. The restrictions on transferability and ownership will not apply if the Board of Directors determines, and the stockholders concur, that it is no longer in our best interests to attempt to qualify, or to continue to qualify, as a REIT. Approval of the limited partners of the Operating Partnership to terminate REIT status is also required.

Certain Provisions of Maryland Law and of Our Charter and Bylaws

The following is a summary of certain provisions of Maryland law and of our charter and bylaws. Copies of our charter and bylaws are incorporated by reference into the exhibits to the registration statement of which this prospectus is a part. See “Where You Can Find More Information.”

The Board of Directors

Our Articles of Incorporation and bylaws provide that our board of directors will set the number of directors, not be fewer than the minimum number permitted under the MGCL (generally, one) nor more than 12. Except any vacancy among directors elected separately by a separate class of shares, any vacancy may be filled, at any regular meeting or at any special meeting called for that purpose, by a majority of the remaining directors, even if the remaining directors do not constitute a quorum, and any director elected to fill a vacancy will serve for the remainder of the full term of the directorship in which such vacancy occurred.

Pursuant to our charter, each member of our board of directors will serve one year terms, and until their respective successors are duly elected and qualified. Holders of shares of our common stock have no right to cumulative voting in the election of directors and directors are elected by a plurality of votes cast in the election of directors. Consequently, at each annual meeting of stockholders at which our board of directors is elected, the holders of a majority of the shares of our common stock are able to elect all of the members of our board of directors. Our charter permits our stockholders to remove a director but only for cause and then only upon the affirmative vote of a majority of the shares of our common stock entitled to vote on any such proposal.

Ownership Reports

Every owner of more than 5% of our issued and outstanding shares of capital stock must file a written notice with us containing the information specified in the Articles of Incorporation no later than January 31 of each year. In addition, each stockholder is required to disclose to us in writing such information as we may request in order to determine the effect of such stockholder's direct, indirect and attributed ownership of shares of capital stock on our status as a REIT or to comply with any requirements of any taxing authority or other governmental agency.

Termination of REIT Status

Our board of directors, under our Articles of Incorporation, is prohibited from taking any action to terminate our REIT status or to amend the provisions of our Articles of Incorporation regarding excess stock unless such action is approved by the board of directors, presented to an annual or special meeting of stockholders and approved by vote of a majority of votes entitled to be cast.

Business Combinations

Maryland law prohibits "business combinations" between a corporation and an interested stockholder or an affiliate of an interested stockholder for five years after the most recent date on which the interested stockholder becomes an interested stockholder. These business combinations include a merger, consolidation, statutory share exchange, or, in circumstances specified in the statute, certain transfers of assets, certain stock issuances and transfers, liquidation plans and reclassifications involving interested stockholders and their affiliates. Maryland law defines an interested stockholder as:

- any person who beneficially owns 10% or more of the voting power of our voting stock; or
- an affiliate or associate of the corporation who, at any time within the two-year period prior to the date in question, was the beneficial owner of 10% or more of the voting power of the then-outstanding voting stock of the corporation.

A person is not an interested stockholder if the board of directors approves in advance the transaction by which the person otherwise would have become an interested stockholder. However, in approving the transaction, the board of

directors may provide that its approval is subject to compliance, at or after the time of approval, with any terms and conditions determined by the board of directors.

After the five year prohibition, any business combination between a corporation and an interested stockholder generally must be recommended by the board of directors and approved by the affirmative vote of at least:

- 80% of the votes entitled to be cast by holders of the then outstanding shares of common stock; and
- two-thirds of the votes entitled to be cast by holders of the common stock other than shares held by the interested stockholder with whom or with whose affiliate the business combination is to be effected or shares held by an affiliate or associate of the interested stockholder.

These super-majority vote requirements do not apply if the common stockholders receive a minimum price, as defined under Maryland law, for their shares in the form of cash or other consideration in the same form as previously paid by the interested stockholder for its shares.

The statute permits various exemptions from its provisions, including business combinations that are approved by the board of directors before the time that the interested stockholder becomes an interested stockholder.

Our Articles of Incorporation exclude business combinations between the corporation and our founders, Norman and Nelson Leenhouts and their affiliates from these provisions of the MGCL and, consequently, the five-year prohibition and the super-majority vote requirements will not apply to business combinations between us and the founders or their affiliates. We believe that our ownership restrictions will substantially reduce the risk that a stockholder would become an “interested stockholder” within the meaning of the Maryland business combination statute.

Unsolicited Takeovers

The MGCL permits a Maryland corporation with a class of equity securities registered under the Securities and Exchange Act of 1934 and at least three independent directors to elect to be subject, by provision in its charter or bylaws or a resolution of its board of directors, and notwithstanding any contrary provision in the charter or bylaws, to any or all of the following five provisions:

§ a classified board;

§ a two-thirds vote requirement for removing a director;

§ a requirement that the number of directors be fixed only by vote of the directors;

§ a requirement that a vacancy on the board be filled only by the remaining directors and for the remainder of the full term of the class of directors in which the vacancy occurred; and

§ a majority requirement for the calling by stockholders of a special meeting of stockholders.

Through provisions in our charter and bylaws unrelated to Subtitle 8, we already (a) vest in the board the exclusive power to fix the number of members of the board of directors and (b) require, unless called by our chairman of the board, our president, the board, the request of holders of 25% outstanding shares to call a special meeting. We have not elected to be subject to the provisions of Subtitle 8 relating to the filling of vacancies on the board.

Amendment to Our Articles of Incorporation and Bylaws

Our charter may be amended only if declared advisable by the board of directors and approved by the affirmative vote of the holders of at least a majority of all of the votes entitled to be cast on the matter. Our bylaws may only be adopted, amended, altered or repealed by the board of directors.

Dissolution of Our Company

The dissolution of Home Properties must be declared advisable by the board of directors and approved by the affirmative vote of the holders of not less than a majority of all of the votes entitled to be cast on the matter.

Effect of Certain Provisions of Maryland Law and of Our Charter and Bylaws

The business combination provisions of the MGCL, the provisions of our charter regarding the restrictions on ownership and transfer of our stock and the provisions of our bylaws setting the number of members of the board of directors could delay, defer or prevent a transaction or a change of control of our company that might involve a premium price for holders of our common stock or otherwise be in their best interest. Likewise, if our board of directors resolves to avail any of the provisions of the MGCL not currently applicable to us or if the provision in the Articles of Incorporation opting out of the control share acquisition provisions of the MGCL were rescinded, these provisions of the MGCL could have similar effects.

Indemnification and Limitation of Directors' and Officers' Liability

As Maryland law permits, our Articles of Incorporation contain a provision limiting the liability of our directors and officers to us for money damages to the fullest extent permitted under Maryland law. Maryland law permits full limitation of the liability of directors or officers for money damage except for liability resulting from (i) actual receipt of an improper benefit or profit in money, property or services or (ii) active and deliberate dishonesty established by a final judgment and material to the cause of action.

The MGCL requires a corporation to indemnify a director or officer who has been successful, on the merits or otherwise, in the defense of any proceeding to which he or she is made, or threatened to be made, a party by reason of his or her service in that capacity. The MGCL permits a corporation to indemnify its present and former directors and officers, among others, against judgments, penalties, fines, settlements and reasonable expenses actually incurred by them in connection with any proceeding to which they may be made a party by reason of their service in those or other capacities unless it is established that:

§ an act or omission of the director or officer was material to the matter giving rise to the proceeding and was committed in bad faith; or was the result of active and deliberate dishonesty;

§ the director or officer actually received an improper personal benefit in money, property or services; or

§ in the case of any criminal proceeding, the director or officer had reasonable cause to believe that the act or omission was unlawful.

However, under the MGCL, a Maryland corporation may not indemnify for an adverse judgment in a suit by or in the right of the corporation or for a judgment of liability on the basis that personal benefit was improperly received, unless in either case a court orders indemnification and then only for expenses.

In addition, the MGCL permits a corporation to, and our bylaws require us to, advance reasonable expenses to a director or officer upon the corporation's receipt of:

§ a written affirmation by the director or officer of his or her good faith belief that he or she has met the standard of conduct necessary for indemnification by the corporation; and

§ a written undertaking by the director or officer or on the director's or officer's behalf to repay the amount paid or reimbursed by the corporation if it is ultimately determined that the director or officer did not meet the standard of conduct.

We entered into indemnification agreements with each of our executive officers and directors whereby we indemnify such executive officers and directors to the fullest extent permitted by Maryland law against all expenses and

liabilities, subject to limited exceptions. These indemnification agreements also provide that upon an application for indemnity by an executive officer or director to a court of appropriate jurisdiction, such court may order us to indemnify such executive officer or director.

Insofar as the foregoing provisions permit indemnification of directors, officers or persons controlling us for liability arising under the Securities Act, the Securities and Exchange Commission has indicated that this indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

DESCRIPTION OF DEBT SECURITIES

The following description of the terms of debt securities sets forth certain general terms and provisions of any future issues of debt securities to which any prospectus supplement may relate. This prospectus and a prospectus supplement relating thereto will also cover the offer and resale of shares of common stock by the holders of our \$200 million of 4.125% Exchangeable Senior Notes due November 1, 2026. The Operating Partnership issued these notes on October 24, 2006, pursuant to an Indenture, between Home Properties, the Operating Partnership and Wells Fargo Bank, N.A., as trustee. Subject to the terms of the Indenture, holders may exchange the notes at certain times and upon the occurrence of certain events for cash in the principal amount and, at the option of the Operating Partnership, cash or shares of Home Properties common stock for the exchange value in excess of the principal amount of the notes. We agreed to register on or before April 22, 2007, the shares of common stock which, at the option of the Operating Partnership, may be issued upon exchange of the notes for all or a portion of their exchange value in excess of the principal amount. We filed a prospectus supplement to provide certain information about the noteholders on April 23, 2007, and will file a new prospectus supplement immediately after filing the registration statement of which this prospectus forms a part. The particular terms of other debt securities offered by any prospectus supplement and the extent, if any, to which such general provisions may apply to the debt securities so offered will be described in a prospectus supplement relating to such debt securities.

