OFFICE DEPOT INC
Form 10-K
February 23, 2010
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-K

(Mark One)

x **Annual Report Pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934**
For the fiscal year ended December 26, 2009

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)	**59-2663954** (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)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered

Common Stock, par value $0.01 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ¨ No þ

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 þ 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

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 þ	Accelerated filer ¨	Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

The aggregate market value of voting stock held by non-affiliates of the registrant as of June 27, 2009 (based on the closing market price on the Composite Tape on June 26, 2009) was approximately $1,253,387,286 (determined by subtracting from the number of shares outstanding on that date the number of shares held by affiliates of Office Depot, Inc.).

The number of shares outstanding of the registrant s common stock, as of the latest practicable date: At January 23, 2010, there were 274,737,010 outstanding shares of Office Depot, Inc. Common Stock, $0.01 par value.

Documents Incorporated by Reference:

Certain information required for Part III of this Annual Report on Form 10-K is incorporated by reference to the Office Depot, Inc. definitive Proxy Statement for its 2010 Annual Meeting of Shareholders, which shall be filed with the Securities and Exchange Commission pursuant to Regulation 14A of the Securities Act of 1934, as amended, within 120 days of Office Depot, Inc. s fiscal year end.

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PART I

Item 1. Business.

Office Depot, Inc. is a global supplier of office products and services. The company was incorporated in 1986 with the opening of our first retail store in Fort Lauderdale, Florida. In fiscal year 2009, we sold $12.1 billion of products and services to consumers and businesses of all sizes through our three business segments: North American Retail Division, North American Business Solutions Division and International Division. Sales are processed through multiple channels, consisting of office supply stores, a contract sales force, an outbound telephone account management sales force, internet sites, direct marketing catalogs and call centers, all supported by our network of supply chain facilities and delivery operations.

Additional information regarding our business segments is presented below and in Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) and, along with financial information about geographic areas, in Note N Segment Information of Notes to Consolidated Financial Statements located elsewhere in this Annual Report on Form 10-K.

North American Retail Division

Our North American Retail Division sells a broad assortment of merchandise through our chain of office supply stores in the U.S. and Canada. We currently offer general office supplies, computer supplies, business machines and related supplies, and office furniture from national brands as well as our own private brands. See the Merchandising section below for additional product information. Most stores also contain a Copy & Print Depot™ offering printing, reproduction, mailing, shipping, and other services. Also, we maintain nationwide availability of a PC support and network installation service that provides our customers with in-home, in-office and in-store support for their technology needs.

Our retail stores are designed to provide a positive shopping experience for the customer. We strive to optimize visual presentation, product placement, shelf capacity and in-stock positions. Our goal is to maintain sufficient inventory in the stores to satisfy current and near-term customer needs, while controlling the overall working capital invested in inventory.

In recent years, we have developed a store format that we call M2. This design is intended to provide improved lines of sight, effective product adjacencies and updated signage and lighting, while lowering overall operating costs. We have two versions of this format, M2M and M2S . The square footage of the M2M stores is approximately 20,000, and the square footage of the M2S stores is approximately 15,000. These formats are being used for all new store openings and remodels. While we believe the current M2 format is a desirable design and an improvement over prior designs, we may continue to modify it in the future.

At the end of 2009, our North American Retail Division operated 1,152 office supply stores throughout the U.S. and Canada. The largest concentration of our retail stores is in California, Texas and Florida, but we have broad representation across North America. The count of open stores may include locations temporarily closed for remodels or other factors. Store opening and closing activity for the last three years has been as follows:

	Open at Beginning of Period	Opened	Closed	Open at End of Period	Relocated
2007	1,158	71	7	1,222	3
2008	1,222	59	14	1,267	7
2009	**1,267**	**6**	**121**	**1,152**	**6**

The number of store closings in 2009 followed a strategic review of Division operations as discussed in MD&A.

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We currently plan to add approximately 20 new retail stores in North America in 2010. Also, we will continue to review locations as leases become due and will close or relocate stores when appropriate.

