

OFFICE DEPOT INC  
Form 10-Q  
October 25, 2011  
Table of Contents

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

**Washington, DC 20549**

**FORM 10-Q**

(Mark One)

Quarterly Report Pursuant to Section 13 or 15 (d) of the  
Securities Exchange Act of 1934

For the quarterly period ended September 24, 2011

or

Transition Report Pursuant to Section 13 or 15 (d) of the  
Securities Exchange Act of 1934

For the transition period from to

Commission file number 1-10948

**Office Depot, Inc.**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**59-2661354**  
(I.R.S. Employer  
Identification No.)

**6600 North Military Trail; Boca Raton, Florida**  
(Address of principal executive offices)

**33496**  
(Zip Code)  
**(561) 438-4800**

(Registrant's telephone number, including area code)

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

## Edgar Filing: OFFICE DEPOT INC - Form 10-Q

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>

(Do not check if a smaller reporting company)

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

The number of shares outstanding of the registrant's common stock, as of the latest practicable date: At September 24, 2011 there were 280,467,693 outstanding shares of Office Depot, Inc. Common Stock, \$0.01 par value.

**Table of Contents**

**TABLE OF CONTENTS**

**PART I. FINANCIAL INFORMATION**

Item 1. Financial Statements

CONDENSED CONSOLIDATED BALANCE SHEETS

3

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

4

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

5

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

6

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

18

Item 3. Quantitative and Qualitative Disclosures About Market Risk

25

Item 4. Controls and Procedures

25

**PART II. OTHER INFORMATION**

Item 1. Legal Proceedings

27

Item 1A. Risk Factors

27

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

27

Item 6. Exhibits

28

**SIGNATURES**

EX 31.1

EX 31.2

EX 32

EX-101

**Table of Contents****PART I. FINANCIAL INFORMATION****Item 1. Financial Statements.****OFFICE DEPOT, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS****(In thousands, except share and per share amounts)****(Unaudited)**

	September 24, 2011	December 25, 2010	September 25, 2010
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 452,652	\$ 627,478	\$ 678,717
Receivables, net	918,580	963,787	987,013
Inventories	1,124,013	1,233,657	1,183,854
Prepaid expenses and other current assets	165,620	203,020	163,119
Total current assets	2,660,865	3,027,942	3,012,703
Property and equipment, net	1,081,905	1,157,013	1,219,151
Goodwill	61,608	19,431	19,431
Other intangible assets	36,752	21,840	22,634
Deferred income taxes	37,913	33,319	81,395
Other assets	291,448	309,892	313,628
Total assets	\$ 4,170,491	\$ 4,569,437	\$ 4,668,942
<b>Liabilities and stockholders' equity</b>			
Current liabilities:			
Trade accounts payable	\$ 877,090	\$ 1,080,276	\$ 1,045,121
Accrued expenses and other current liabilities	1,039,776	1,188,233	1,170,788
Income taxes payable	4,052	2,568	6,653
Short-term borrowings and current maturities of long-term debt	35,253	72,368	73,475
Total current liabilities	1,956,171	2,343,445	2,296,037
Deferred income taxes and other long-term liabilities	464,586	514,218	582,081
Long-term debt, net of current maturities	647,674	659,820	657,164
Total liabilities	3,068,431	3,517,483	3,535,282
Commitments and contingencies			
Redeemable preferred stock, net (liquidation preference \$368,516 in 2011 and 2010)	355,979	355,979	355,979
Stockholders' equity:			
Office Depot, Inc. stockholders' equity:			
Common stock — authorized 800,000,000 shares of \$.01 par value; issued and outstanding shares — 286,382,961 in 2011, 283,059,236 in December 2010 and 282,982,123 in September 2010	2,864	2,831	2,830
Additional paid-in capital	1,143,938	1,161,409	1,164,525

Edgar Filing: OFFICE DEPOT INC - Form 10-Q

Accumulated other comprehensive income	216,273	223,807	205,761
Accumulated deficit	(559,474)	(634,818)	(535,407)
Treasury stock, at cost 5,915,268 shares in 2011 and 2010	(57,733)	(57,733)	(57,733)
Total Office Depot, Inc. stockholders' equity	745,868	695,496	779,976
Noncontrolling interest	213	479	(2,295)
Total stockholders' equity	746,081	695,975	777,681
Total liabilities and stockholders' equity	\$ 4,170,491	\$ 4,569,437	\$ 4,668,942

*This report should be read in conjunction with the Notes to Condensed Consolidated Financial Statements ( Notes ) herein and the Notes to Consolidated Financial Statements in the Office Depot, Inc. Form 10-K filed February 22, 2011, as amended on April 6, 2011 (the 2010 Form 10-K/A ).*

**Table of Contents****OFFICE DEPOT, INC.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****(In thousands, except per share amounts)****(Unaudited)**

	13 Weeks Ended		39 Weeks Ended	
	September 24, 2011	September 25, 2010	September 24, 2011	September 25, 2010
Sales	\$ 2,836,737	\$ 2,899,717	\$ 8,519,838	\$ 8,671,162
Cost of goods sold and occupancy costs	1,981,717	2,070,534	5,992,578	6,161,560
Gross profit	855,020	829,183	2,527,260	2,509,602
Store and warehouse operating and selling expenses	672,621	665,905	2,013,170	1,998,339
General and administrative expenses	163,282	154,965	492,608	475,043
Operating profit	19,117	8,313	21,482	36,220
Other income (expense):				
Interest income	317	2,513	1,158	3,493
Interest expense	17,306	(6,093)	(19,512)	(40,456)
Miscellaneous income, net	5,536	11,189	19,869	21,969
Earnings before income taxes	42,276	15,922	22,997	21,226
Income tax benefit	(58,573)	(24,700)	(52,346)	(32,496)
Net earnings	100,849	40,622	75,343	53,722
Less: Net loss attributable to the noncontrolling interest	(23)	(632)	(1)	(1,066)
Net earnings attributable to Office Depot, Inc.	100,872	41,254	75,344	54,788
Preferred stock dividends	9,213	9,210	27,639	27,898
Net earnings available to common shareholders	\$ 91,659	\$ 32,044	\$ 47,705	\$ 26,890
Earnings per share:				
Basic	\$ 0.29	\$ 0.12	\$ 0.17	\$ 0.10
Diluted	0.28	0.12	0.17	0.10

## Edgar Filing: OFFICE DEPOT INC - Form 10-Q

### Weighted average number of common shares outstanding:

Basic	278,559	275,956	277,627	275,170
Diluted	357,036	275,956	277,627	275,170

*This report should be read in conjunction with the Notes herein and the Notes to Consolidated Financial Statements in the 2010 Form 10-K/A.*

**Table of Contents****OFFICE DEPOT, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(In thousands)****(Unaudited)**

	<b>39 Weeks Ended</b>	
	<b>September 24, 2011</b>	<b>September 25, 2010</b>
<b>Cash flows from operating activities:</b>		
Net earnings	\$ 75,343	\$ 53,722
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	157,761	155,681
Charges for losses on inventories and receivables	42,834	42,784
Changes in working capital and other	(255,945)	(70,301)
<b>Net cash provided by operating activities</b>	<b>19,993</b>	<b>181,886</b>
<b>Cash flows from investing activities:</b>		
Capital expenditures	(89,143)	(120,469)
Acquisition, net of cash acquired	(72,667)	(10,952)
Release of restricted cash	46,509	
Proceeds from assets sold and other	7,891	25,824
<b>Net cash used in investing activities</b>	<b>(107,410)</b>	<b>(105,597)</b>
<b>Cash flows from financing activities:</b>		
Proceeds from exercise of stock options	784	2,226
Acquisition of noncontrolling interests	(1,262)	(21,786)
Share transactions under employee related plans	(695)	(1,281)
Preferred stock dividends	(27,639)	(18,688)
Debt related fees	(9,945)	(4,688)
Net proceeds (payments) on long- and short-term borrowings	(58,583)	(2,669)
<b>Net cash used in financing activities</b>	<b>(97,340)</b>	<b>(46,886)</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>9,931</b>	<b>(10,584)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(174,826)</b>	<b>18,819</b>
Cash and cash equivalents at beginning of period	627,478	659,898
<b>Cash and cash equivalents at end of period</b>	<b>\$ 452,652</b>	<b>\$ 678,717</b>

*This report should be read in conjunction with the Notes herein and the Notes to Consolidated Financial Statements in the 2010 Form 10-K/A.*





---

**Table of Contents**

**OFFICE DEPOT, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**Note A Summary of Significant Accounting Policies**

**Basis of Presentation:** Office Depot, Inc., including consolidated subsidiaries, ( Office Depot ) is a global supplier of office products and services. Fiscal years are based on a 52- or 53-week period ending on the last Saturday in December. Fiscal year 2011 is a 53-week year, with the fourth quarter including 14 weeks of operations. The Condensed Consolidated Balance Sheet at December 25, 2010 has been derived from audited financial statements at that date. The condensed consolidated interim financial statements as of September 24, 2011 and September 25, 2010, and for the 13-week and 39-week periods ended September 24, 2011 (also referred to as the third quarter of 2011 and the year-to-date 2011 ) and September 25, 2010 (also referred to as the third quarter of 2010 and the year-to-date 2010 ) are unaudited. However, in our opinion, these financial statements reflect adjustments (consisting only of normal, recurring items) necessary to provide a fair presentation of our financial position, results of operations and cash flows for the periods presented. We have included the balance sheet from September 25, 2010 to assist in analyzing our company. The balance of short-term deferred income taxes in the September 25, 2010 balance sheet has been combined with prepaid expenses and other current assets to conform to presentations used at December 25, 2010 and September 24, 2011. Additionally, the valuation allowance and non-cash tax settlements and changes in working capital and other line items in the operating activities section, and proceeds from assets sold and other line items in the investing activities section, have been combined in the condensed consolidated statement of cash flows for the 39-week period ended September 25, 2010 to conform to the year-to-date 2011 presentation.