Indenture for Future Debt Securities

Future series of debt securities are to be issued in one or more series under an Indenture, a copy of which is incorporated by reference and is an exhibit to the registration statement of which this prospectus forms a part, as amended or supplemented by one or more supplemental indentures (the "Indenture"), to be entered into between the Company and a financial institution as Trustee (the "Trustee"). The statements herein relating to the debt securities and the Indenture are summaries and are subject to the detailed provisions of the applicable Indenture. The following summaries of certain provisions of the Indenture do not purport to be complete and are subject to, and are qualified in their entirety by reference to, all of the provisions of the Indenture, including the definitions therein of certain terms capitalized in this Prospectus.

The Indenture, under which we will issue future series of debt securities, does not limit the aggregate amount of debt securities which may be issued thereunder, nor does it limit the incurrence or issuance of other secured or unsecured debt of the Company.

General Obligations

The debt securities will be our unsecured general obligations and will rank with all of our other unsecured and unsubordinated obligations as described in the applicable prospectus supplement. The Indenture provides that the debt securities may be issued from time to time in one or more series. We will authorize the issuance and provide for the terms of any series of debt securities pursuant to a supplemental indenture.

General Terms

The prospectus supplement relating to a particular series of debt securities which we are offering will describe the terms of such debt securities, including, where applicable:

- (1) the specific designation of such debt securities;
- (2) any limit upon the aggregate principal amount of such debt securities;

- (3) the date or dates on which the principal of and premium, if any, on such debt securities will mature or the method of determining such date or dates;

- (4) the rate or rates (which may be fixed, variable or zero) at which such debt securities will bear interest, if any, or the method of calculating such rate or rates;
- (5) the date or dates from which interest, if any, will accrue or the method by which such date or dates will be determined;
 - (6) the date or dates on which interest, if any, will be payable and the record date or dates therefor;
- (7) the place or places where principal of, premium, if any, and interest, if any, on such debt securities may be redeemed, in whole or in part, at the option of the Company;
 - (8) the obligation, if any, of the Company to redeem or purchase such debt securities pursuant to any sinking fund or analogous provisions or upon the happening of a specified event and the period or periods within which, the price or prices at which and the other terms and conditions upon which, such debt securities shall be redeemed or purchased, in whole or in part, pursuant to such obligations;
 - (9) the denominations in which such debt securities are authorized to be issued;
- (10) the currency or currency unit for which debt securities may be purchased or in which debt securities may be denominated and/or the currency or currencies (including currency unit or units) in which principal of, premium, if any, and interest, if any, on such debt securities will be payable and whether the Company or the holders of any such debt securities may elect to receive payments in respect of such debt securities in a currency or currency unit other than that in which such debt securities are stated to be payable;
- (11) if the amount of payments of principal of and premium, if any, or any interest, if any, on such debt securities may be determined with reference to an index based on a currency or currencies other than that in which such debt securities are stated to be payable, the manner in which such amount shall be determined;
- (12) if the amount of payments of principal of and premium, if any, or interest, if any, on such debt securities may be determined with reference to changes in the prices of particular securities or commodities or otherwise by application of a formula, the manner in which such amount shall be determined;
- (13) if other than the entire principal amount thereof, the portion of the principal amount of such debt securities which will be payable upon declaration of the acceleration of the maturity thereof or the method by which such portion shall be determined;
- (14) if the debt securities are convertible into any other securities including any class of out equity securities;
- (15) the person to whom any interest on any such debt security shall be payable if other than the person in whose name such debt security is registered on the applicable record date;
- (16) any addition to, or modification or deletion of, any Event of Default or any covenant of the Company specified in the Indenture with respect to such debt securities;
 - (17) the application, if any, of such means of defeasance as may be specified for such debt securities; and
- (18) any other special terms pertaining to such debt securities. Unless otherwise specified in the applicable prospectus supplement, the debt securities will not be listed on any securities exchange.

Unless otherwise specified in the applicable prospectus supplement, debt securities will be issued only in fully registered form without coupons. Unless the prospectus supplement relating thereto specifies otherwise, debt securities will be denominated in U.S. dollars and will be issued only in denominations of U.S. \$1,000 and any integral multiple thereof.

Debt securities may be sold at a substantial discount below their stated principal amount and may bear no interest or interest at a rate which at the time of issuance is below market rates. Certain federal income tax consequences and special considerations applicable to any such debt securities will be described in the applicable prospectus supplement.

If the amount of payments of principal of and premium, if any, or any interest on debt securities of any series is determined with reference to any type of index or formula or changes in prices of particular securities or commodities, the federal income tax consequences, specific terms and other information with respect to such debt securities and such index or formula and securities or commodities will be described in the applicable prospectus supplement.

If the principal of and premium, if any, or any interest on debt securities of any series are payable in a foreign or composite currency, the restrictions, elections, federal income tax consequences, specific terms and other information with respect to such debt securities and such currency will be described in the applicable prospectus supplement.

Change of Control Provisions

The prospectus supplement with respect to any particular series of debt securities being offered thereby which provide for optional redemption, prepayment or conversion of such debt securities on the occurrence of certain event, such as a change of control of the Company, will provide:

- (1) a description of any other securities into which the debt securities may be converted at the option of the holder or us and a discussion of any rights the holder of the debt securities or any other securities into which the debt securities may be converted to have such securities registered for resale or issuance upon conversion or listed on any national securities exchange;
- (2) a discussion of the effects that such provisions may have in deterring certain mergers, tender offers or other takeover attempts, as well as any possible adverse effect on the market price of the Company's securities or the ability to obtain additional financing in the future;
- (3) a statement the Company will comply with any applicable provisions of the requirements of Rule 14e-1 under the Securities Exchange Act of 1934 and any other applicable securities laws in connection with any optional redemption, prepayment or conversion provisions and any related offers by the Company (including, if such debt securities are convertible, Rule 13e-4);
- (4) disclosure of any cross-defaults in other indebtedness which may result as a consequence of the occurrence of certain events so that the payments on such debt securities would be effectively subordinated;
- (5) disclosure of effect of any failure to repurchase under the applicable Indenture, including in the event of a change of control of the Company;
- (6) disclosure of any risk that sufficient funds may not be available at the time of any event resulting in a repurchase obligation; and
- (7) discussion of any definition of "change of control" contained in the applicable Indenture.

Payment, Registration, Transfer and Exchange

Unless otherwise provided in the applicable prospectus supplement, payments in respect of the debt securities will be made in the designated currency at our office or agency maintained for that purpose we designate from time to time, except that, at our option, interest payments, if any, on debt securities in registered form may be made by checks mailed to the holders of debt securities entitled thereto at their registered addresses. Unless otherwise indicated in an applicable prospectus supplement, payment of any installment of interest on debt securities in registered form will be made to the person in whose name such debt security is registered at the close of business on the regular record date for such interest.

Unless otherwise provided in the applicable prospectus supplement, debt securities in registered form will be transferable or exchangeable at the agency of the Company maintained for such purpose as designated by the Company from time to time, debt securities may be transferred or exchanged without service charge, other than any tax or other governmental charge imposed in connection therewith.

Consolidation, Merger or Sale by the Company

Under the terms of the Indenture, Home Properties may not be consolidated with or merge into any other corporation or transfer or lease its assets substantially as an entirety, unless (i) the corporation formed by such consolidation or into which we are merged or the corporation which acquires its assets is organized in the United States and expressly assumes all of our obligations under the debt securities and all Indentures and (ii) immediately after giving effect to such transaction, no Default or Event of Default shall have occurred and be continuing. Upon any such consolidation, merger or transfer, the successor corporation formed by such consolidation, or into which we are merged or to which such sale is made shall succeed to, and be substituted for Home Properties under the Indenture.

The Indenture contains no covenants or other specific provisions to afford protection to holders of the debt securities in the event of a highly leveraged transaction or a change in control, except to the limited extent described above. Such covenants or provisions are not subject to waiver by our Board of Directors without the consent of the holders of not less than a majority in principal amount of the outstanding debt securities of each series affected by the waiver as described under “Modification of the Indenture” below.

Events of Default, Notice and Certain Rights on Default

The Indenture provides that, if an Event of Default specified therein occurs with respect to the debt securities of any series and is continuing, the Trustee for such series or the holders of 25% in aggregate principal amount of all of the outstanding debt securities of that series, by written notice to us (and to the Trustee for such series, if notice is given by such holders of debt securities), may declare the principal of (or, if the debt securities of that series are Original Issue Discount Securities, such portion of the principal amount specified in the prospectus supplement) and accrued interest on all the debt securities of that series to be immediately due and payable.