During 2009, most store replenishment was handled through our crossdock flow-through distribution facilities where bulk merchandise is sorted for distribution and shipped to the requesting stores about three times per week. During 2009, we closed six crossdock facilities and transitioned the operations to existing distribution centers. These multi-purpose facilities, which share real estate, technology, warehouse management systems and inventory, satisfy the needs of both retail stores and delivery customers. Benefits of this consolidation include improved inventory management as well as improved service resulting from our ability to replenish stores five days per week. We plan to continue our supply chain consolidation efforts during 2010, resulting in an increase in the number of these combination facilities and additional crossdock closures. Additional information on our North American supply chain network is provided in the discussion of the North American Business Solutions Division below. Crossdock facility opening and closing activity for the last three years has been as follows:

	Open at Beginning of Period	Opened	Closed	Open at End of Period
2007	10	2		12
2008	12			12
2009	**12**		**6**	**6**

North American Business Solutions Division

Our North American Business Solutions Division sells nationally branded and private brand office supplies, technology products, furniture and services by means of a dedicated sales force, through catalogs and electronically through our internet sites. We strive to ensure that our customers needs are satisfied through various channel offerings. Our direct business is tailored to serve small- to medium-sized customers. Our direct customers can order products from our catalogs, by phone or through our public web sites (www.officedepot.com), including our public web site devoted to technology products (www.techdepot.com).

Our contract business employs a dedicated sales force that services the office supply needs of predominantly medium-sized to large customers. We believe sales representatives contribute to customer loyalty by building relationships with customers and providing information, business tools and problem-solving solutions to them. We offer contract customers the convenience of shopping on dedicated web sites and in our retail locations, while honoring their contract pricing in lieu of retail pricing. We also use telephone account management for outbound sales contacts with our customers. Sales made at retail locations to our contract customers are included in the results of our North American Retail Division.

We also entered into government contracts in response to requests for proposals and through a third-party, multi-state contract available to local and state government agencies, school districts (K-12), higher education and non-profit organizations nationwide. We were awarded this contract on January 2, 2006 with an initial expiration date of January 1, 2010. We renewed the contract for an additional year, and the contract now expires on January 1, 2011. Multi-state contracts enable individual states, municipalities or agencies to utilize the buying power of multiple entities, which results in lower costs to these customers. These contracts include an administrative fee payable to a third-party administrator. We also have some direct contracts with certain states and federal agencies. As part of the normal process of doing business with local and state governmental agencies, we are subject to audits and reviews of these government contracts. See Part I Item 3 Legal Proceedings for additional discussion.

During 2009, contract and direct customers orders were filled primarily through deliveries from our distribution centers (DCs) located across the United States. We closed four DCs during the first half of 2009. Additionally, during 2009, we disposed of our DC in Canada in conjunction with the sale of a small business in that country. We also closed six crossdock facilities and transitioned the operations to existing DCs during 2009. These

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combination facilities, which share real estate, technology, warehouse management systems and inventory, hold inventory for both North American Divisions. Benefits of this consolidation include improved inventory management as well as improved service resulting from our ability to replenish stores more frequently. We plan to continue our supply chain consolidation efforts during 2010, resulting in an increase in the number of these combination facilities and additional DC and crossdock closures. DC opening and closing activity for the last three years has been as follows:

	Open at Beginning of Period	Opened/ Acquired	Closed/ Sold	Open at End of Period
2007	20	1[(1)]		21
2008	21		1	20
2009	**20**		**5[(1)]**	**15[(2)]**

(1) The DC added in 2007 was obtained in the acquisition of a small contract business in Canada. This business, including the DC, was sold during 2009.

(2) Five of the fifteen DCs we operated as of December 26, 2009, were combination facilities.

Inventory is held in our DCs at levels we believe sufficient to meet current and anticipated customer needs. We utilize processes to evaluate the appropriate timing and quantity of reordering with the objective of controlling our investment in inventory, while at the same time ensuring customer satisfaction. Certain purchases are sent directly from the manufacturer to our customers. Some supply chain facilities and some retail locations also house sales offices and administrative offices supporting our contract business. We have outsourced our inbound call center activities; however, in-house staff manages what we consider to be the most critical points of customer interaction.

Over the past several years, we have implemented technologies to assist with reordering, stocking, the pick-and-pack process and delivery operations. We have also increased our use of third-party delivery services and reduced our own fleet of vehicles where cost reductions could be achieved without compromising customer service levels.

Because sales and marketing efforts and catalog production have similarities between the North American Business Solutions Division and the International Division, those topics are addressed separately after the three segment discussions, though they are integral to understanding the processes and management of these Divisions. Also, the Merchandising section below provides additional product information.

International Division

As of December 26, 2009, Office Depot sold to customers in 51 countries throughout North America, Europe, Asia and Latin America. We operate wholly-owned entities, majority-owned entities or participate in other ventures covering 40 countries and have alliances in an additional 11 countries. The Merchandising section below provides information on product offerings throughout the company. International operations are managed on a geographic basis, and the International Division operates separate regional headquarters for Europe/Middle East (The Netherlands), Asia (Hong Kong) and Latin America (South Florida).