These interim results are not necessarily indicative of the results that should be expected for the full year. For a better understanding of Office Depot and its condensed consolidated financial statements, we recommend reading these condensed interim financial statements in conjunction with the audited financial statements which are included in our Annual Report on Form 10-K for the year ended December 25, 2010, as amended (the 2010 Form 10-K/A ), filed on April 6, 2011 with the U.S. Securities and Exchange Commission ( SEC ).

**Cash Management:** Our cash management process generally utilizes zero balance accounts which provide for the reimbursement of the related disbursement accounts on a daily basis. Accounts payable and accrued expenses as of September 24, 2011, December 25, 2010 and September 25, 2010 included \$45 million, \$64 million and \$54 million, respectively, of disbursements not yet presented for payment drawn in excess of our book deposit balances, after considering offset provisions. We may borrow to meet working capital and other needs throughout any given quarter, which may result in higher levels of borrowings and invested cash within the period. At the end of the quarter, excess cash may be used to minimize borrowings outstanding at the balance sheet date.

**New Accounting Pronouncements:** Effective for the first quarter of 2012, a new accounting standard will require the presentation of net income and other comprehensive income either as a continuous statement or as two separate statements. In past periods, we have presented the components of other comprehensive income as a separate statement for the full year and as a separate footnote for interim periods. We have not yet decided on the format that will be used in future periods. The standard will not change the recognition or measurement of net income or other comprehensive income.

In September 2011, the Financial Accounting Standards Board issued new guidance on testing goodwill for impairment. Entities will have an option of performing a qualitative assessment before calculating the fair value of their reporting units. If, based on the qualitative assessment, an entity concludes it is more likely than not that the fair value of the reporting unit exceeds its carrying value, quantitative testing for impairment is not necessary. The new accounting standard is applicable for goodwill impairment testing performed in years beginning after December 15, 2011 and early adoption is permitted.

There are no recently issued accounting standards that are expected to have a material effect on our financial condition, results of operations or cash flows.

**Table of Contents****Note B Asset Impairments, Exit Costs and Other Charges**

The company has been adversely affected by the downturn in the global economy in recent years and has taken actions to adapt to the changing and increasingly competitive conditions including closing stores and distribution centers ( DCs ), consolidating functional activities and disposing of businesses and assets. Exit costs related to these activities recognized during the year-to-date 2011 totaled approximately \$25 million. Of this amount, approximately \$17 million is included in Store and warehouse operating and selling expenses and approximately \$8 million is included in General and administrative expenses on the Condensed Consolidated Statement of Operations.

Exit cost accruals related to prior and current actions are as follows:

<i>(Dollars in millions)</i>	<b>Balance at December 25, 2010</b>	<b>Charges Incurred</b>	<b>Cash Payments</b>	<b>Currency and Other Adjustments</b>	<b>Balance at September 24, 2011</b>
Termination benefits	\$ 4	\$ 13	\$ (12)	\$ 5	\$ 5
Lease, contract, and other costs	113	22	(42)	5	98
<b>Total</b>	<b>\$ 117</b>	<b>\$ 35</b>	<b>\$ (54)</b>	<b>\$ 5</b>	<b>\$ 103</b>

The charges of \$35 million recognized during the year-to-date 2011 include approximately \$10 million of accretion, adjustments and settlements of lease obligations from facilities closed in prior years.

**Note C Stockholders Equity and Comprehensive Income**

The following table reflects the changes in stockholders equity attributable to both Office Depot and our noncontrolling subsidiary interests.

<i>(In thousands)</i>	<b>Attributable to Office Depot, Inc.</b>	<b>Attributable to noncontrolling interest</b>	<b>Total</b>
Stockholders equity at December 25, 2010	\$ 695,496	\$ 479	\$ 695,975
Comprehensive income:			
Net earnings (loss)	75,344	(1)	75,343
Other comprehensive income (loss)	(7,534)	14	(7,520)
Comprehensive income	67,810	13	67,823
Capital transactions with noncontrolling interests	(983)	(279)	(1,262)
Preferred stock dividends	(27,639)		(27,639)
Share transactions under employee related plans	63		63
Amortization of long-term incentive stock grants	11,121		11,121
Stockholders equity at September 24, 2011	\$ 745,868	\$ 213	\$ 746,081
Stockholders equity at December 26, 2009	\$ 786,415	\$ 2,827	\$ 789,242
Comprehensive income:			
Net earnings (loss)	54,788	(1,066)	53,722

Edgar Filing: OFFICE DEPOT INC - Form 10-Q

Other comprehensive income (loss):	(32,619)	337	(32,282)
Comprehensive income (loss)	22,169	(729)	21,440
Capital contributions from noncontrolling interest	(16,066)	(4,393)	(20,459)
Preferred stock dividends	(27,898)		(27,898)
Share transactions under employee related plans	945		945
Amortization of long-term incentive stock grants	14,411		14,411
Stockholders' equity at September 25, 2010	\$ 779,976	\$ (2,295)	\$ 777,681

**Table of Contents**

Comprehensive income includes all non-owner changes in stockholders' equity and consists of the following:

<i>(In thousands)</i>	<b>Third quarter</b>		<b>Year-to-Date</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Net earnings	\$ 100,849	\$ 40,622	\$ 75,343	\$ 53,722
Other comprehensive income (loss), net of tax where applicable:				
Foreign currency translation adjustments	(50,455)	51,323	(7,176)	(34,746)
Amortization of gain on cash flow hedge	(415)	(415)	(1,244)	(1,244)
Change in deferred pension	(179)	(644)	2	3,970
Change in deferred cash flow hedge	581	1,293	898	(16)
Other		(249)		(246)
Total other comprehensive income (loss), net of tax, where applicable	(50,468)	51,308	(7,520)	(32,282)
Comprehensive income (loss)	50,381	91,930	67,823	21,440
Comprehensive income (loss) attributable to the noncontrolling interest	(41)	64	13	(729)
Comprehensive income attributable to Office Depot, Inc.	\$ 50,422	\$ 91,866	\$ 67,810	\$ 22,169

**Note D Earnings Per Share**

The following table represents the calculation of net earnings per common share:

<i>(In thousands, except per share amounts)</i>	<b>Third quarter</b>		<b>Year-to-Date</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
<b>Basic Earnings Per Share</b>				
Numerator:				
Net earnings available to common shareholders	\$ 91,659	\$ 32,044	\$ 47,705	\$ 26,890
Assumed distribution to participating securities	(11,892)			
Assumed undistributed earnings available to common stock	79,767	32,044	47,705	26,890
Denominator:				
Weighted-average shares outstanding	278,559	275,956	277,627	275,170
Basic earnings per share	\$ 0.29	\$ 0.12	\$ 0.17	\$ 0.10
<b>Diluted Earnings Per Share</b>				
Numerator:				
Net earnings attributable to Office Depot, Inc.	\$ 100,872	\$ 41,254	\$ 75,344	\$ 54,788
Denominator:				
Weighted-average shares outstanding	278,559	275,956	277,627	275,170
Effect of dilutive securities:				
Stock options and restricted stock	4,774	6,129	5,583	6,961
Redeemable preferred stock	73,703	73,703	73,703	73,667

Edgar Filing: OFFICE DEPOT INC - Form 10-Q

Diluted weighted-average shares outstanding	357,036	355,788	356,913	355,798
Diluted earnings per share	\$ 0.28	N/A	N/A	N/A

**Table of Contents**

Following the company's issuance of the redeemable preferred stock, basic earnings per share is computed after consideration of preferred stock dividends. Shares of the redeemable preferred stock have equal dividend participation rights with common stock. The company has never paid a dividend on common stock, but the participation provisions require application of the two-class method of computing earnings per share, unless that method is antidilutive. The first step in the Basic EPS calculation assumes distribution of earnings after preferred stock to all securities, based on their contractual rights. Because the redeemable preferred stock participates equally with common shares, without duplication, the calculation assumes proportional distribution to all securities. For the third quarter of 2011, Basic EPS for common shares is \$0.29, all undistributed. Basic EPS for the redeemable preferred shares is also \$0.29, composed of \$0.13 distributed and \$0.16 undistributed. The two-class method of calculating EPS is antidilutive in all other periods presented.

The diluted EPS calculation under the two-class method includes two tests to determine the most dilutive. These tests, and the diluted EPS calculation which includes the dilutive impact of stock options and restricted stock under the treasury stock method and redeemable preferred stock under the if-converted method, result in diluted EPS for the third quarter of 2011 of \$0.28. The diluted EPS calculation for all other periods presented was antidilutive. The share amounts have been presented for informational purposes.

The quarterly preferred stock dividends payable on April 1, 2010 through October 1, 2011 were paid in cash. Should the company pay dividends on preferred shares in-kind during future periods, the earnings per share attributable to preferred and common shareholders may be different.