The Indenture provides that the Trustee will, subject to certain exceptions, within a specified number of days after the occurrence of a Default with respect to the debt securities of any series, give to the holders of the debt securities of that series notice of all Defaults known to it unless such Default shall have been cured or waived. “Default” means any event which is or after notice or passage of time or both, would be an Event of Default.

The Indenture provides that the holders of a majority in aggregate principal amount of the debt securities of each series affected (with each such series voting as a class) may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee for such series, or exercising any trust or power conferred on such Trustee.

The Indenture includes a covenant that Home Properties will file annually with the Trustee a certificate as to our compliance with all conditions and covenants of the Indenture.

The holders of a majority in aggregate principal amount of any series of debt securities by notice to the Trustee may waive on behalf of the holders of all debt securities of such series, any past Default or Event of Default with respect to that series and its consequences, except a Default or Event of Default in the payment of the principal of, premium, if any, or interest, if any, on any Debt Security or a provision of the Indenture which cannot be amended without the consent of the holder of each Outstanding Security of such series adversely affected.

Modification of the Indenture

The Indenture contains provisions permitting us and the Trustee to enter into one or more supplemental indentures without the consent of the holders of any of the debt securities in order:

- (i) to evidence the succession of another corporation to Home Properties' obligations and the assumption of our covenants by our successor;
 - (ii) to add to our covenants or surrender any of our rights or powers;
 - (iii) to add additional Events of Default with respect to any series of debt securities;
- (iv) to add or change any provisions to such extent as necessary to permit or facilitate the issuance of debt securities in book entry form or, if allowed without penalty under applicable laws and regulations, to permit payment in respect of debt securities in bearer form in the United States;
 - (v) to change or eliminate any provision affecting debt securities not yet issued;
 - (vi) to secure the debt securities;
 - (vii) to establish the form or terms of debt securities;
- (viii) to cure any ambiguity, to correct or supplement any provision of the Indenture which may be inconsistent with any other provision thereof, provided that such action does not adversely affect the interests of any holder of debt securities of any series;
 - (ix) to make provision with respect to the conversion rights of holders of debt securities; or
 - (x) to conform to any mandatory provisions of law.

The Indenture also contains provisions permitting us and the Trustee, with the consent of the holders of a majority in aggregate principal amount of the outstanding debt securities affected by such supplemental indenture (with the debt securities of each series voting as a class), to execute supplemental indentures adding any provisions to or changing or eliminating any of the provisions of the Indenture or any supplemental indenture or modifying the rights of the holders of debt securities of such series, except that no such supplemental indenture may, without the consent of the holder of each Debt Security so affected:

- (i) change the time for payment of principal or premium, if any, or interest on any Debt Security;
- (ii) reduce the principal of, or any installment of principal of, or premium, if any, or interest on any Debt Security, or change the manner in which the amount of any of the foregoing is determined;
- (iii) reduce the amount of premium, if any, payable upon the redemption of any Debt Security;
- (iv) reduce the amount of principal payable upon acceleration of the maturity of any Original Issue Discount Security;

- (v) reduce the percentage in principal amount of the outstanding debt securities affected thereby, the consent of whose holders is required for modification or amendment of the Indenture or for waiver or compliance with certain provisions of the Indenture or for waiver of certain defaults;
- (vi) make any change which adversely affects the right to convert convertible debt securities or decrease the conversion rate or increase the conversion price; or
- (vii) modify the provisions relating to waiver of certain defaults or any of the foregoing provisions.

Defeasance

If so described in the prospectus supplement relating to debt securities of a specific series, we may discharge our indebtedness and our obligations or terminate certain of our obligations and covenants under the Indenture with respect to the debt securities of such series by depositing funds or obligations issued or guaranteed by the United States government with the Trustee. The prospectus supplement will more fully describe the provisions, if any, relating to such discharge or termination of obligations.

Conversion rights

The terms and conditions, if any, upon which any series of debt securities are convertible into common stock, preferred stock or other securities will be set forth in the applicable prospectus supplement. The terms will include whether the debt securities are convertible into such securities, the conversion price (or manner of calculation thereof), the conversion period, provisions as to whether conversion will be at our option or the option of the holders, the events requiring an adjustment of the conversion price and dit card revenues, net. Prior to 2018, the investment in contract asset was classified in prepaid expenses and other and other assets, while the deferred revenue was classified in other current liabilities and other liabilities on the Condensed Consolidated Balance Sheet.

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(Dollar and share amounts in millions except per share, per option and per unit amounts)

(Unaudited)

LOYALTY PROGRAM

The Nordstrom Rewards loyalty program allows customers to accumulate points based on their level of spending, regardless of how they choose to pay. Upon reaching certain point thresholds, customers receive Nordstrom Notes (“Notes”), which can be redeemed for goods or services offered at Nordstrom full-line stores, Nordstrom.com, Nordstrom Rack and Nordstromrack.com/HauteLook. Nordstrom cardholders can also earn rewards at Trunk Club. Customers who participate in our loyalty program through our credit and debit cards receive additional benefits, including Notes or reimbursements for alterations, Personal Triple Points days, shopping and fashion events and early access to the Anniversary Sale.

As our customers earn points and Notes in the loyalty program, a portion of underlying sales revenue is deferred. We recognize the revenue and related cost of sale when the Notes are ultimately redeemed. The amount of revenue deferred is based on an estimated stand-alone selling price of the points and other loyalty benefits, such as alternations, and included in other current liabilities on the Condensed Consolidated Balance Sheet. Other benefits of the loyalty program, including shopping and fashion events, are recorded in selling, general and administrative expenses as these are not a material right of the program.

Our outstanding performance obligation for the Nordstrom Rewards loyalty program consists of unredeemed points and Notes and was \$149 as of August 4, 2018. Almost all Notes are redeemed within six months of issuance. We record breakage revenue of unused points and unredeemed Notes based on expected customer redemption. We estimate, based on historical usage, that 6% of Notes will be unredeemed and recognized as revenue. Prior to 2018, we estimated the net cost of Notes that will be issued and redeemed and recorded this cost as rewards points were accumulated. These costs, as well as reimbursed alterations, were recorded in cost of sales as we provided customers with products and services for these rewards.

GIFT CARDS

We record deferred revenue from the sale of gift cards at the time of purchase. As gift cards are redeemed, we recognize revenue and reduce our contract liability. Though our gift cards do not have an expiration date, we include this deferred revenue in other current liabilities on the Condensed Consolidated Balance Sheet as customers can redeem gift cards at any time.

As of August 4, 2018, our outstanding performance obligation for unredeemed gift cards was \$296. Almost all gift cards are redeemed within two years of issuance. We record breakage revenue on unused gift cards based on expected customer redemption. We estimate, based on historical usage, that 2% will be unredeemed and recognized as revenue. Prior to 2018, gift card breakage was recorded in selling, general and administrative expenses and was estimated based on when redemption was considered remote.

Contract Liabilities

Under the new Revenue Standard, contract liabilities represent our obligation to transfer goods or services to customers and include deferred revenue for our loyalty program (including points and Notes) and gift cards. Our contract liabilities are classified as current on the Condensed Consolidated Balance Sheet. Our contract liabilities are as follows:

	Contract Liabilities
Opening balance as of February 4, 2018	\$498
Balance as of May 5, 2018	460
Ending balance as of August 4, 2018	445

The amount of revenue recognized from our beginning contract liability balance was \$77 in the second quarter ended 2018 and \$228 for the six months ended August 4, 2018.

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Disaggregation of Revenue

The following table summarizes our disaggregated net sales:

	Quarter Ended		Six Months Ended	
	August 4, 2018	July 29, 2017	August 4, 2018	July 29, 2017
Full-Price ¹	\$2,707	\$2,850	\$4,948	\$5,006
Off-Price ¹	1,273	1,189	2,502	2,341
Other ¹	—	(322)	—	(351)
Total net sales	\$3,980	\$3,717	\$7,450	\$6,996

Digital sales as % of total net sales² 34 % 29 % 31 % 27 %

¹ We present our sales with how management views our results internally, including presenting 2018 under the new Revenue Standard and allocating our sales return reserve and the loyalty related adjustments to Full-Price and Off-Price. Amounts in 2018 related to adoption of the new Revenue Standard have not been recast for any prior periods due to the modified retrospective method of adoption. For 2017, Other primarily included unallocated sales return, in-transit and loyalty related adjustments necessary to reconcile sales by business to total net sales. If we applied the sales return reserve allocation and the loyalty related adjustments to the second quarter and six months ended July 29, 2017, Full-Price net sales would decrease \$254 and \$271, Off-Price net sales would decrease \$11 and \$28 and Other net sales would increase \$265 and \$299. This activity is typically higher at the end of the second quarter primarily due to the seasonal timing of the Anniversary Sale.

² Digital sales are online sales and digitally assisted store sales which include Buy Online, Pickup in Store (“BOPUS”), Reserve Online, Try on in Store (Store Reserve) and Style Boards, a digital selling tool.

The following table summarizes the percent of net sales by merchandise category:

	August 4, 2018	
	Quarter Ended	Six Months Ended
Women’s Apparel	32	% 33
Shoes	23	% 24
Men’s Apparel	17	% 16
Women’s Accessories ¹	11	% 11
Beauty	11	% 11
Kids’ Apparel	4	% 3
Other	2	% 2
Total	100	% 100

NOTE 3: SEGMENT REPORTING

We continually monitor and review our segment reporting structure in accordance with authoritative guidance to determine whether any changes have occurred that would impact our reportable segments. In the first quarter of 2018, as a result of the evolution of our operations, our reportable segments have become progressively more integrated such that we have changed to one reportable “Retail” segment to align with how management operates, evaluates and views the results of our operations. Our principal executive officer, who is our chief operating decision maker (“CODM”), reviews results on a total company, Full-Price and Off-Price basis and uses earnings before interest and taxes as a measure of profitability. We completed the reporting and budgeting in the first quarter of 2018 to better align with how the CODM allocates resources and assesses business performance. As part of this evolution, we now allocate our previous Credit segment results across our other businesses while credit assets are included in

Corporate/Other.