Our International Division sells office products and services through direct mail catalogs, contract sales forces, internet sites and retail stores, using a mix of company-owned operations, joint ventures, licensing and franchise agreements, alliances and other arrangements. We maintain distribution centers and call centers throughout Europe and Asia to support these operations. Currently, we have catalog offerings in 15 countries outside of North America and operate more than 40 separate web sites in the International Division. At the end of 2009, the International Division operated, through wholly-owned or majority-owned entities, 137 retail stores in France, Hungary, Israel, South Korea and Sweden. In addition, we participate under licensing and merchandise arrangements in 100 stores in South Korea, Thailand and the Middle East. Following a strategic review of the business in late 2008, we closed our retail operations in Japan during 2009.

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Since 1994, we have participated in a joint venture selling office products and services in Mexico and Central and South America. In recent years, this venture, Office Depot de Mexico, has grown in size and scope and now includes 195 retail locations in Mexico, Colombia, Costa Rica, El Salvador, Guatemala, Honduras, and Panama, as well as call centers and distribution centers to support the delivery business in certain areas. We provide services to the venture through management consultation, product selection, product sourcing and information technology services. Because we participate equally in this business with a partner, we account for the activity under the equity method and venture sales of approximately $826 million in 2009 are not reflected in our revenues nor in our consolidated retail comparable store statistics. Our portion of venture results is included in Miscellaneous income, net in the Consolidated Statements of Operations.

Including company-owned operations, joint ventures, licensing and franchise agreements we sell office products through 432 retail stores outside the U.S. and Canada.

International Division store and distribution center operations are summarized below (includes only wholly-owned and majority-owned entities):

	Office Supply Stores			
	Open at Beginning of Period	Opened/ Acquired	Closed	Open at End of Period
2007	125	26	3	148
2008	148	15[1]	1	162
2009	**162**	**4**	**29**	**137**

(1) Includes 13 retail stores obtained in the acquisition of the business in Sweden.

	Distribution Centers			
	Open at Beginning of Period	Opened/ Acquired	Closed	Open at End of Period
2007	32	2	1	33
2008	33	19[2]	9	43
2009	**43**	**1**	**5**	**39**

(2) Includes 12 DCs obtained in the acquisition of the business in India and four DCs obtained in the acquisition of the business in Sweden. The majority of the DC s obtained in the 2008 acquisitions are smaller in size than those in other geographies.

Merchandising

Our merchandising strategy is to meet our customers needs by offering a broad selection of nationally branded office products, as well as private brand products and services. Our selection of private brand products has increased in breadth and level of sophistication over time. We currently offer general office supplies, computer supplies, business machines and related supplies, and office furniture under various labels, including Office Depot®, Viking Office Products®, Foray®, Ativa®, Break Escapes , Niceday and Worklife .

Total company sales by product group were as follows:

	2009	2008*	2007*
Supplies	66.2%	63.2%	61.5%
Technology	21.9%	23.9%	25.9%
Furniture and other	11.9%	12.9%	12.6%

	100.0%	100.0%	100.0%

* Conformed to current year product classification.

We classify our products into three categories: (1) supplies, (2) technology, and (3) furniture and other. The supplies category includes products such as paper, binders, writing instruments, school supplies, and ink and toner. The technology category includes products such as desktop and laptop computers, monitors, printers, cables, software, digital cameras, telephones, and wireless communications products. The furniture and other category includes products such as desks, chairs, luggage, sales in our copy and print centers, and other miscellaneous items.

We buy substantially all of our merchandise directly from manufacturers and other primary suppliers, including direct sourcing of private brand products from domestic and offshore sources. We also enter into arrangements with vendors that can lower our unit product costs if certain volume thresholds or other criteria are met. For additional discussion regarding these arrangements, see the Critical Accounting Policies section of MD&A.

We operate separate merchandising functions in North America, Europe and Asia as well as in our joint ventures. Each group is responsible for selecting, purchasing and pricing merchandise as well as managing the product life cycle of our inventory. In recent years, we have increasingly used global offerings across all regions to further reduce our product cost while maintaining product quality.

We operate a global sourcing office in Shenzhen, China, which allows us to take more direct control of our product sourcing, logistics and quality assurance. This office consolidates our purchasing power with Asian factories and, in turn, helps us to increase the scope of our private brand offerings.

Sales and Marketing

Our marketing programs are designed to attract new customers and to drive frequency of customer visits to our stores and web sites and increase the share of wallet of our existing customers by capturing more of what they spend in total on the products we sell. We regularly advertise in major newspapers in most of our North American markets. We also advertise through local and national radio, network and cable television advertising campaigns, and direct marketing efforts. Our direct marketing efforts have been expanding and now include advertising via the internet and social networking.