Awards of options and nonvested shares representing approximately 16.0 million and 12.4 million additional shares of common stock were outstanding for the third quarter and year-to-date 2011, and 13.2 million and 13.5 million for the third quarter and year-to-date 2010, respectively, but were not included in the computation of diluted earnings per share because their effect would have been antidilutive. For purposes of calculating weighted average shares, no tax benefits have been assumed in jurisdictions with deferred tax valuation allowances.

**Note E Division Information**

Office Depot operates in three segments: North American Retail Division, North American Business Solutions Division, and International Division. The following is a summary of our significant accounts and balances by segment (or Division), reconciled to consolidated totals.

<i>(In thousands)</i>	<b>Sales</b>			
	<b>Third quarter</b>		<b>Year-to-Date</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
North American Retail Division	\$ 1,232,692	\$ 1,280,081	\$ 3,633,384	\$ 3,728,520
North American Business Solutions Division	820,864	841,824	2,430,431	2,492,678
International Division	783,181	777,812	2,456,023	2,449,964
Total	\$ 2,836,737	\$ 2,899,717	\$ 8,519,838	\$ 8,671,162

<i>(In thousands)</i>	<b>Division Operating Profit</b>			
	<b>Third quarter</b>		<b>Year-to-Date</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
North American Retail Division	\$ 41,904	\$ 29,662	\$ 102,363	\$ 111,288
North American Business Solutions Division	39,145	25,073	100,370	59,328
International Division	19,460	29,670	59,862	90,171
Total	\$ 100,509	\$ 84,405	\$ 262,595	\$ 260,787

**Table of Contents**

A reconciliation of the measure of Division operating profit to consolidated earnings before income taxes is as follows:

<i>(In thousands)</i>	<b>Third quarter</b>		<b>Year-to-Date</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Total Division operating profit	\$ 100,509	\$ 84,405	\$ 262,595	\$ 260,787
Unallocated general and administrative expenses	(77,309)	(74,580)	(229,874)	(223,517)
Unallocated corporate expenses	(4,083)	(1,512)	(11,239)	(1,050)
Interest income	317	2,513	1,158	3,493
Interest expense	17,306	(6,093)	(19,512)	(40,456)
Miscellaneous income, net	5,536	11,189	19,869	21,969
<b>Earnings before income taxes</b>	<b>\$ 42,276</b>	<b>\$ 15,922</b>	<b>\$ 22,997</b>	<b>\$ 21,226</b>

During the first quarter of 2011, the company acquired Svanströms Gruppen (Frans Svanströms & Co AB), an entity that sells office supplies and services in Sweden. The operations and assets of this entity have been included in the International Division since acquisition. See Note L.

Our Condensed Consolidated Balance Sheet as of September 24, 2011 reflects a goodwill balance of approximately \$61.6 million, and on each of December 25, 2010 and September 25, 2010, a balance of approximately \$19.4 million. The gross amount of goodwill and the amount of accumulated impairment losses as of September 24, 2011 are provided in the following table:

<i>(Dollars in thousands)</i>	<b>North American Retail Division</b>	<b>North American Business Solutions Division</b>	<b>International Division</b>	<b>Total</b>
Balance as of December 26, 2009				
Goodwill	\$ 1,842	\$ 367,790	\$ 863,134	\$ 1,232,766
Accumulated impairment losses	(1,842)	(348,359)	(863,134)	(1,213,335)
Balance as of December 25, 2010		19,431		19,431
2011 Changes:				
Goodwill acquired during the year			45,805	45,805
Foreign currency exchange rate changes			(3,628)	(3,628)
Balance as of September 24, 2011	\$	\$ 19,431	\$ 42,177	\$ 61,608

The company's accounting policy is to test for goodwill impairment during the fourth quarter each year but, should events occur or circumstances change, that more likely than not would reduce a reporting unit's fair value below its carrying value, that test would be accelerated. No substantive indicators have been identified through the end of the third quarter of 2011 that would change the timing of our annual impairment test.

**Note F Employee Benefit Plans****Pension Disclosures**

The components of net periodic pension cost for our foreign pension plan are as follows:



Edgar Filing: OFFICE DEPOT INC - Form 10-Q

<i>(In millions)</i>	<b>Third quarter</b>		<b>Year-to-Date</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Service cost	\$	\$	\$	\$
Interest cost	2.5	2.7	7.4	7.8
Expected return on plan assets	(2.4)	(2.1)	(7.1)	(5.9)
Net periodic pension cost (gain)	\$ 0.1	\$ 0.6	\$ 0.3	\$ 1.9

---

**Table of Contents**

The pension plan was part of an entity acquired in 2003. The plan was curtailed and frozen in 2008 and no future service cost will be recognized. The original Sale and Purchase Agreement ( SPA ) included a provision whereby the seller is required to pay to the company an amount of unfunded benefit obligation as measured based on certain 2008 data. The calculation was completed by the plan's actuary, but the amount was disputed by the seller. Under the SPA, any dispute on this matter that could not be resolved between the parties would progress to arbitration, which would be a final ruling. On March 7, 2011, the arbitration tribunal issued its final decision, declaring, among other things, that the seller must pay the company approximately GBP 42.2 million (\$65.3 million at September 24, 2011 exchange rates) plus interest at EURIBOR plus 50 basis points accruing from January 31, 2009 until paid. The seller is seeking annulment of the tribunal's findings in the French courts and the company is seeking to enforce the award. The timing of resolution of this matter cannot currently be estimated.

The company will account for the award when received. The amount received, adjusted for any related assets, liabilities or expenses, will result in a credit to the consolidated statement of operations. Funds collected will be contributed to the pension plan, reducing or eliminating its unfunded position. This settlement and contribution will be addressed with the plan trustees in determining future funding requirements.

**Note G Income Taxes**

The effective tax rate for the third quarter and year-to-date 2011 was -139% and -228%, respectively, compared to -155% and -153% for the same periods of 2010. The rates for all periods presented reflect settlement of uncertain tax positions ( UTPs ). The 2011 rates include the reversal of \$66 million of UTP accruals following closure of certain tax audits and the expiration of the statute of limitations on previously open tax years. The 2010 effective rates include tax benefits from the settlement of UTPs and filing adjustments of approximately \$33 million for the third quarter and year-to-date periods. In addition, the year-to-date 2010 period included approximately \$13 million of discrete benefits from the release of a valuation allowance in Europe because of improved performance in that jurisdiction.

The aggregate settlement of UTPs in the third quarter of 2010 was reduced by approximately \$7 million which was offset against other tax-related accounts and had no impact on earnings. The tax settlements also resulted in a reversal of previously accrued interest expense of \$32 million in 2011 and \$11 million in 2010, as well as recognition of \$2 million of interest income in 2010. Our accounting policy is to include accrued interest on UTPs, and any related reversals, as a component of interest expense in the condensed consolidated statement of operations. The reversal in 2011 resulted in interest expense for the third quarter of 2011 being negative.

Following the recognition of significant valuation allowances in 2009, we have regularly experienced substantial volatility in our effective tax rate for interim periods. Because deferred income tax benefits cannot be recognized in several jurisdictions, changes in the amount, mix and timing of projected pre-tax earnings in tax paying jurisdictions can have a significant impact on the annual expected tax rate ( AETR ) which, applied against year-to-date results, can result in significant volatility in the overall effective tax rate. This interim volatility is likely to continue in future periods until the valuation allowances can be released.

We file a U.S. federal income tax return and other income tax returns in various states and foreign jurisdictions. With few exceptions, we are no longer subject to active U.S. federal, state or local income tax examinations for years before 2009. The U.S. federal tax returns for 2009, 2010 and 2011 are under review. Significant international tax jurisdictions include the U.K., the Netherlands, France and Germany. Generally, we are subject to routine examination for years 2006 and forward in these foreign jurisdictions. It is reasonably possible that some audits will close within the next twelve months which could result in a decrease of as much as \$18 million or an increase of as much as \$7 million to our accrued uncertain tax positions.

As part of the ongoing 2009 audit, the U.S. Internal Revenue Service ( IRS ) has proposed a deemed royalty assessment from our foreign operations with a tax and penalty amount of approximately \$30 million. The company disagrees with this assessment and, based on the technical merits of this issue, believes that no accrual

**Table of Contents**

is required at this time. Also, no amounts are included for this assessment in the disclosure above of reasonably possible changes within the next twelve months to our accrued uncertain tax positions. The company is working with its outside tax advisors and the IRS to resolve this dispute in a timely manner. The company may receive similar proposed assessments for subsequent fiscal years until this matter is resolved. Separately, the company has filed with the IRS for reconsideration of some or all of the 2010 denied carryback claim. We cannot estimate the outcome of this request.

**Note H Fair Value Measurements**

The company applies authoritative accounting guidance for fair value measurements of financial and nonfinancial assets and liabilities. This guidance defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The related rules provide the following hierarchy for measuring fair value:

- Level 1: Quoted prices in active markets for identical assets or liabilities.
- Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.
- Level 3: Significant unobservable inputs that are not corroborated by market data. Generally, these fair value measures are model-based valuation techniques such as discounted cash flows or option pricing models using our own estimates and assumptions or those expected to be used by market participants.

Foreign currency contracts are valued at amounts receivable or payable to terminate the agreements at the reporting date and are based on observable market data for similar assets and liabilities. The carrying amounts of trade and other accounts receivable, trade and other accounts payable and other accrued expenses approximate fair value because of the short maturity of those instruments.