Our Retail segment aggregates our two operating segments, Full-Price and Off-Price. Full-Price consists of Nordstrom U.S. full-line stores, Nordstrom.com, Canada, Trunk Club, Jeffrey and Nordstrom Local. Off-Price consists of Nordstrom U.S. Rack stores, Nordstromrack.com/HauteLook and Last Chance clearance stores.

Our Full-Price and Off-Price operating segments both generate revenue by offering customers an extensive selection of high-quality, brand-name and private label merchandise, which includes apparel, shoes, cosmetics and accessories for women, men, young adults and children. We continue to focus on omni-channel initiatives by integrating the operations, merchandising and technology necessary to be consistent with our customers' expectations of a seamless shopping experience regardless of channel or business. Full-Price and Off-Price have historically had similar economic characteristics and are expected to have similar economic characteristics and long-term financial performance in future periods. They also have other similar qualitative characteristics, including suppliers, method of distribution, type of customer and regulatory environment. Due to their similar qualitative and economic characteristics, we have aggregated our Full-Price and Off-Price operating segments into a single reportable segment.

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The following table sets forth information for our reportable segment:

	Quarter Ended		Six Months Ended	
	August 2018	July 29, 2017	August 2018	July 29, 2017
Retail segment earnings before interest and income taxes ¹	\$313	\$359	\$530	\$545
Corporate/Other loss before interest and income taxes ¹	(67)	(142)	(131)	(177)
Interest expense, net	(28)	(29)	(56)	(76)
Earnings before income taxes	\$218	\$188	\$343	\$292

¹ We present our segment results with how management views our results internally, including allocating our sales return reserve and the loyalty related adjustments to Full-Price and Off-Price in 2018. Amounts in 2018 reflect the adoption of the new Revenue Standard, whereas 2017 amounts have not been recast due to the modified retrospective method of adoption described in Note 2: Revenue. If we applied the sales return reserve allocation and the loyalty related adjustments to the second quarter ended 2017 and six months ended July 29, 2017, Retail segment earnings before interest and income taxes would decrease \$74 and \$68 and Corporate/Other loss before interest and income taxes would decrease \$74 and \$68. This activity is typically higher at the end of the second quarter primarily due to the seasonal timing of the Anniversary Sale.

NOTE 4: DEBT AND CREDIT FACILITIES

Debt

A summary of our long-term debt, including capital leases, is as follows:

	August 4, 2018	February 3, 2018	July 29, 2017
Secured			
Mortgage payable, 7.68%, due April 2020	\$14	\$17	\$22
Other	—	1	1
Total secured debt	14	18	23
Unsecured			
Net of unamortized discount:			
Senior notes, 4.75%, due May 2020	500	500	499
Senior notes, 4.00%, due October 2021	500	500	500
Senior notes, 4.00%, due March 2027	349	349	349
Senior debentures, 6.95%, due March 2028	300	300	300
Senior notes, 7.00%, due January 2038	146	146	146
Senior notes, 5.00%, due January 2044	893	892	890
Other ¹	32	32	33
Total unsecured debt	2,720	2,719	2,717
Total long-term debt	2,734	2,737	2,740
Less: current portion	(54)	(56)	(11)
Total due beyond one year	\$2,680	\$2,681	\$2,729

¹ Other unsecured debt includes our Puerto Rico unsecured borrowing facility partially offset by deferred bond issue costs.

During the first quarter of 2017, we issued \$350 aggregate principal amount of 4.00% senior unsecured notes due March 2027 and \$300 aggregate principal amount of 5.00% senior unsecured notes due January 2044. With the proceeds of these new notes, we retired our \$650 senior unsecured notes that were due January 2018. We incurred \$18 of net interest expense related to the refinancing, which included the write-off of unamortized balances associated with the debt discount, issue costs and fair value hedge adjustment resulting from the sale of our interest rate swap agreements in 2012. It also included a one-time payment of \$24 to 2018 Senior Note holders under a make-whole provision, which represents the net present value of expected coupon payments had the notes been outstanding through the original maturity date.

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Credit Facilities

As of August 4, 2018, we had total short-term borrowing capacity of \$800 under our senior unsecured revolving credit facility (“revolver”) that expires in April 2020. Under the terms of our revolver, we pay a variable rate of interest and a commitment fee based on our debt rating. The revolver is available for working capital, capital expenditures and general corporate purposes. We have the option to increase the revolving commitment by up to \$200, to a total of \$1,000, provided that we obtain written consent from the lenders.

The revolver requires that we maintain an adjusted debt to earnings before interest, income taxes, depreciation, amortization and rent (“EBITDAR”) leverage ratio of no more than four times. As of August 4, 2018, we were in compliance with this covenant.

Our \$800 commercial paper program allows us to use the proceeds to fund operating cash requirements. Under the terms of the commercial paper agreement, we pay a rate of interest based on, among other factors, the maturity of the issuance and market conditions. The issuance of commercial paper has the effect, while it is outstanding, of reducing available liquidity under the revolver by an amount equal to the principal amount of commercial paper.

As of August 4, 2018, we had no issuances outstanding under our commercial paper program and no borrowings outstanding under our revolver.

Our wholly owned subsidiary in Puerto Rico maintains a \$52 unsecured borrowing facility to support our expansion into that market. The facility expires in Fall 2018 and borrowings on this facility incur interest based upon the LIBOR plus 1.275% per annum and also incur a fee based on any unused commitment. As of August 4, 2018, we had \$47 outstanding on this facility, which is included in the current portion of long-term debt.

NOTE 5: FAIR VALUE MEASUREMENTS

We disclose our financial assets and liabilities that are measured at fair value in our Condensed Consolidated Balance Sheets by level within the fair value hierarchy as defined by applicable accounting standards:

Level 1: Quoted market prices in active markets for identical assets or liabilities

Level 2: Other observable market-based inputs or unobservable inputs that are corroborated by market data

Level 3: Unobservable inputs that cannot be corroborated by market data that reflect the reporting entity’s own assumptions

Financial Instruments Not Measured at Fair Value

Financial instruments not measured at fair value on a recurring basis include cash and cash equivalents, accounts receivable, and accounts payable, which approximate fair value due to their short-term nature, and long-term debt.

We estimate the fair value of our long-term debt using quoted market prices of the same or similar issues and, as such, this is considered a Level 2 fair value measurement. The following table summarizes the carrying value and fair value estimate of our long-term debt, including current maturities:

	August 4, February 3, July 29,		
	2018	2018	2017
Carrying value of long-term debt	\$2,734	\$2,737	\$2,740
Fair value of long-term debt	2,797	2,827	2,908

Non-financial Assets Measured at Fair Value on a Nonrecurring Basis

We also measure certain non-financial assets at fair value on a nonrecurring basis, primarily goodwill and long-lived tangible and intangible assets, in connection with periodic evaluations for potential impairment. We estimate the fair value of these assets using primarily unobservable inputs and, as such, these are considered Level 3 fair value measurements. There were no material impairment charges for these assets for the six months ended August 4, 2018 and July 29, 2017.

NOTE 6: COMMITMENTS AND CONTINGENCIES

Plans for our Nordstrom NYC store, which we currently expect to open in 2019, ultimately include owning a condominium interest in a mixed-use tower and leasing certain nearby properties. As of August 4, 2018, we had approximately \$289 of fee interest in land, which is expected to convert to the condominium interest once the store is constructed. We have committed to make future installment payments based on the developer meeting pre-established construction and development milestones. In the event that this project is not completed, the opening may be delayed and we may be subject to future losses or capital commitments in order to complete construction or to monetize our investment.

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(Unaudited)

NOTE 7: SHAREHOLDERS' EQUITY

In February 2017, our Board of Directors authorized a program to repurchase up to \$500 of our outstanding common stock through August 31, 2018. During the six months ended August 4, 2018, we repurchased 1.8 shares of our common stock for an aggregate purchase price of \$87 and had \$327 remaining in share repurchase capacity as of August 4, 2018. There was \$319 of unused capacity upon program expiration on August 31, 2018.

In August 2018, subsequent to quarter end, our Board of Directors authorized an additional program to repurchase up to \$1,500 of our outstanding common stock, with no expiration date, and we declared a quarterly dividend of \$0.37 per share, which will be paid on September 19, 2018 to holders of record as of September 4, 2018. The actual timing, price, manner and amounts of future share repurchases, if any, will be subject to market and economic conditions and applicable Securities and Exchange Commission ("SEC") rules.