We offer customer loyalty programs that provide customers with rewards that can be applied against future Office Depot purchases or other incentives. These programs have provided us with valuable information enabling us to market more effectively to our customers. These programs may change in popularity in the future, and we may make alterations to them from time to time.

We perform periodic competitive pricing analyses to monitor each market, and prices are adjusted as necessary to adhere to our pricing philosophy and further our competitive positioning. We generally expect our everyday prices to be highly competitive with other resellers of office products.

We acquire new customers by selectively mailing specially designed catalogs and by making on-premises sales calls to prospective customers. We also make outbound sales calls using dedicated agents through our telephone account management program. We obtain the names of prospective customers in new and existing markets through the purchase of selected lists from outside marketing information services and other sources as well as through the use of a proprietary mailing list system. We also acquire customers through e-mail marketing campaigns and online affiliates. We are a primary sponsor of NASCAR® and are currently designated NASCAR® s official office products partner. No single customer in any of our segments accounts for more than 10% of our total sales.

We consider our business to be only somewhat seasonal, with sales generally trending lower in the second quarter, following the back-to-business sales cycle in the first quarter and preceding the back-to-school sales cycle in the third quarter and the holiday sales cycle in the fourth quarter. Certain working capital components may build and recede during the year reflecting established selling cycles. Business cycles can and have impacted our operations and financial position when compared to other periods. See Item 1A Risk Factors for additional discussion.

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Catalogs

We use catalogs to market directly to both existing and prospective customers throughout our operations globally. Our catalog offerings typically include all of our products at their regular low prices. Prospecting catalogs with special offers designed to attract new customers are mailed at certain intervals. In addition, specialty and promotional catalogs may be delivered more frequently to selected customers. We also produce a Green Book® catalog, which features products that are recyclable, energy efficient, or otherwise have a reduced impact on the environment. We continually evaluate our catalog offerings for efficiency and effectiveness at generating incremental revenues.

Copy and Print

Most of our North American retail stores contain a Copy & Print Depot™ offering printing, reproduction, mailing, shipping, and other services. We participate in the exclusive Xerox Certified Print Specialist program, which certifies associates as experts in the area of digital imaging and printing. In addition to the in-store locations, we operate ten regional print facilities, which support copy and print orders taken in our North American Retail and North American Business Solutions Divisions. In 2009, we began offering copy and print services to our customers in the U.K. through our e-commerce business. We are currently evaluating the prospect of deploying this service to other customers in Europe.

Intellectual Property

Through our subsidiary, we hold trademark registrations domestically and worldwide and have numerous other applications pending worldwide for the names Office Depot , Viking , Ativa , Foray , Realspace , and others. We consider the trademark for the Office Depot name the significant trademark held by us because of its impact on market awareness across all of our businesses and on customers identification with us. As with all domestic trademarks, our trademark registrations in the United States are for a ten year period and are renewable every ten years, prior to their respective expirations, as long as the trademarks are used in the regular course of trade.

Industry and Competition

We operate in a highly competitive environment in all three of our segments. We believe that we compete favorably on the basis of price, service, relationships and selection. We compete with office supply stores, wholesale clubs, discount stores, mass merchandisers, food and drug stores, computer and electronics superstores, internet-based companies and direct marketing companies. These companies, in varying degrees, compete with us in substantially all of our current markets.

Other office supply retail companies market similarly to us in terms of store format, pricing strategy, product selection and product availability in the markets where we operate, primarily those in the United States and Canada. We anticipate that in the future we will face increased competition from these chains.

Internationally, we compete on a similar basis to North America. Outside of the U.S. and Canada, we sell through contract and catalog channels in 20 countries and operate retail stores in five countries through wholly-owned or majority-owned entities. Additionally, our International Division provides office products and services in 29 countries through joint ventures, licensing and franchise agreements, cross-border transactions, alliances and other arrangements.

Employees

As of January 23, 2010, we had approximately 41,000 employees worldwide. Our workforce is largely non-union and our labor relations are generally good. In certain international locations, changes in staffing or work arrangements may need approval of local works councils or other bodies.

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Environmental Activities

As both a significant user and seller of paper products, we have developed environmental practices that are values-based and market-driven. Our environmental initiatives center on three guiding principles: (1) recycling and pollution reduction; (2) sustainable forest management; and (3) issue awareness and market development for environmentally preferable products. We offer thousands of different products containing recycled content, including from 35% to 100% post-consumer waste content paper and technology recycling services in our retail stores.