Fair value estimates may be required to measure certain assets and liabilities on a nonrecurring basis for asset impairments and exit cost valuations.

The following table summarizes the company's financial assets and liabilities measured at fair value on a recurring basis:

(In thousands)

	Level 2 Fair Value Measurement Category		
	September 24, 2011	December 25, 2010	September 25, 2010
<b>Assets</b>			
Commodity contracts - fuel	\$ 725	\$ 253	\$
Foreign exchange contracts	952		
<b>Liabilities:</b>			
Foreign exchange contracts	\$ 38	\$ 434	\$ 304

The company records its senior notes payable at par value, adjusted for amortization of a fair value hedge which was cancelled in 2005. The fair value of the senior notes indicated in the following table was determined based on quoted market prices.

(In thousands)

	September 24, 2011		December 25, 2010		September 25, 2010	
	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
\$400 million senior notes	\$ 399,998	\$ 388,000	\$ 400,067	\$ 398,000	\$ 400,093	\$ 393,480

The company regularly assesses the performance of each retail store against historic patterns and projections of future profitability for evidence of possible asset impairment. For the retail business, these projections are based on management's estimates of store-level sales, gross margins, direct expenses and resulting cash flows and, by their nature, include judgments about how current initiatives will impact future performance. If the anticipated cash flows of a store cannot support the carrying value of its assets, the projected cash flows are discounted to develop a Level 3 estimate of fair value. An impairment loss is recognized for the amount an individual store's carrying value exceeds its fair value. During the third quarter of 2011 and 2010, impairment charges of \$4.5 million and \$2.3 million, respectively, were recognized in the North American Retail Division. An additional \$0.7 million was recognized in the first quarter of 2011.



**Table of Contents****Note I Derivative Instruments and Hedging Activity**

As a global supplier of office products and services we are exposed to risks associated with changes in foreign currency exchange rates, commodity prices and interest rates. Our foreign operations are typically, but not exclusively, conducted in the currency of the local environment. We are exposed to the risk of foreign currency exchange rate changes when we make purchases, sell products, or arrange financings that are denominated in a currency different from the entity's functional currency. Depending on the settlement timeframe and other factors, we may enter into foreign currency derivative transactions to mitigate those risks. We may designate and account for such qualifying arrangements as hedges. Gains and losses on these cash flow hedging transactions are deferred in other comprehensive income ( OCI ) and recognized in earnings in the same period as the hedged item. Transactions that are not designated as cash flow hedges are marked to market at each period with changes in value included in earnings. Historically, we have not entered into transactions to hedge our net investment in foreign operations but may in future periods.

We also are exposed to the risk of changing fuel prices from inbound and outbound transportation arrangements. The structure of many of these transportation arrangements, however, precludes applying hedge accounting. In those circumstances, we may enter into derivative transactions to offset the risk of commodity price changes, and the value of the derivative contract is marked to market at each reporting period with changes recognized in earnings. To the extent fuel arrangements qualify for hedge accounting, gains and losses are deferred in OCI until such time as the hedged item impacts earnings. At the end of the third quarter of 2011, the company had contracts for approximately 3.1 million gallons of fuel that will be settled monthly through December 2011. Those contracts were not designated as hedging instruments.

Interest rate changes on our obligations may result from external market factors, as well as changes in our credit rating. We manage our exposure to interest rate risks at the corporate level. Interest rate sensitive assets and liabilities are monitored and assessed for market risk. Currently, no interest rate related derivative arrangements are in place. OCI includes the deferred gain from a hedge contract terminated in a prior period. This deferral is being amortized to interest expense through 2013.

Our risk management policies allow the use of specified financial instruments for hedging purposes only; speculation is not permitted.

The following tables provide information on our hedging and derivative positions and activity.

**Fair value of derivative instruments**

<i>(Dollars in thousands)</i>	<b>Balance sheet location</b>	<b>September 24, 2011</b>	<b>December 25, 2010</b>	<b>September 25, 2010</b>
<b>Derivatives designated as hedging instruments:</b>				
Foreign exchange contracts	Other current assets	\$ 559	\$	\$
Foreign exchange contracts	Other current liabilities		317	304
<b>Derivatives not designated as hedging instruments:</b>				
Foreign exchange contracts	Other current assets	\$ 393	\$	\$
Commodity contracts - fuel	Other current assets	725	253	
Foreign exchange contracts	Other current liabilities	38	117	
<b>Total derivative assets</b>		<b>\$ 1,677</b>	<b>\$ 253</b>	<b>\$</b>
<b>Total derivative liabilities</b>		<b>\$ 38</b>	<b>\$ 434</b>	<b>\$ 304</b>

**Table of Contents**

Derivatives not designated as hedging instruments (Dollars in thousands)	00000000	00000000	00000000	00000000	00000000
	Location of gain/(loss)	Amount of gain/(loss)			
	recognized in earnings	Third quarter		Year-to-Date	
		2011	2010	2011	2010
Foreign exchange contracts	Miscellaneous income, net	\$ (220)	\$	\$ (2,728)	\$
Commodity contracts fuel	Cost of goods sold and occupancy costs & Store and warehouse operating and selling expenses*	435		3,431	
Total		\$ 215	\$	\$ 703	\$

Derivatives designated as cash flow hedges: (Dollars in thousands)	Amount of gain/(loss)		Location of gain/(loss)	Amount of gain/(loss)	
	recognized in OCI		reclassified from OCI	reclassified from OCI	
	Third Quarter	Year-to-Date	into earnings	Third Quarter	Year-to-Date
	2011	2011		2011	2011
Foreign exchange contracts	\$ 581	\$ 1,346	Cost of goods sold and occupancy costs	\$ 95	\$ 450
Total	\$ 581	\$ 1,346		\$ 95	\$ 450

Derivatives designated as cash flow hedges: (Dollars in thousands)	Amount of gain/(loss)		Location of gain/(loss)	Amount of gain/(loss)	
	recognized in OCI		reclassified from OCI	reclassified from OCI	
	Third Quarter	Year-to-Date	into earnings	Third Quarter	Year-to-Date
	2010	2010		2010	2010
Foreign exchange contracts	\$ 554	\$ (2,317)	Cost of goods sold and occupancy costs	\$ (791)	\$ (2,246)
Total	\$ 554	\$ (2,317)		\$ (791)	\$ (2,246)

\* Approximately 60% of the amounts for 2011 and 2010 are reflected in cost of goods sold and occupancy costs. The remaining 40% of the amounts are reflected in store and warehouse operating and selling expenses.

The existing hedge contracts are highly effective and the ineffective portion is considered immaterial. As of September 24, 2011, the foreign exchange contracts extend through January 2012. Losses currently deferred in OCI are expected to be recognized in earnings within the next twelve months. There were no hedging arrangements requiring collateral. However, we may be required to provide collateral on certain arrangements in the future. The fair values of our foreign currency contracts and fuel contracts are the amounts receivable or payable to terminate the agreements at the reporting date, taking into account current exchange rates. The values are based on market-based inputs or

unobservable inputs that are corroborated by market data.

**Table of Contents****Note J Investment in Unconsolidated Joint Venture**

Since 1994, we have participated in a joint venture in Mexico, Office Depot de Mexico. Because we participate equally in this business with a partner, we account for this investment using the equity method. Our proportionate share of Office Depot de Mexico's net income is presented in miscellaneous income, net in the Condensed Consolidated Statements of Operations.

The following tables provide summarized unaudited information from the balance sheets and statements of earnings for Office Depot de Mexico:

<i>(In thousands)</i>	September 24, 2011	December 25, 2010	September 25, 2010
Current assets	\$ 302,491	\$ 328,854	\$ 281,221
Non-current assets	283,925	289,200	275,398
Current liabilities	197,762	202,834	163,658
Non-current liabilities	2,890	3,667	2,412

<i>(In thousands)</i>	Third quarter		Year-to-Date	
	2011	2010	2011	2010
Sales	\$ 308,128	\$ 255,228	\$ 851,937	\$ 682,983
Gross profit	87,819	72,449	245,256	195,833
Net income	17,553	17,313	49,247	41,952

During the second quarter of 2011, we received a \$25 million cash dividend from this joint venture. The dividend is included as an operating activity in the Condensed Consolidated Statement of Cash Flows.

**Note K Commitments and Contingencies**

We are involved in litigation arising in the normal course of our business. While, from time to time, claims are asserted that make demands for a large sum of money (including, from time to time, actions which are asserted to be maintainable as class action suits), we do not believe that contingent liabilities related to these matters (including the matters discussed below), either individually or in the aggregate, will materially affect our financial position, results of our operations or cash flows.

On April 6, 2011, a putative class action lawsuit was filed against the company and certain current and former executive officers alleging violations of the Securities Exchange Act of 1934 and seeking damages, fees, costs and equitable relief. The allegations made in this lawsuit primarily relate to the company's previous financial disclosures and reports regarding the certain tax losses described below. The lawsuit was filed in the United States District Court for the Southern District of Florida captioned as *Climo v. Office Depot, Inc, Steve Odland, Michael D. Newman and Neil R. Austrian*. The Court granted a request by the Central Laborers' Pension Fund (CLPF) to appoint it as lead plaintiff in the case and the CLPF filed its amended complaint on September 6, 2011. The company's response is due in November 2011.