NOTE 8: STOCK-BASED COMPENSATION

The following table summarizes our stock-based compensation expense:

	Quarter Ended		Six Months Ended	
	August 2018	July 2017	August 2018	July 2017
Restricted stock units	\$22	\$15	\$40	\$28
Stock options	3	5	6	8
Other	3	4	5	5
Total stock-based compensation expense, before income tax benefit	28	24	51	41
Income tax benefit	(7)	(9)	(13)	(16)
Total stock-based compensation expense, net of income tax benefit	\$21	\$15	\$38	\$25

The following table summarizes our grant allocations:

	Six Months Ended			
	August 4, 2018		July 29, 2017	
	Granted	Weighted-average grant-date fair value per unit	Granted	Weighted-average grant-date fair value per unit
Restricted stock units	2.1	\$49	1.8	\$43
Stock options	—	—	0.3	\$16
Performance share units	—	—	0.1	\$40

NOTE 9: EARNINGS PER SHARE

The computation of earnings per share is as follows:

	Quarter Ended		Six Months Ended	
	August 2018	July 2017	August 2018	July 2017
Net earnings	\$162	\$110	\$249	\$173
Basic shares	167.8	166.4	167.8	166.8
Dilutive effect of common stock equivalents	2.5	2.1	2.5	2.0
Diluted shares	170.3	168.5	170.3	168.8
Earnings per basic share	\$0.97	\$0.66	\$1.48	\$1.04

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Earnings per diluted share	\$0.95	\$0.65	\$1.46	\$1.02
Anti-dilutive common stock equivalents	5.2	10.3	7.4	11.2

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

(Dollar and share amounts in millions except per share and per square foot amounts)

CAUTIONARY STATEMENT

Certain statements in this Quarterly Report on Form 10-Q contain or may suggest "forward-looking" information (as defined in the Private Securities Litigation Reform Act of 1995) that involve risks and uncertainties including, but not limited to, our anticipated financial outlook for the fiscal year ending February 2, 2019, our anticipated annual total and comparable sales rates, our anticipated new store openings in existing, new and international markets, our anticipated Return on Invested Capital and trends in our operations. Such statements are based upon the current beliefs and expectations of our management and are subject to significant risks and uncertainties. Our actual future results may differ materially from historical results or current expectations depending upon factors including, but not limited to:

Strategic and Operational

- successful execution of our customer strategy to provide a differentiated and seamless experience across all Nordstrom channels,
- timely and effective implementation of our plans to evolve our business model, including development of applications for electronic devices, improvement of customer-facing technology, timely delivery of products purchased digitally, enhancement of inventory management systems, greater and more fluid inventory availability between our digital channels and retail store locations, increased reliance on third parties and greater consistency in marketing and pricing strategies, as well as our ability to manage the costs associated with this evolving business model,
- our ability to evolve our business model as necessary to respond to the business and retail environment, as well as fashion trends and consumer preferences, including changing expectations of service and experience in stores and online,
- our ability to properly balance our investments in existing and new store locations, especially our investments in our Nordstrom Men's Store NYC and Nordstrom NYC and our Los Angeles market integration,
- successful execution of our information technology strategy, including engagement with third-party service providers,
- our ability to effectively utilize internal and third-party data in strategic planning and decision making,
- our ability to maintain or expand our presence, including timely completion of construction associated with new, relocated and remodeled stores and fulfillment and distribution centers, all of which may be impacted by third parties and consumer demand,
- efficient and proper allocation of our capital resources,
- effective inventory management processes and systems, fulfillment and supply chain processes and systems,
- disruptions in our supply chain and our ability to control costs,
- the impact of any systems or network failures, cybersecurity and/or security breaches, including any security breach of our systems or those of a third-party provider that results in the theft, transfer or unauthorized disclosure of customer, employee or Company information or compliance with information security and privacy laws and regulations in the event of such an incident,
- our ability to safeguard our reputation and maintain relationships with our vendors and third-party service providers,
- our ability to maintain relationships with and motivate our employees and to effectively attract, develop and retain our future leaders,
- our ability to realize the expected benefits, respond to potential risks and appropriately manage costs associated with our program agreement with TD,
- the effectiveness of planned advertising, marketing and promotional campaigns in the highly competitive and promotional retail industry,
- market fluctuations, increases in operating costs, exit costs and overall liabilities and losses associated with owning and leasing real estate,
- potential goodwill impairment charges, future impairment charges and fluctuations in the fair values of reporting units or of assets in the event projected financial results are not achieved within expected time frames,
- compliance with debt and operating covenants, availability and cost of credit, changes in our credit rating and changes in interest rates,

the timing, price, manner and amounts of future share repurchases by us, if any, or any share issuances by us,
Economic and External

the impact of the seasonal nature of our business and cyclical customer spending,

the impact of economic and market conditions and the resultant impact on consumer spending and credit patterns,

the impact of economic, environmental or political conditions in the U.S. and countries where our third-party vendors operate,

weather conditions, natural disasters, health hazards, national security or other market and supply chain disruptions,

including the effects of tariffs, or the prospects of these events and the resulting impact on consumer spending

patterns or information technology systems and communications,

Legal and Regulatory

our compliance with applicable domestic and international laws, regulations and ethical standards, including those related to employment and tax, and the outcome of claims and litigation and resolution of such matters,

the impact of the current regulatory environment and financial system, health care, and tax reforms,

the impact of changes in accounting rules and regulations, changes in our interpretation of the rules or regulations, or changes in underlying assumptions, estimates or judgments.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.
(Dollar and share amounts in millions except per share and per square foot amounts)

These and other factors, including those factors described in Part I, "Item 1A. Risk Factors" in our 2017 Annual Report on Form 10-K and Part II, "Item 1A. Risk Factors" in this Quarterly Report on Form 10-Q could affect our financial results and cause actual results to differ materially from any forward-looking information we may provide. We undertake no obligation to update or revise any forward-looking statements to reflect subsequent events, new information or future circumstances, except as may be required by law.

OVERVIEW

We strive to be the best fashion retailer in a digital world with our customer strategy centered on three strategic pillars: providing a compelling product offering, delivering outstanding services and experiences, and leveraging the strength of the Nordstrom brand. We are targeting higher shareholder returns through three key deliverables: growing market share, improving profitability and returns, and continuing our disciplined capital allocation approach.

Our second quarter results demonstrated our continued progress in executing our strategy and delivering on our long-term financial commitments:

• Net earnings of \$162, or \$0.95 per diluted share for the second quarter reflected a 7.1% net sales increase with growth across Full-Price and Off-Price.

• Through our market-leading presence, digital sales increased by 23% in the second quarter, compared with 20% for the same period last year.

• During the first day of our Anniversary Sale, we achieved record digital demand, surpassing our previous peak by 80% at 10 times our average daily demand. Digital sales accounted for more than 40% of our event.

• Our strategic brands enable us to provide customers with a compelling product offering. In the second quarter, strategic brand sales grew 13%, making up approximately 45% of Full-Price.

We continue to execute our local market strategy to drive increased customer engagement and gain market share.

• Starting in Los Angeles, our largest market, we are bringing our digital and physical assets together in a seamless ecosystem to deliver outstanding services and experiences.

This includes investments in our supply chain capabilities, which are a critical enabler to better serve customers, improve our efficiencies, and better leverage inventory in our local markets. We have identified sites for our West Coast fulfillment center and local omni-channel hub, which are scheduled to open in late 2019.

Our Nordstrom Local concepts are another component of our local market strategy to engage with customers through more convenient access to product and services, such as buy online pick up in store, alterations, store reserve, and personal styling. This fall, we plan to open two additional locations in the Los Angeles market.

We are encouraged with our progress and we plan 2018 to be an inflection point for long-term profitable growth. We are confident in our path forward and are well-positioned to achieve our financial plans for the year and over the long-term.

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

(Continued) (Amounts in millions except per share amounts)

RESULTS OF OPERATIONS

In our ongoing effort to enhance the customer experience, we are focused on providing customers with a seamless experience across our channels. We invested early in our omni-channel capabilities, integrating our operations, merchandising and technology across our stores and online, in both our Full-Price and Off-Price businesses. While our customers may engage with us through multiple channels, we know they value the overall Nordstrom brand experience and view us simply as Nordstrom, which is ultimately how we view our business. We have one Retail reportable segment in 2018 and analyze our results on a total Company basis.

We may not calculate certain metrics used to evaluate our business in a consistent manner among industry peers.

Provided below are definitions of metrics we present within our analysis:

• **Comparable Sales** – sales from stores that have been open at least one full year at the beginning of the year

• **Comparable sales** include sales from our online channels

• **Due to the 53rd week in 2017**, our 2018 comparable sales are reported on a like-for-like basis with no impact from event shifts or revenue recognition

• **Digital Sales** – online sales and digitally assisted store sales which include Buy Online, Pickup in Store (“BOPUS”), Reserve Online, Try on in Store (Store Reserve) and Style Board, a digital selling tool

• **Gross Profit** – net sales less cost of sales and related buying and occupancy costs

• **Inventory Turnover Rate** – trailing 12-months cost of sales and related buying and occupancy costs divided by the trailing 4-quarter average inventory

Net Sales

During the first quarter of 2018, we adopted the new revenue recognition standard using the modified retrospective adoption method. Results beginning in the first quarter of 2018 are presented under the new Revenue Standard, while prior period amounts are not adjusted. Also beginning in 2018, we aligned our sales presentation with how we view the results of our operations internally and how our customers shop with us, by our Full-Price and Off-Price businesses.

• **Full-Price** – Nordstrom U.S. full-line stores, Nordstrom.com, Canada, Trunk Club, Jeffrey and Nordstrom Local.