On June 17, 2011, a derivative lawsuit was filed against certain current and former executive officers and the company, generally alleging that the officers breached their fiduciary duties. The allegations in this lawsuit primarily relate to the company's previous financial disclosures and reports regarding the certain tax losses described below. The derivative lawsuit was filed in the United States District Court for the Southern District of Florida captioned as *Long v. Steve Odland, Michael D. Newman and Neil R. Austrian, defendants, and Office Depot, Inc., nominal defendant*. A Special Litigation Committee was appointed by the company's Board of Directors to review the allegations and the Court agreed to stay the case pending the Board's investigation.



**Table of Contents**

The allegations made in the above lawsuits primarily relate to the company's previous financial disclosures and reports regarding certain tax losses. On March 31, 2011, Office Depot announced that the Internal Revenue Service had denied the company's claim to carry back certain tax losses to prior tax years under economic stimulus-based tax legislation enacted in 2009. As a result, on April 6, 2011, the company restated its financial results to revise the accounting treatment regarding its original tax position. The periods covered by the restatement are the fiscal year ended December 25, 2010 and each of the quarters ended June 26, 2010 and September 25, 2010.

In addition, in the ordinary course of business, our sales to and transactions with government customers may be subject to investigations, audits and review by governmental authorities and regulatory agencies, with which we cooperate. Many of these investigations, audits and reviews are resolved without incident. While claims in these matters may at times assert large demands, we do not believe that contingent liabilities related to these matters, either individually or in the aggregate, will materially affect our financial position, results of our operations or cash flows. Among such matters, during the first quarter of 2011, we were notified that the United States Department of Justice (DOJ) commenced an investigation into certain pricing practices related to an expired agreement that was in place between January 2, 2006 and January 1, 2011, pursuant to which state, local and non-profit agencies could purchase office supplies. We are cooperating with the DOJ on this investigation.

**Note L Acquisition**

On February 25, 2011, the company acquired all of the shares of Svanströms Gruppen (Frans Svanströms & Co AB), a supplier of office products and services headquartered in Stockholm, Sweden to complement the company's existing business in that region. As part of this all-cash transaction, the company recognized approximately \$46 million of goodwill, primarily attributable to anticipated synergies, \$20 million of amortizing intangible assets for customer relationships and proprietary names, and \$18 million of net working capital and property and equipment. The amortizing intangible assets have a weighted average life of 6.9 years. Operations have been included in the International Division results since the date of acquisition. Supplemental pro forma information as if the entities were combined at earlier periods is not provided based on materiality considerations.

**Note M Amended and Restated Agreements**

*Debt* On March 30, 2011, the company obtained from the lending institutions participating in the previously-existing credit agreement a waiver of default following identification of the need to restate the financial statements in our original Annual Report on Form 10-K filed on February 22, 2011.

On May 25, 2011, the company entered into a \$1.0 billion Amended and Restated Credit Agreement (the Amended Credit Agreement) with a group of lenders, most of whom participated in the company's previously-existing \$1.25 billion Credit Agreement. The Amended Credit Agreement extends the maturity date to May 25, 2016, reduces the applicable borrowing spread by 50 basis points, permits the company to redeem, tender or otherwise repurchase its existing 6.25% Senior Notes subject to a \$600 million minimum liquidity requirement (defined as cash on hand plus availability under the facility) and modifies certain covenants. The covenant modifications include:

- Lowering the availability threshold that would trigger maintenance of a fixed charge coverage ratio from \$187.5 million to \$125.0 million;
- Increasing the ability of the company and its subsidiaries to make investments, loans and advances by meeting a fixed charge coverage ratio of 1.0 and reduced availability test, or a new \$500 million minimum liquidity requirement;
- Permitting the company to pay up to \$75 million in restricted payments subject to a reduced \$500 million minimum liquidity requirement;
- and
- Permitting additional restricted payments based on meeting a fixed charge coverage ratio that was reduced from 1.25 to 1.10 and reduced availability test.

**Table of Contents**

*Private Label Credit Card* On June 20, 2011, the company entered into an amended and restated merchant services agreement effective June 1, 2011 with Citibank (South Dakota) N.A., the financial institution that previously provided and administered the company's private label credit card program. The agreement extends the arrangement for five years through September 30, 2016, eliminates recourse to the company for losses, obtains portfolio rights at termination, lowers the overall fees, and modifies other terms and conditions. Additionally, the previously-established funded bad debt reserve of approximately \$6 million was retained by the financial institution, eliminating recourse to the company for losses on the existing portfolio. As a result of this amendment to eliminate current and future recourse to the company, a previously-established unfunded bad debt accrual of approximately \$8 million has been reversed during the second quarter of 2011. The reversal is included in determination of operating profit for the North American Retail Division and North American Business Solutions Division. The \$17.5 million letter of credit existing at June 25, 2011, was reduced to \$12.0 million during the quarter, and is expected to be reduced further over the remaining term of the agreement. If sales under the program fall below a specified level on a rolling 12-month period over the first two years of the amended agreement, the company would be required to make a liquidating damage payment to the financial institution, though no such payment is currently anticipated.

---

## **Table of Contents**

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

#### **GENERAL**

Office Depot, Inc., together with our subsidiaries, is a global supplier of office products and services. We sell to consumers and businesses of all sizes through our three segments (or Divisions): North American Retail Division, North American Business Solutions Division, and International Division.

Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is intended to provide information to assist you in better understanding and evaluating our financial condition and results of operations. We recommend that you read this MD&A in conjunction with our condensed consolidated financial statements and the notes to those statements included in Item 1 of this Quarterly Report on Form 10-Q, as well as our 2010 Annual Report on Form 10-K, as amended on April 6, 2011 (the 2010 Form 10-K/A), filed with the U.S. Securities and Exchange Commission (the SEC).

This MD&A contains significant amounts of forward-looking information. Without limitation, when we use the words believe, estimate, plan, expect, intend, anticipate, continue, may, project, probably, should, could, will and similar expressions in this Quarterly Report we are identifying forward-looking statements (as such term is defined in the Private Securities Litigation Reform Act of 1995). Our discussion of Risk Factors, found in Item 1A of this Form 10-Q and our 2010 Form 10-K, and Forward-Looking Statements, found immediately following the MD&A in our 2010 Form 10-K/A, apply to these forward-looking statements.

#### **RESULTS OF OPERATIONS**

##### **OVERVIEW**

A summary of certain factors impacting results for the third quarter of 2011 is provided below and further discussed in the narrative that follows this overview.

Sales in the third quarter of 2011 decreased 2% compared to the third quarter of 2010. Excluding sales related to dispositions and deconsolidation in the fourth quarter of 2010 and an acquisition in the first quarter of 2011, constant currency sales in the third quarter of 2011 decreased 3% compared to the prior year.

Sales in the North American Retail Division were down 4%; comparable store sales were down 2%.

Sales in the North American Business Solutions Division were down 2%.

International Division sales increased 1% in U.S. dollars, decreased 7% in constant currencies and decreased 2%, excluding the dispositions and acquisitions.

Gross margin increased approximately 150 basis points in the third quarter of 2011 compared to the third quarter of 2010, with increases recognized in all Divisions.

Total operating expenses increased 2% for the third quarter of 2011 when compared to the third quarter of 2010. However, total operating expenses in 2011 include approximately \$6 million of restructuring-related charges and other costs intended to improve efficiency and benefit operations in future periods. Total operating expenses, adjusted for charges, foreign exchange, acquisitions and dispositions, decreased by \$1 million compared to the third quarter of 2010.

The effective tax rate for the third quarter of 2011 was negative 139% compared to negative 155% for the same period in 2010. Both periods include tax benefits from resolution of uncertain tax positions. Additionally, interest expense decreased in both quarterly periods from the reversal of accrued interest on those uncertain tax positions. The company continues to carry significant deferred tax asset valuation allowances that can cause the effective tax rate to show substantial volatility.

Diluted earnings per share was \$0.28 for the third quarter of 2011 compared to \$0.12 for the same period in 2010. Both periods included significant tax and interest benefits from the reversal of uncertain tax positions.

The full year 2011 is a 53 week reporting period. Accordingly, the fourth quarter 2011 will include 14 weeks.

**Table of Contents****DIVISION RESULTS**

The company is currently evaluating the management and reporting of several aspects of our business. Decisions reached as a result of this analysis may change the allocation of costs across businesses which could impact the historical presentation of Division operating profit. To the extent that changes are significant, prior period results will be recast to provide for a meaningful comparison across periods.

**North American Retail Division**

<i>(Dollars in millions)</i>	<b>Third quarter</b>		<b>Year-to-Date</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Sales	\$ 1,232.7	\$ 1,280.1	\$ 3,633.4	\$ 3,728.5
% change	(4)%	(1)%	(3)%	(3)%
Division operating profit	\$ 41.9	\$ 29.7	\$ 102.4	\$ 111.3
% of sales	3.4%	2.3%	2.8%	3.0%

Third quarter sales in the North American Retail Division were \$1.2 billion, down 4% from the prior year. Comparable store sales in the 1,108 stores that have been open for more than one year decreased 2% for the third quarter of 2011. The decline in comparable sales of computers and related products, which began in the later part of the second quarter of 2011, continued during the third quarter and contributed significantly to the Division's overall comparable sales decline. Positive comparable sales were reported in supplies, back-to-school essentials, technology services and copy and print offerings. Furniture sales were essentially flat. Average order value was slightly negative and customer transaction counts declined approximately 2% compared to the same period last year. The decline in total sales for the third quarter also reflects the closing of stores in Canada during the second quarter of 2011.