• **Off-Price** – Nordstrom U.S. Rack stores, Nordstromrack.com/HauteLook and Last Chance clearance stores

The following table summarizes net sales and comparable sales for the quarter and six months ended August 4, 2018, compared with the same periods in fiscal 2017:

	Quarter Ended		Six Months Ended	
	August 4, 2018	July 29, 2017	August 4, 2018	July 29, 2017
Net sales by business ¹ :				
Full-Price	\$2,707	\$2,850	\$4,948	\$5,006
Off-Price	1,273	1,189	2,502	2,341
Other	—	(322)	—	(351)
Total net sales	\$3,980	\$3,717	\$7,450	\$6,996
Comparable sales increase (decrease) by business:				
Full-Price	4.1	% 1.4	% 2.6	% (0.4)
Off-Price	4.0	% 3.1	% 2.2	% 2.7
Total Company	4.0	% 1.7	% 2.4	% 0.6
Digital sales as % of total net sales	34	% 29	% 31	% 27

¹ We present our sales with how management views our results internally, including presenting 2018 under the new Revenue Standard and allocating our sales return reserve to Full-Price and Off-Price. For 2017, Other primarily

included unallocated sales return, in-transit and loyalty related adjustments necessary to reconcile sales by business to total net sales.

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(Continued) (Amounts in millions except per share amounts)

Total Company net sales increased 7.1% and 6.5% for the second quarter ended 2018 and six months ended August 4, 2018, compared with the same periods in 2017. This included an increase of approximately 100 basis points in the second quarter and 200 basis points for the six months ended August 4, 2018, primarily due to the impact of the new Revenue Standard as it relates to the timing of the Anniversary Sale. We expect a corresponding decrease of approximately 100 basis points in the third quarter of 2018. We do not expect the impact of adopting the new Revenue Standard to be material for the year ended February 2, 2019. We do expect the impact of the 53rd week in 2017 to result in a decrease of approximately 100 basis points in 2018 compared with 2017. Digital sales increased 23% in the second quarter ended 2018 and 21% in the six months ended August 4, 2018 compared with the same periods in 2017. To date in fiscal 2018, we opened our Nordstrom Men's Store NYC and seven Nordstrom Rack stores and closed one full-line store and one Trunk Club clubhouse.

Full-Price net sales decreased 5.0% and 1.2% for the second quarter ended 2018 and six months ended August 4, 2018, compared with the same periods in 2017. This included a decrease of approximately 900 basis points for the second quarter and 400 basis points for the six months ended August 4, 2018, due primarily to the sales return reserve allocation and to a lesser extent the new Revenue Standard. We expect a corresponding increase of approximately 800 basis points in the third quarter of 2018 primarily related to the sales return reserve allocation. Full-Price sales reflected an increase in the average selling price per item sold and the number of items sold. The top-ranking merchandise categories were Kids' Apparel and Beauty for the quarter and six months ended August 4, 2018.

Off-Price net sales increased 7.0% and 6.9% for the second quarter ended 2018 and six months ended August 4, 2018, compared with the same periods in 2017. This reflected an increase in the number of items sold, partially offset by a decrease in the average selling price per item sold. The increase in sales included a decrease of approximately 150 basis points for the second quarter and 50 basis points for the six months ended August 4, 2018, primarily due to the new Revenue Standard. Shoes was the top-performing merchandise category for the quarter and six months ended August 4, 2018.

Credit Card Revenue, Net

Credit program revenues, net includes our portion of the credit card revenue, net of credit losses, from credit card receivables pursuant to our program agreement with TD.

Credit card revenue, net was \$87 for the quarter ended August 4, 2018, compared with \$76 for the same period in 2017 and \$179 for the six months ended August 4, 2018, compared with \$152 for the same period in 2017. The increases of \$11 and \$27 for the quarter and six months ended August 4, 2018 were a result of our strategic partnership with TD to responsibly grow our receivables and associated revenues as well as efforts to drive new account growth.

Gross Profit

The following table summarizes gross profit:

	Quarter Ended		Six Months Ended	
	August 4, 2018	July 29, 2017	August 4, 2018	July 29, 2017
Gross profit	\$1,391	\$1,266	\$2,573	\$2,389
Gross profit as a % of net sales	35.0 %	34.0 %	34.5 %	34.2 %

	August 4, July 29,	
	2018	2017
Inventory turnover rate	4.74	4.53

Our gross profit rate increased 91 basis points for the second quarter ended 2018 and 39 basis points for the six months ended August 4, 2018, compared with the same periods in 2017. This increase included a favorable shift of \$30 million due to the impact of the new Revenue Standard as it relates to the timing of the Anniversary Sale, which is expected to fully reverse in the third quarter. In addition, the increase was driven by higher product margins from

favorable regular price selling trends and leverage on occupancy expenses. Continued inventory execution led to improvements in inventory turnover rate as of August 4, 2018. For additional information on the impacts of the new Revenue Standard, see Note 2: Revenue in Item 1.

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

(Continued) (Amounts in millions except per share amounts)

Selling, General and Administrative Expenses

Selling, general and administrative expenses ("SG&A") are summarized in the following table:

	Quarter Ended		Six Months Ended	
	August 4, July 29,		August 4, July 29,	
	2018	2017	2018	2017
Selling, general and administrative expenses	\$1,232	\$1,125	\$2,353	\$2,173
Selling, general and administrative expenses as a % of net sales	31.0 %	30.3 %	31.6 %	31.1 %

SG&A increased \$107 and 71 basis points for the second quarter ended 2018 and \$180 and 53 basis points for the six months ended August 4, 2018, primarily due to higher supply chain expenses related to planned growth and the Anniversary Sale.

Earnings Before Interest and Income Taxes

Earnings before interest and income taxes ("EBIT") are summarized in the following table:

	Quarter Ended		Six Months Ended	
	August 4, July 29,		August 4, July 29,	
	2018	2017	2018	2017
Earnings before interest and income taxes	\$246	\$217	\$399	\$368
Earnings before interest and income taxes as a % of net sales	6.2 %	5.8 %	5.4 %	5.3 %

EBIT increased \$29 and 33 basis points for the second quarter ended 2018 and \$31 and 10 basis points for the six months ended August 4, 2018. The increase in EBIT included a favorable shift of \$30 primarily due to the impact of the new Revenue Standard as it relates to the timing of the Anniversary Sale, which is expected to fully reverse in the third quarter.

Interest Expense, net

Interest expense, net was \$28 for the second quarter ended 2018, compared with \$29 for the same period in 2017, and \$56 for the six months ended August 4, 2018, compared with \$76 for the same period in 2017. The decrease for the six months ended August 4, 2018, is due to a net interest expense charge of \$18 related to the \$650 debt refinancing completed in the first quarter of 2017 (see Note 4: Debt and Credit Facilities in Item 1).

Income Tax Expense

Income tax expense is summarized in the following table:

	Quarter Ended		Six Months Ended	
	August 4, July 29,		August 4, July 29,	
	2018	2017	2018	2017
Income tax expense	\$56	\$78	\$94	\$119
Effective tax rate	25.7%	41.8 %	27.4%	40.7 %

The effective tax rate decreased for the second quarter ended 2018 and six months ended August 4, 2018, compared with the same periods in 2017, primarily due to the lower statutory tax rate enacted under the Tax Act.

Earnings Per Share

Earnings per share is as follows:

	Quarter Ended		Six Months Ended	
	August 4, July 29,		August 4, July 29,	
	2018	2017	2018	2017
Basic	\$0.97	\$0.66	\$1.48	\$1.04
Diluted	\$0.95	\$0.65	\$1.46	\$1.02

Earnings per diluted share increased \$0.30 for the second quarter ended 2018 and increased \$0.44 for the six months ended August 4, 2018, compared with the same periods in 2017 due to higher sales volume, a lower tax rate and the

impact of the new Revenue Standard as it relates to the timing of the Anniversary Sale.

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Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.
 (Continued) (Amounts in millions except per share amounts)

Fiscal Year 2018 Outlook

We raised our annual outlook expectations for sales and earnings per diluted share to incorporate our first half results. Our current expectations for fiscal 2018 are as follows:

	Prior Outlook	Current Outlook
Net sales	\$15.2 to \$15.4 billion	\$15.4 to \$15.5 billion
Credit card revenues	Mid-teens growth	Mid-teens growth
Comparable sales (percent)	0.5 to 1.5	1.5 to 2
EBIT	\$895 to \$940 million	\$925 to \$960 million
Earnings per diluted share (excluding the impact of any future share repurchases)	\$3.35 to \$3.55	\$3.50 to \$3.65

Our updated full year outlook incorporated the following assumptions:

For the second half of fiscal 2018, we expect the third quarter to contribute approximately 30 percent of EBIT and the fourth quarter to contribute approximately 70 percent of EBIT.

Third quarter EBIT margin is expected to deleverage on fixed expenses and reflect an unfavorable shift of \$30. This represents the reversal of the second quarter benefit of the new Revenue Standard as it relates to the timing of the Anniversary Sale.

Fourth quarter EBIT is expected to leverage from higher sales volume and reflect a favorable comparison of \$16 from a one-time employee investment in 2017 associated with last year’s tax reform. When normalizing for this one-time impact, we anticipate the fourth quarter’s EBIT contribution to the second half will be generally consistent with historical trends.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.
(Continued) (Amounts in millions except per share amounts)

Adjusted Return on Invested Capital ("Adjusted ROIC") (Non-GAAP financial measure)

We believe that Adjusted ROIC is a useful financial measure for investors in evaluating the efficiency and effectiveness of the capital we have invested in our business to generate returns. Adjusted ROIC adjusts our operating leases as if they met the criteria for capital leases or we had purchased the properties. This provides additional supplemental information that reflects the investment in our off-balance sheet operating leases, controls for differences in capital structure between us and our competitors and provides investors and credit agencies with another way to comparably evaluate the efficiency and effectiveness of our capital investments over time. In addition, we incorporate Adjusted ROIC into our executive incentive measures and it is an important indicator of shareholders' return over the long term.