The North American Retail Division reported an operating profit of approximately \$42 million in the third quarter of 2011, compared to approximately \$30 million in the same period of 2010. The increase reflects gross margin improvements from a higher sales mix of supplies and less technology products, better management of pricing and promotions, and lower property costs. These benefits were partially offset by the negative flow through effect of lower sales, as well as higher expenses incurred during the quarter to fund key initiatives.

Sales for the year-to-date 2011 period decreased 3% compared to the same period in 2010; comparable store sales were 1% lower. Sales of technology and peripheral items such as software, personal computer accessories and storage devices have been lower than the prior year each quarter of 2011. Furniture sales increased for the nine month period of 2011 while sales in the supplies category were lower, but trending sequentially positive. Sales in our Copy and Print Depot increased in all quarters of 2011 compared to the prior year. Approximately \$12 million of charges related to the closure of the 10 remaining stores in Canada during the second quarter of 2011 were included in our measure of Division operating profit. The charges primarily relate to accrued lease costs as well as severance and closure costs. The improvement in operating profit after considering these charges reflects increased gross margins from lower property costs, lower promotional activity and the shift in product sales mix. Additionally, the year-to-date 2011 period includes benefits from reducing recourse provisions and changing the terms and conditions in the Office Depot private label credit card program during the second quarter, partially offset by the flow through effect of lower sales and expenses incurred to fund growth initiatives.

At the end of the third quarter of 2011, the North American Retail Division operated 1,132 stores. We opened three stores and closed two stores during the quarter.

**Table of Contents**North American Business Solutions Division

(Dollars in millions)	Third quarter		Year-to-Date	
	2011	2010	2011	2010
Sales	\$ 820.9	\$ 841.8	\$ 2,430.4	\$ 2,492.7
% change	(2)%	(4)%	(2)%	(6)%

Division operating profit	\$ 39.1	\$ 25.1	\$ 100.4	\$ 59.3
% of sales	4.8%	3.0%	4.1%	2.4%

Third quarter sales in the North American Business Solutions Division were \$821 million, a 2% decrease compared to the third quarter of 2010. Average order value was flat and transaction counts were lower. Third quarter 2011 sales in the direct channel were flat, compared to the same period in 2010, while sales in the contract channel declined 3%, consistent with the declines experienced earlier in the year from customers not retained during the January 2011 transition to our new public sector purchasing consortiums. Contract channel sales to large accounts and the Federal government increased, and sales to small-to medium-sized businesses decreased slightly. Sales of supplies, including paper and ink and toner were lower, partially offset by increases in sales in the cleaning and break room categories.

The North American Business Solutions Division reported operating profit of approximately \$39 million in the third quarter of 2011, compared to \$25 million in the same period of the prior year. This increase reflects higher gross margins, operational improvements and expense management. Initiatives put in place in prior quarters to improve the Division's overall cost structure contributed to lower distribution, advertising and payroll expenses. The Division is transitioning to an internal telephone account management process that is anticipated to provide more effective selling at lower costs in future periods.

Sales for the year-to-date 2011 period decreased 2% compared to the same period in 2010. Sales in the direct channel were down slightly and sales in the contract channel were down 3%, reflecting the same factors that impacted the third quarter sales comparison. Gross margins increased for the nine month period of 2011 compared to 2010 and operating expenses decreased. In addition to the operational improvements resulting in lower distribution, advertising and payroll expenses, the year-to-date period in 2011 includes approximately \$10 million of benefits recognized during the second quarter that may not recur in future periods. These items include the Division's portion of benefits from removing recourse provisions and changing the terms and conditions in the Office Depot private label credit card program and adjustments relating to customer incentive programs.

International Division

(Dollars in millions)	Third quarter		Year-to-Date	
	2011	2010	2011	2010
Sales	\$ 783.2	\$ 777.8	\$ 2,456.0	\$ 2,450.0
% change	1%	(10)%	%	(4)%
% change in constant currency	(7)%	(3)%	(6)%	(3)%
Division operating profit	\$ 19.5	\$ 29.7	\$ 59.9	\$ 90.2
% of sales	2.5%	3.8%	2.4%	3.7%

The International Division reported third quarter sales of \$783 million, reflecting an increase of 1% in U.S. dollars and a decrease of 7% in constant currencies compared to the third quarter of 2010. Excluding the revenue impact from the fourth quarter 2010 dispositions and deconsolidation, as well as the first quarter 2011 acquisition, constant currency sales were 2% lower than the comparable period of the prior year. The contract channel sales in constant currency increased overall with growth in the U.K. and Germany being partially offset from weakness in

**Table of Contents**

sales in the public sector in other European countries. Third quarter 2011 sales in the direct channel were lower across the Division. This negative trend in direct sales will continue to be an area of focus for the company. The retail channel sales decreased, after considering sales from the Division's business in Israel that was divested in late 2010 and the first quarter 2011 acquisition in Sweden.

The International Division reported third quarter 2011 operating profit of approximately \$19 million compared to \$30 million in the same period of 2010. Included in this measure of Division operating profit is approximately \$4 million of charges related to restructuring and process improvement activities. The charges primarily relate to severance and accrued lease costs, as well as costs incurred to drive process improvements. The remaining decline in Division operating profit reflects the negative flow through impact of lower constant currency sales as well as the absence of earnings in 2011 from our business in Israel that was divested in the fourth quarter of 2010. Also, certain pricing issues experienced in one European region during the first half of 2011 have improved but are not fully corrected. Initiatives put in place earlier in the year to lower the Division's cost structure are expected to continue throughout the remainder of 2011 and additional charges associated with these activities are anticipated. Benefits from initiatives to date have been reinvested in efforts to address sales declines. These and future activities are anticipated to provide benefits in future periods.

Sales for the year-to-date 2011 period were flat in U.S. dollars but declined 6% in constant currencies compared to the same period in 2010. Excluding the revenue impacts from prior year dispositions and the current year acquisition, constant currency sales were 1% lower when compared to the same period last year. Constant currency sales in the contract channel increased for the first nine months, while sales in the direct channel decreased. Retail sales, after considering the dispositions in 2010 and the acquisition in 2011, increased slightly. Division operating profit includes restructuring and process improvement charges of \$15 million for the year-to-date 2011 period. The remaining decrease in Division operating profit reflects the negative flow through of constant currencies sales decrease, as well as paper and price increases in one European region that were not able to be timely passed on to customers and competitive pressures.

The change in exchange rates positively impacted operating profit in U.S. dollars by approximately \$1 million and \$3 million, respectively, for the third quarter and first nine months of 2011, compared to the same periods in 2010.

**CORPORATE AND OTHER****General and Administrative Expenses**

The portion of General and Administrative ( G&A ) expenses considered directly or closely related to unit activity is included in the measurement of Division operating profit. Other companies may charge more or less G&A expenses and other costs to their segments, and our results therefore may not be comparable to similarly titled measures used by other entities. Our measure of Division operating profit should not be considered as an alternative to operating income or net earnings determined in accordance with accounting principles generally accepted in the United States of America.

Total G&A increased from \$155 million in the third quarter of 2010 to \$163 million in the third quarter of 2011. A breakdown of total G&A between the portion included in Division results and the portion considered corporate expenses is provided in the following table:

<i>(In millions)</i>	<b>Third quarter</b>		<b>Year-to-Date</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Division G&A	\$ 86.0	\$ 80.4	\$ 262.7	\$ 251.5
Corporate G&A	77.3	74.6	229.9	223.5
<b>Total G&amp;A</b>	<b>\$ 163.3</b>	<b>\$ 155.0</b>	<b>\$ 492.6</b>	<b>\$ 475.0</b>

**Table of Contents**

Total G&A includes restructuring and business process improvement charges of approximately \$5 million and \$17 million for the third quarter and year-to-date 2011 periods, respectively. No similar charges were recognized in the comparable periods of 2010. Of these amounts in 2011, approximately \$2 million and \$7 million for the third quarter and year-to-date periods, respectively, were included in Corporate G&A; the remainder was included in determination of Division operating profit discussed above. After considering the charges, the year-to-date difference primarily relates to variable pay amounts in the two periods.

Corporate expenses included in store and warehouse operating and selling expenses for the third quarter and year-to-date 2011 periods were approximately \$4 million and \$11 million, respectively, compared to approximately \$2 million and \$1 million in the same periods last year. The activity primarily relates to accretion, adjustments and settlements of lease obligations from facilities closed in prior years following our strategic review. The lease accretion is expected to total \$3 million for the remainder of 2011, but net corporate amounts may be impacted by gains, losses and adjustments related to the closed properties and leases that cannot be reasonably estimated at this time.

*Other income (expense)*

Interest expense in all periods was impacted by reversal of accrued interest following settlements of uncertain tax positions. Our accounting policy is to present interest accruals and reversals on uncertain tax positions as a component of interest expense. Reversals of \$32 million in the third quarter of 2011 and \$11 million in the third quarter of 2010 reduced reported interest expense for the respective quarterly and year-to-date periods. Additionally, approximately \$2 million of interest income was recognized in the third quarter of 2010 from one of the tax settlements.