We define Adjusted ROIC as our adjusted net operating profit after tax divided by our average invested capital using the trailing 12-month average. Adjusted ROIC is not a measure of financial performance under generally accepted accounting principles ("GAAP") and should be considered in addition to, and not as a substitute for, return on assets, net earnings, total assets or other financial measures prepared in accordance with GAAP. Our method of determining non-GAAP financial measures may differ from other companies' methods and therefore may not be comparable to those used by other companies. Estimated depreciation on capitalized operating leases and average estimated asset base of capitalized operating leases are not calculated in accordance with, or an alternative for, GAAP and should not be considered in isolation or as a substitution of our results as reported under GAAP. The financial measure calculated under GAAP which is most directly comparable to Adjusted ROIC is return on assets.

For the 12 fiscal months ended August 4, 2018, our Adjusted ROIC increased to 10.8% compared with 8.9% for the 12 fiscal months ended July 29, 2017. Results for the prior period were negatively impacted by approximately 310 basis points due to the Trunk Club non-cash goodwill impairment charge in the third quarter of 2016.

The following is a reconciliation of the components of Adjusted ROIC and return on assets:

	12 Fiscal Months Ended			
	August 4, 2018	July 29, 2017		
Net earnings	\$513	\$364		
Add: income tax expense ¹	329	346		
Add: interest expense	124	139		
Earnings before interest and income tax expense	966	849		
Add: rent expense, net	249	230		
Less: estimated depreciation on capitalized operating leases ²	(133)	(123)		
Adjusted net operating profit	1,082	956		
Less: estimated income tax expense	(422)	(438)		
Adjusted net operating profit after tax	\$660	\$518		
Average total assets	\$8,175	\$8,018		
Less: average non-interest-bearing current liabilities ³	(3,371)	(3,173)		
Less: average deferred property incentives and deferred rent liability ³	(635)	(646)		
Add: average estimated asset base of capitalized operating leases ²	1,962	1,636		
Average invested capital	\$6,131	\$5,835		
Return on assets ⁴	6.3	% 4.5	%	
Adjusted ROIC ⁴	10.8	% 8.9	%	

¹ Results for the 12 fiscal months ended August 4, 2018 include a \$42 unfavorable impact related to the Tax Act.

² Capitalized operating leases is our best estimate of the asset base we would record for our leases that are classified as operating if they had met the criteria for a capital lease or we had purchased the property. The asset base is calculated based upon the trailing 12-month average of the monthly asset base. The asset base for each month is calculated as the trailing 12 months of rent expense multiplied by eight. The multiple of eight times rent expense is a commonly used method of estimating the asset base we would record for our capitalized operating leases.

³ Balances associated with our deferred rent liability have been classified as long-term liabilities as of January 28, 2017.

⁴ Results for the 12 fiscal months ended July 29, 2017 include the \$197 impact of the Trunk Club non-cash goodwill impairment charge in the third quarter of 2016, which negatively impacted the prior period return on assets by approximately 230 basis points and Adjusted ROIC by approximately 310 basis points.

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

(Continued) (Amounts in millions except per share amounts)

LIQUIDITY AND CAPITAL RESOURCES

We strive to maintain a level of liquidity sufficient to allow us to cover our seasonal cash needs and to maintain appropriate levels of short-term borrowings. We believe that our operating cash flows, available credit facility and potential future borrowings are sufficient to meet our cash requirements for the next 12 months and beyond.

Over the long term, we manage our cash and capital structure to maximize shareholder return, maintain our financial position, manage refinancing risk and allow flexibility for strategic initiatives. We regularly assess our debt and leverage levels, capital expenditure requirements, debt service payments, dividend payouts, potential share repurchases and other future investments. We believe that as of August 4, 2018, our existing cash and cash equivalents on-hand of \$1,343, available credit facility of \$800 and potential future operating cash flows and borrowings will be sufficient to fund these scheduled future payments and potential long-term initiatives.

The following is a summary of our cash flows by activity:

Fiscal year	Six Months Ended	
	August 4, 2018	July 29, 2017
Net cash provided by operating activities	\$594	\$574
Net cash used in investing activities	(290)	(308)
Net cash used in financing activities	(142)	(354)

Operating Activities

Net cash provided by operating activities increased \$20 for the period ended August 4, 2018, compared with the same period in 2017, primarily due to the timing of the payments for inventory purchases and higher net earnings, partially offset by the timing of payroll and increased incentive compensation payouts, which included \$16 for our one-time investment in employees paid in 2018 in response to the Tax Act.

Investing Activities

Net cash used in investing activities decreased \$18 for the period ended August 4, 2018, compared with the same period in 2017, primarily due to planned reductions in capital expenditures, partially offset by the acquisitions of two retail technology companies, which were classified in other investing activities, net (see Note 1: Basis of Presentation in Item 1).

Financing Activities

Net cash used in financing activities decreased \$212 for the period ended August 4, 2018, compared with the same period in 2017, primarily due to decreased share repurchase activity.

Borrowing Activity

During the first quarter of 2017, we issued \$350 aggregate principal amount of 4.00% senior unsecured notes due March 2027 and \$300 aggregate principal amount of 5.00% senior unsecured notes due January 2044. We recorded debt issuance costs incurred as a result of the issuance in other financing activities, net in the Condensed Consolidated Statements of Cash Flows in Item 1. With the proceeds of these new notes, we retired our \$650 senior unsecured notes that were due January 2018.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.
(Continued) (Amounts in millions except per share amounts)

Free Cash Flow (Non-GAAP financial measure)

Free Cash Flow is one of our key liquidity measures, and when used in conjunction with GAAP measures, provides investors with a meaningful analysis of our ability to generate cash from our business. For the six months ended August 4, 2018, we had Free Cash Flow of \$388 compared with \$239 for the six months ended July 29, 2017. Beginning in the first quarter of fiscal 2018, we no longer adjust free cash flow for cash dividends paid. We believe this presentation is more reflective of our operating performance and more consistent with the way we manage our business, how our peers calculate free cash flows and prevailing industry practice. Prior period Free Cash Flow financial measures have been recast to conform with current period presentation.

Free Cash Flow is not a measure of financial performance under GAAP and should be considered in addition to, and not as a substitute for, operating cash flows or other financial measures prepared in accordance with GAAP. Our method of determining non-GAAP financial measures may differ from other companies' methods and therefore may not be comparable to those used by other companies. The financial measure calculated under GAAP which is most directly comparable to Free Cash Flow is net cash provided by operating activities. The following is a reconciliation of net cash provided by operating activities to Free Cash Flow:

	Six Months Ended	
	August 2018	July 29, 2017
Net cash provided by operating activities	\$594	\$574
Less: capital expenditures	(269)	(341)
Add: change in cash book overdrafts	63	6
Free Cash Flow	\$388	\$239

Adjusted EBITDA (Non-GAAP financial measure)

Adjusted earnings before interest, income taxes, depreciation and amortization ("EBITDA") is our key financial metric to reflect our view of cash flow from net earnings. Adjusted EBITDA excludes significant items which are non-operating in nature in order to evaluate our core operating performance against prior periods. The financial measure calculated under GAAP which is most directly comparable to Adjusted EBITDA is net earnings. As of August 4, 2018 and July 29, 2017, Adjusted EBITDA was \$697 and \$650.

Adjusted EBITDA is not a measure of financial performance under GAAP and should be considered in addition to, and not as a substitute for net earnings, overall change in cash or liquidity of the business as a whole. Our method of determining non-GAAP financial measures may differ from other companies' methods and therefore may not be comparable to those used by other companies. The following is a reconciliation of net earnings to Adjusted EBITDA:

	Six Months Ended	
	August 2018	July 29, 2017
Net earnings	\$249	\$173
Add: income tax expense	94	119
Add: interest expense, net	56	76
Earnings before interest and income taxes	399	368
Add: depreciation and amortization expenses	338	320
Less: amortization of deferred property incentives	(40)	(38)
Adjusted EBITDA	\$697	\$650

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

(Continued) (Amounts in millions except per share amounts)

Credit Capacity and Commitments

As of August 4, 2018, we had total short-term borrowing capacity of \$800 under our senior unsecured revolving credit facility ("revolver") that expires in April 2020. Under the terms of our revolver, we pay a variable rate of interest and a commitment fee based on our debt rating. The revolver is available for working capital, capital expenditures and general corporate purposes. We have the option to increase the revolving commitment by up to \$200, to a total of \$1,000, provided that we obtain written consent from the lenders.

Our wholly owned subsidiary in Puerto Rico maintains a \$52 unsecured borrowing facility to support our expansion into that market. The facility expires in Fall 2018 and borrowings on this facility incur interest based upon the LIBOR plus 1.275% per annum and also incur a fee based on any unused commitment. As of August 4, 2018, we had \$47 outstanding on this facility.

As of August 4, 2018, we had no issuances outstanding under our commercial paper program and no borrowings outstanding under our revolver.