Miscellaneous income, net for all periods presented is primarily attributable to earnings from our joint venture in Mexico, Office Depot de Mexico. Following an ownership restructuring in the fourth quarter of 2010, this caption also includes equity in earnings from our joint venture in India, though those impacts are not significant. The decrease in miscellaneous income, net for the third quarter of 2011 reflects earnings from the joint venture in Mexico of approximately \$9 million in both periods, partially offset by foreign currency losses in 2011 compared to foreign currency gains in 2010 and losses in 2011 from the company's deferred compensation plan. For the year-to-date period, joint venture earnings increased by approximately \$1 million to \$22 million, partially offset by losses on foreign currency and the deferred compensation plan.

*Operating Initiatives - Benefits and Costs*

Throughout 2011, the company has been implementing various initiatives to improve performance and control costs. These initiatives have provided benefits including approximately \$40 million from pricing and promotional effectiveness, \$20 million from reduced occupancy costs, \$40 million in reductions in indirect procurement and business process improvements and \$20 million in cost reductions. To fund these initiatives, we have incurred approximately \$30 million of incremental spending, including consulting fees, and reinvested approximately \$20 million for changes in selling, merchandising and marketing, and business process improvement staffing and activities. The year-to-date decline in sales have further offset the benefits from these initiatives such that the net pre-tax benefit for the first nine months of 2011 is estimated to be \$10 million. During that period, the company also recognized approximately \$34 million of restructuring-related charges and other costs. These items, together with other benefits realized such as reducing the recourse provisions and changing the terms and conditions to the Office Depot private label credit card are reflected in the change in operating profit for year-to-date 2011 compared to the same period in 2010. These benefits, costs, and impacts from sales declines have been included above in the presentation of Division operating profit or Corporate G&A, as appropriate. Additional benefits and costs are expected in future periods.

*Income Taxes*

The effective tax rate for the third quarter and year-to-date 2011 was -139% and -228%, respectively, compared to -155% and -153% for the same periods of 2010. The rates for all periods presented reflect settlement of uncertain tax positions ( UTPs ). The 2011 rates include the reversal of \$66 million of UTP accruals following closure of certain tax audits and the expiration of the statute of limitations on previously open tax years. The 2010 effective rates include tax benefits from the settlement of UTPs and filing adjustments of approximately \$33 million for the third quarter and year-to-date periods. In addition, the year-to-

---

**Table of Contents**

date 2010 period included approximately \$13 million of discrete benefits from the release of a valuation allowance in Europe because of improved performance in that jurisdiction.

The aggregate settlement of UTPs in the third quarter of 2010 was reduced by approximately \$7 million which was offset against other tax-related accounts and had no impact on earnings. The tax settlements also resulted in a reversal of previously accrued interest expense of \$32 million in 2011 and \$11 million in 2010, as well as recognition of \$2 million of interest income in 2010. Our accounting policy is to include accrued interest on UTPs, and any related reversals, as a component of interest expense in the condensed consolidated statement of operations. The reversal in 2011 resulted in interest expense for the third quarter of 2011 being negative.

Following the recognition of significant valuation allowances in 2009, we have regularly experienced substantial volatility in our effective tax rate for interim periods. Because deferred income tax benefits cannot be recognized in several jurisdictions, changes in the amount, mix and timing of projected pre-tax earnings in tax paying jurisdictions can have a significant impact on the annual expected tax rate ( AETR ) which, applied against year-to-date results, can result in significant volatility in the overall effective tax rate. This interim volatility is likely to continue in future periods until the valuation allowances can be released.

We file a U.S. federal income tax return and other income tax returns in various states and foreign jurisdictions. With few exceptions, we are no longer subject to active U.S. federal, state or local income tax examinations for years before 2009. The U.S. federal tax returns for 2009, 2010 and 2011 are under review. Significant international tax jurisdictions include the U.K., the Netherlands, France and Germany. Generally, we are subject to routine examination for years 2006 and forward in these foreign jurisdictions. It is reasonably possible that some audits will close within the next twelve months which could result in a decrease of as much as \$18 million or an increase of as much as \$7 million to our accrued uncertain tax positions.

As part of the ongoing 2009 audit, the U.S. Internal Revenue Service ( IRS ) has proposed a deemed royalty assessment from our foreign operations with a tax and penalty amount of approximately \$30 million. The company disagrees with this assessment and, based on the technical merits of this issue, believes that no accrual is required at this time. Also, no amounts are included for this assessment in the disclosure above of reasonably possible changes within the next twelve months to our accrued uncertain tax positions. The company is working with its outside tax advisors and the IRS to resolved this dispute in a timely manner. The company may receive similar proposed assessments for subsequent fiscal years until this matter is resolved. Separately, the company has filed with the IRS for reconsideration of some or all of the 2010 denied carryback claim. We cannot estimate the outcome of this request.

**New Accounting Pronouncements**

Effective for the first quarter of 2012, a new accounting standard will require the presentation of net income and other comprehensive income either as a continuous statement or as two separate statements. In past periods, we have presented the components of other comprehensive income as a separate statement for the full year and as a separate footnote for interim periods. We have not yet decided on the format that will be used in future periods. The standard will not change the recognition or measurement of net income or other comprehensive income.

In September 2011, the Financial Accounting Standards Board issued new guidance on testing goodwill for impairment. Entities will have an option of performing a qualitative assessment before calculating the fair value of their reporting units. If, based on the qualitative assessment, an entity concludes it is more likely than not that the fair value of the reporting unit exceeds its carrying value, quantitative testing for impairment is not necessary. The new accounting standard is applicable for goodwill impairment testing performed in years beginning after December 15, 2011 and early adoption is permitted.

There are no recently issued accounting standards that are expected to have a material effect on our financial condition, results of operations or cash flows.



---

**Table of Contents**

**LIQUIDITY AND CAPITAL RESOURCES**

During the second quarter of 2011, the company entered into a \$1.0 billion amended and restated credit agreement (the Amended Credit Agreement) which reduced and extended the previous \$1.25 billion agreement to May 25, 2016. The Amended Credit Agreement reduces the applicable borrowing spread, permits the company to redeem, tender or otherwise repurchase its existing 6.25% Senior Notes, subject to a \$600 million minimum liquidity requirement, and modifies certain covenants. See Note M of the Notes to the Condensed Consolidated Financial Statements for additional information.

At September 24, 2011, we had approximately \$453 million in cash and equivalents and another \$766 million available under the Amended Credit Agreement based on the September borrowing base certificate, for a total liquidity of approximately \$1.2 billion. We consider our resources adequate to satisfy our cash needs for at least the next twelve months.

At September 24, 2011, no amounts were drawn under the Amended Credit Agreement. The maximum month end amount outstanding during the third quarter of 2011 occurred in August at approximately \$43 million. There were letters of credit outstanding under the Amended Credit Agreement at the end of the quarter totaling approximately \$105 million. An additional \$0.2 million of letters of credit were outstanding under separate agreements. Average borrowings under the Amended Credit Agreement in the third quarter of 2011 were approximately \$41 million at an average interest rate of 3.59%. The maximum monthly average in the third quarter of 2011 occurred in August at approximately \$58 million.

We also had short-term borrowings of \$15 million at September 24, 2011 under various local currency credit facilities for our international subsidiaries that had an effective interest rate at the end of the third quarter of approximately 2.49%. Both the maximum month end amount and the maximum monthly average amount occurred in July at approximately \$16 million. The majority of these short-term borrowings represent outstanding balances on uncommitted lines of credit, which do not contain financial covenants.

The company was in compliance with all applicable financial covenants at September 24, 2011. On March 30, 2011, the company obtained from the lending institutions participating in the previously-existing credit agreement a waiver of default following identification of the need to restate the financial statements in our original Annual Report on Form 10-K filed on February 22, 2011.

Dividends on the company's redeemable preferred stock are payable quarterly, and will be paid in-kind or in cash, only to the extent that the company has funds legally available for such payment and a cash dividend is declared by the company's board of directors. All dividends during 2011 have been paid in cash.

During the year-to-date 2011 period, cash provided by operating activities totaled \$20 million, compared to cash provided by operating activities of \$182 million during the same period last year. This decrease primarily reflects changes in working capital and decreased business performance. Changes in foreign currency exchange rates and opening balances related to acquisitions impact working capital and other assets and liabilities reported on the condensed consolidated balance sheets but do not impact cash flow reporting. Changes in net working capital and other components resulted in a \$256 million use of cash in 2011, compared to a \$70 million use of cash in the year-to-date 2010 period. This greater use of cash reflects less of a decrease in receivables, a greater decrease in accounts payable, accrued expenses and deferred credits, which is slightly offset by a larger decrease in inventory in 2011 compared to the same period last year. The decrease in receivables reflects collection in 2010 of certain tax related amounts from tax loss carry backs that were not available in 2011. This activity is partially offset by a \$25 million dividend received from our joint venture in Mexico, Office Depot de Mexico, in the second quarter of 2011. No dividends were received in 2010. The decrease in inventory relates to the sell through of the back to school inventory as well as initiatives to further improve lowering our inventory to more sustainable levels through better managed safety stock and minimum presentation levels. The decrease in accounts payable, accrued expenses and deferred credits is attributable to the non-cash release of federal uncertain tax positions from prior periods and the decrease in trade and non trade accounts payable. We anticipate working capital improvements for the rest of 2011. Working capital is influenced by a number of factors including the flow of goods, credit terms, timing of promotions, vendor production planning, new product introductions and working capital management. For our accounting policy on cash management, see Note A of the Notes to Condensed Consolidated Financial Statements.

**Table of Contents**

Cash used in investing activities was \$107 million in the year-to-date 2011 period, compared to a use of cash of \$106 million in the same period last year. The use of cash for the 2011 period reflects capital expenditures of approximately \$89 million and approximately \$73 million for the first quarter 2011 acquisition of an entity in Sweden, partially offset by the release of restricted cash related to the Sweden acquisition that was held in escrow at December 25, 2010. During the year-to-date 2011 period, we received approximately \$7 million of proceeds from the disposition of assets. Investing activities for the year-to-date 2010 period included capital expenditures of approximately \$120 million and an \$11 million payment to complete an acquisition, partially offset by approximately \$25 million of proceeds from the disposition of assets.

Cash used in financing activities was approximately \$97 million for the year-to-date 2011 period, compared to a use of cash of \$47 million in the same period last year. During the year-to-date period 2011, we paid cash dividends on our convertible preferred stock of approximately \$28 million. Additionally, approximately \$9 million of dividends was accrued during the third quarter of 2011 and subsequently paid on October 3, 2011. Other outflows during the year-to-date period 2011 included net payments of approximately \$59 million on short-term and long-term borrowings as well as an additional \$10 million in fees related to the Amended Credit Agreement. Financing activities in the year-to-date period 2010 included \$22 million for the acquisition of noncontrolling interests, payment of cash dividends on preferred stock of \$19 million, net payments of approximately \$3 million on short-term and long-term borrowings, as well as an additional \$5 million in fees related to the amendment of our asset based credit facility.

**CRITICAL ACCOUNTING POLICIES**

Our condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. Preparation of these statements requires management to make judgments and estimates. Some accounting policies have a significant impact on amounts reported in these financial statements. A summary of significant accounting policies and a description of accounting policies that are considered critical may be found in our 2010 Form 10-K/A, filed on April 6, 2011, in Note A of the Notes to the Consolidated Financial Statements and the Critical Accounting Policies section of the Management's Discussion and Analysis of Financial Condition and Results of Operations.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk.****Interest Rate Risks**

At September 24, 2011, there had not been a material change in the interest rate risk information disclosed in the Market Sensitive Risks and Positions subsection of the Management's Discussion and Analysis of Financial Condition and Results of Operations set forth in Item 7 of our 2010 Form 10-K/A.

**Foreign Exchange Rate Risks**

At September 24, 2011, there had not been a material change in any of the foreign exchange risk information disclosed in the Market Sensitive Risks and Positions subsection of the Management's Discussion and Analysis of Financial Condition and Results of Operations set forth in Item 7 of our 2010 Form 10-K/A.

**Item 4. Controls and Procedures.****Evaluation of disclosure controls and procedures**

We maintain controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, as amended (the Exchange Act) is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be in this report is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure. Our management recognizes that any controls and procedures, no matter how well designed and operated, can only provide reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the possible controls and procedures. Each reporting period, the company carries out an evaluation, with the participation of its Chief Executive Officer (CEO), and Chief Financial Officer (CFO), of the effectiveness of the design and operation of the company's disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the Act).



**Table of Contents**

In April 2011, the company restated certain of its historical financial results to revise the accounting treatment regarding a tax position that was denied by the Internal Revenue Service. The company had claimed to carry back certain tax losses to prior tax years under economic stimulus-based tax legislation enacted in 2009.

Based on the evaluation, the CEO and CFO concluded that, due to the existence of a material weakness in internal control over financial reporting in the area of accounting for the income tax implications of complex transactions, the company's disclosure controls and procedures were not effective as of the end of the period covered by this report.

For additional information regarding the restatements of certain of the company's historical financial results and the material weakness identified by management, see Item 9A. Controls and Procedures in the company's Amendment No. 1 to its Annual Report on Form 10-K/A for the year ended December 25, 2010, filed on April 6, 2011 with the SEC.

**Changes in Internal Control over Financial Reporting**

There has been no change in the company's internal control over financial reporting that occurred during the company's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting. However, as a result of the identification of the issue that led to the restatements and the related reassessment of internal control over financial reporting in early April 2011, the company has developed certain remediation steps to address the material weakness and to improve its internal control over financial reporting. Specifically, the following steps are being implemented:

- increase the level of review and validation of work performed by management and third-party tax professionals in the preparation of our provision for income taxes; and
- require the involvement of two third-party subject matter experts for material and complex tax transactions.

We are committed to a strong internal control environment, and believe that these remediation actions represent significant improvements. The company anticipates that it will complete its testing of the additional internal control processes designed to remediate this material weakness in 2011; however, additional measures may be required, which may require additional implementation time. We will continue to assess the effectiveness of our remediation efforts in connection with management's future evaluations of internal control over financial reporting.

---

**Table of Contents**

**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings.**

We are involved in litigation arising in the normal course of our business. While, from time to time, claims are asserted that make demands for a large sum of money (including, from time to time, actions which are asserted to be maintainable as class action suits), we do not believe that contingent liabilities related to these matters (including the matters discussed below), either individually or in the aggregate, will materially affect our financial position, results of our operations or cash flows.

On April 6, 2011, a putative class action lawsuit was filed against the company and certain current and former executive officers alleging violations of the Securities Exchange Act of 1934 and seeking damages, fees, costs and equitable relief. The allegations made in this lawsuit primarily relate to the company's previous financial disclosures and reports regarding the certain tax losses described below. The lawsuit was filed in the United States District Court for the Southern District of Florida captioned as *Climo v. Office Depot, Inc, Steve Odland, Michael D. Newman and Neil R. Austrian*. The Court granted a request by the Central Laborers' Pension Fund (CLPF) to appoint it as lead plaintiff in the case and the CLPF filed its amended complaint on September 6, 2011. The company's response is due in November 2011.

On June 17, 2011, a derivative lawsuit was filed against certain current and former executive officers and the company, generally alleging that the officers breached their fiduciary duties. The allegations in this lawsuit primarily relate to the company's previous financial disclosures and reports regarding the certain tax losses described below. The derivative lawsuit was filed in the United States District Court for the Southern District of Florida captioned as *Long v. Steve Odland, Michael D. Newman and Neil R. Austrian, defendants, and Office Depot, Inc., nominal defendant*. A Special Litigation Committee was appointed by the company's Board of Directors to review the allegations and the Court agreed to stay the case pending the Board's investigation.

The allegations made in the above lawsuits primarily relate to the company's previous financial disclosures and reports regarding certain tax losses. On March 31, 2011, Office Depot announced that the Internal Revenue Service had denied the company's claim to carry back certain tax losses to prior tax years under economic stimulus-based tax legislation enacted in 2009. As a result, on April 6, 2011, the company restated its financial results to revise the accounting treatment regarding its original tax position. The periods covered by the restatement are the fiscal year ended December 25, 2010 and each of the quarters ended June 26, 2010 and September 25, 2010.

In addition, in the ordinary course of business, our sales to and transactions with government customers may be subject to investigations, audits and review by governmental authorities and regulatory agencies, with which we cooperate. Many of these investigations, audits and reviews are resolved without incident. While claims in these matters may at times assert large demands, we do not believe that contingent liabilities related to these matters, either individually or in the aggregate, will materially affect our financial position, results of our operations or cash flows. Among such matters, during the first quarter of 2011, we were notified that the United States Department of Justice (DOJ) commenced an investigation into certain pricing practices related to an expired agreement that was in place between January 2, 2006 and January 1, 2011, pursuant to which state, local and non-profit agencies could purchase office supplies. We are cooperating with the DOJ on this investigation.

**Item 1A. Risk Factors.**

There have been no material changes in our risk factors from those previously disclosed in our Annual Report on Form 10-K for the fiscal year ended December 25, 2010 filed on February 22, 2011.

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

The company's Amended Credit Agreement allows payment of cash dividends on preferred stock and share repurchases, in an aggregate amount of \$75 million per fiscal year subject to the satisfaction of certain liquidity requirements. Also, so long as investors in the redeemable preferred stock own at least 10% of the common stock voting rights, on an as-converted basis, the affirmative vote of a majority of the shares of preferred stock then outstanding and entitled to vote is required for the declaration or payment of a dividend on common stock. The company has never declared or paid cash dividends on its common stock.

**Table of Contents**

**Item 6. Exhibits.**

Exhibits

31.1	Rule 13a-14(a)/15d-14(a) Certification of CEO
31.2	Rule 13a-14(a)/15d-14(a) Certification of CFO
32	Section 1350 Certification
(101.INS)	XBRL Instance Document
(101.SCH)	XBRL Taxonomy Extension Schema Document
(101.CAL)	XBRL Taxonomy Extension Calculation Linkbase Document
(101.DEF)	XBRL Taxonomy Extension Definition Linkbase Document
(101.LAB)	XBRL Taxonomy Extension Label Linkbase Document
(101.PRE)	XBRL Taxonomy Extension Presentation Linkbase Document

**Table of Contents**

**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.

**OFFICE DEPOT, INC.**

(Registrant)

Date: October 25, 2011

By: /s/ Neil R. Austrian  
Neil R. Austrian  
Chief Executive Officer and

Chairman, Board of Directors  
(Principal Executive Officer)

Date: October 25, 2011

By: /s/ Michael D. Newman  
Michael D. Newman  
Executive Vice President and  
Chief Financial Officer  
(Principal Financial Officer)

Date: October 25, 2011

By: /s/ Mark E. Hutchens  
Mark E. Hutchens  
Senior Vice President  
  
and Controller  
(Principal Accounting Officer)