Impact of Credit Ratings

Under the terms of our revolver, any borrowings we may enter into will accrue interest for Euro-Dollar Rate Loans at a floating base rate tied to LIBOR, for Canadian Dealer Offer Rate Loans at a floating rate tied to CDOR, and for Base Rate Loans at the highest of: (i) the Euro-Dollar rate plus 100 basis points, (ii) the federal funds rate plus 50 basis points and (iii) the prime rate.

The rate depends upon the type of borrowing incurred, plus in each case an applicable margin. This applicable margin varies depending upon the credit ratings assigned to our long-term unsecured debt. At the time of this report, our long-term unsecured debt ratings, outlook and resulting applicable margin were as follows:

	Credit Ratings	Outlook	Base Interest Rate	Applicable Margin
Moody's	Baa1	Stable	LIBOR	1.02 %
Standard & Poor's	BBB+	Stable	CDOR	1.02 %
			various	—

Should the ratings assigned to our long-term unsecured debt improve, the applicable margin associated with any such borrowings may decrease, resulting in a lower borrowing cost under this facility. Should the ratings assigned to our long-term unsecured debt worsen, the applicable margin associated with our borrowings may increase, resulting in a higher borrowing cost under this facility.

Debt Covenants

The revolver requires that we maintain an adjusted debt to earnings before interest, income taxes, depreciation, amortization and rent ("EBITDAR") leverage ratio of no more than four times. As of August 4, 2018, we were in compliance with this covenant.

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

(Continued) (Amounts in millions except per share amounts)

Adjusted Debt to EBITDAR (Non-GAAP financial measure)

Adjusted Debt to EBITDAR is one of our key financial metrics, and we believe that our debt levels are best analyzed using this measure. Our goal is to manage debt levels to maintain an investment-grade credit rating and operate with an efficient capital structure. In evaluating our debt levels, this measure provides a reflection of our credit worthiness that could impact our credit rating and borrowing costs. We also have a debt covenant that requires an adjusted debt to EBITDAR leverage ratio of no more than four times. As of August 4, 2018, our Adjusted Debt to EBITDAR was 2.5, and as of July 29, 2017, it was 2.4.

Adjusted Debt to EBITDAR is not a measure of financial performance under GAAP and should be considered in addition to, and not as a substitute for, debt to net earnings, net earnings, debt or other financial measures prepared in accordance with GAAP. Our method of determining non-GAAP financial measures may differ from other companies' methods and therefore may not be comparable to those used by other companies. The financial measure calculated under GAAP which is most directly comparable to Adjusted Debt to EBITDAR is debt to net earnings. The following is a reconciliation of the components of Adjusted Debt to EBITDAR and debt to net earnings:

	2018 ¹	2017 ¹
Debt	\$2,734	\$2,740
Add: estimated capitalized operating lease liability ²	1,993	1,841
Adjusted Debt	\$4,727	\$4,581
Net earnings	\$513	\$364
Add: income tax expense ³	329	346
Add: interest expense, net	115	136
Earnings before interest and income taxes	957	846
Add: depreciation and amortization expenses	683	646
Add: rent expense, net	249	230
Add: non-cash acquisition-related charges ⁴	1	204
Adjusted EBITDAR	\$1,890	\$1,926
Debt to Net Earnings ⁵	5.3	7.5
Adjusted Debt to EBITDAR	2.5	2.4

¹ The components of Adjusted Debt are as of August 4, 2018 and July 29, 2017, while the components of Adjusted EBITDAR are for the 12 months ended August 4, 2018 and July 29, 2017.

² Based upon the estimated lease liability as of the end of the period, calculated as the trailing 12 months of rent expense multiplied by eight. The multiple of eight times rent expense is a commonly used method of estimating the debt we would record for our leases that are classified as operating if they had met the criteria for a capital lease or we had purchased the property.

³ Results for the 12 fiscal months ended August 4, 2018 include a \$42 unfavorable impact related to the Tax Act.

⁴ Non-cash acquisition-related charges for the 12 months ended July 29, 2017 include the goodwill impairment charge of \$197 related to Trunk Club.

⁵ Results for the period ended July 29, 2017 include the \$197 impact of the Trunk Club goodwill impairment charge, which approximates 260 basis points.

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Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.
(Continued) (Amounts in millions except per share amounts)

CRITICAL ACCOUNTING ESTIMATES

The preparation of our financial statements requires that we make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and disclosure of contingent assets and liabilities. We base our estimates on historical experience and other assumptions that we believe to be reasonable under the circumstances. Actual results may differ from these estimates. We believe that the estimates, assumptions and judgments involved in the accounting policies referred to in our Annual Report on Form 10-K for the year ended February 3, 2018 have the greatest potential effect on our financial statements, so we consider these to be our critical accounting policies and estimates. Our management has discussed the development and selection of these critical accounting estimates with the Audit Committee of our Board of Directors.

Except as disclosed in Note 2: Revenue of Item 1, pertaining to our adoption of the new Revenue Standard, there have been no significant changes to our significant accounting policies as described in our Annual Report on Form 10-K filed with the SEC on March 19, 2018.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

We discussed our interest rate risk and our foreign currency exchange risk in Part II, “Item 7A. Quantitative and Qualitative Disclosures About Market Risk” in our 2017 Annual Report on Form 10-K filed with the SEC on March 19, 2018. There have been no material changes to these risks since that time.

Item 4. Controls and Procedures.

DISCLOSURE CONTROLS AND PROCEDURES

As of the end of the period covered by this Quarterly Report on Form 10-Q, the Company performed an evaluation under the supervision and with the participation of management, including our principal executive officer and principal financial officer, of the design and effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) under the Exchange Act). Based upon that evaluation, our principal executive officer and principal financial officer concluded that, as of the end of the period covered by this Quarterly Report, our disclosure controls and procedures were effective in the timely and accurate recording, processing, summarizing and reporting of material financial and non-financial information within the time periods specified within the SEC’s rules and forms. Our principal executive officer and principal financial officer also concluded that our disclosure controls and procedures were effective to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and principal financial officer, to allow timely decisions regarding required disclosure.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There have been no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) or 15d-15(f) of the Exchange Act) during our most recently completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II — OTHER INFORMATION

Item 1. Legal Proceedings.

We are subject from time to time to various claims and lawsuits arising in the ordinary course of business, including lawsuits alleging violations of state and/or federal wage and hour and other employment laws, privacy and other consumer-based claims. Some of these lawsuits include certified classes of litigants, or purport or may be determined to be class or collective actions and seek substantial damages or injunctive relief, or both, and some may remain unresolved for several years. We believe the recorded reserves in our Condensed Consolidated Financial Statements are adequate in light of the probable and estimable liabilities. As of the date of this report, we do not believe any currently identified claim, proceeding or litigation, either alone or in the aggregate, will have a material impact on our results of operations, financial position or cash flows. Since these matters are subject to inherent uncertainties, our view of them may change in the future.

Item 1A. Risk Factors.

There have been no other material changes to the risk factors we discussed in Part I, “Item 1A. Risk Factors” of our 2017 Annual Report on Form 10-K filed with the SEC on March 19, 2018, as updated by our subsequent quarterly report on Form 10-Q filed with the SEC on June 7, 2018.

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

(c) SHARE REPURCHASES

(Dollar and share amounts in millions, except per share amounts)

The following is a summary of our second quarter share repurchases:

	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
May 2018 (May 6, 2018 to June 2, 2018)	0.6	\$48.26	0.6	\$371
June 2018 (June 3, 2018 to July 7, 2018)	0.7	\$50.99	0.7	\$337
July 2018 (July 8, 2018 to August 4, 2018)	0.2	\$50.78	0.2	\$327
Total	1.5	\$49.81	1.5	

Our February 2017 Board authorized share repurchase program, which had \$327 of remaining capacity as of August 4, 2018, expired on August 31, 2018. There was \$319 of unused capacity upon program expiration. In August 2018, our Board of Directors authorized an additional program to repurchase up to \$1,500 of our outstanding common stock, with no expiration date. The actual timing, price, manner and amounts of future share repurchases, if any, will be subject to market and economic conditions and applicable SEC rules.

Item 6. Exhibits.

Exhibits are incorporated herein by reference or are filed or furnished with this report as set forth in the Exhibit Index on page 27 hereof.

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NORDSTROM, INC.

Exhibit Index

Exhibit		Method of Filing
<u>3.1</u>	<u>Bylaws, as amended and restated as of May 8, 2018</u>	Filed herewith electronically
<u>10.1</u>	<u>Nordstrom, Inc. 2002 Nonemployee Director Stock Incentive Plan (2018 Amendment)</u>	Filed herewith electronically
<u>31.1</u>	<u>Certification of Co-President required by Section 302(a) of the Sarbanes-Oxley Act of 2002</u>	Filed herewith electronically
<u>31.2</u>	<u>Certification of Chief Financial Officer required by Section 302(a) of the Sarbanes-Oxley Act of 2002</u>	Filed herewith electronically
<u>32.1</u>	<u>Certification of Co-President and Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>	Furnished herewith electronically
101.INS	XBRL Instance Document	Filed herewith electronically
101.SCH	XBRL Taxonomy Extension Schema Document	Filed herewith electronically
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	Filed herewith electronically
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document	Filed herewith electronically
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	Filed herewith electronically
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	Filed herewith electronically

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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.

NORDSTROM, INC.
(Registrant)

/s/ Anne L. Bramman
Anne L. Bramman
Chief Financial Officer
(Principal Financial
Officer)

Date: September 5, 2018

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