Office Depot continues to implement environmental programs in line with our stated environmental vision to increasingly buy green, be green and sell green including environmental sensitivity in our packaging, operations and sales offerings. In January 2009, our Green retail store prototype received a Leadership in Energy and Environmental Design (LEED) Gold Certification from the U.S. Green Building Council. Additional information on our green product offerings can be found at www.officedepot.com/buygreen.

Available Information

We maintain a web site at www.officedepot.com. We make available, free of charge, on the Investor Relations section of our web site, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, as soon as reasonably practicable after we electronically file or furnish such materials to the U.S. Securities and Exchange Commission (SEC). In addition, the public may read and copy any of the materials we file with the SEC at the SEC s Public Reference Room at 100 F Street, NE, Washington DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an internet site that contains reports, proxy and information statements and other information regarding issuers, such as the company, that file electronically with the SEC. The address of that website is www.sec.gov.

Additionally, our corporate governance materials, including governance guidelines; the charters of the Audit, Compensation, Finance, and Governance and Nominating Committees; and the code of ethical behavior may also be found under the Investor Relations section of our web site at www.offficedepot.com.

Executive Officers of the Registrant

Steve Odland Age: 51

Mr. Odland has been Chairman, Chief Executive Officer and a Director since early 2005. Prior to joining Office Depot, Inc., he was Chairman, Chief Executive Officer and President of AutoZone, Inc., from 2001 until 2005. Previously he was an executive with Ahold USA from 1998 to 2000, President of the Foodservice Division of Sara Lee Bakery from 1997 to 1998 and was employed by The Quaker Oats Company from 1981 to 1996 in various executive positions. Mr. Odland is also a director of General Mills, Inc.

Charles Brown Age: 56

Mr. Brown has been President, International since 2005. In 2007, oversight of business development was added to his role. He was the company s Executive Vice President and Chief Financial Officer from 2001 to 2005. Prior to that, Mr. Brown was Senior Vice President, Finance and Controller since he joined our company in 1998. Before joining Office Depot, he was Senior Vice President and Chief Financial Officer of Denny s, Inc. from 1996 until 1998; from 1994 until 1995, he was Vice President and Chief Financial Officer of ARAMARK International; and from 1989 until 1994, he was Vice President and Controller of Pizza Hut International, a Division of PepsiCo, Inc. Mr. Brown assumed the role of acting Chief Financial Officer of the company effective March 1, 2008 and served in that role until August 2008, when Michael Newman began his role as the company s permanent Chief Financial Officer.

Elisa Garcia   Age: 52

Ms. Garcia was appointed Executive Vice President, General Counsel and Corporate Secretary in July 2007 with overall responsibility for global compliance matters and governmental relations. Prior to joining Office Depot, Ms. Garcia served as General Counsel and Corporate Secretary of Domino s Pizza, Inc. from April 2000. Prior to joining Domino s Pizza, Ms. Garcia served as Latin American Regional Counsel for Philip Morris International, and Corporate Counsel for GAF Corporation.

Monica Luechtefeld   Age: 61

Ms. Luechtefeld was appointed Executive Vice President, E-Commerce and Direct Marketing in March 2009. Prior to this role, Ms. Luechtefeld held the position of Executive Vice President, Information Technology since early 2005. She was also responsible for business development from early 2005 to 2007. She assumed responsibility for supply chain from 2007 through 2008. Previously, she was Executive Vice President of E-Commerce from 2000. Prior to this role, she held several officer positions including Vice President, Marketing and Sales Administration and Vice President of Contract Marketing & Business Development. Ms. Luechtefeld joined Office Depot in 1993, serving as General Manager of the Southern California Region of Office Depot until 1996.

Michael Newman   Age: 53

Mr. Newman was appointed Executive Vice President, Chief Financial Officer in August 2008. Prior to joining Office Depot, Mr. Newman served as Chief Financial Officer of Platinum Research Organization, Inc. from April 2007 through February 2008. Prior to joining Platinum Research Organization, Mr. Newman was employed as an independent consultant since 2005. Mr. Newman also served as Chief Financial Officer of Blackstone Crystal Holdings Capital Partners from 2004 to 2005 and Chief Financial Officer of Radio Shack Corp. from 2001 to 2004. Mr. Newman also held Chief Financial Officer roles at Intimate Brands and Hussmann International (which was acquired by Ingersoll-Rand in 2000). He also spent 17 years at General Electric in a variety of management roles both in the United States and Europe.

Kevin Peters   Age: 52

Mr. Peters has been Executive Vice President, Supply Chain since October 2007. In March 2009, Mr. Peters assumed the additional responsibility of leading the company s Information Technology organization. Prior to joining Office Depot, Mr. Peters spent five years in management roles at W. W. Grainger, Inc., most recently as Senior Vice President, Supply Chain. Prior to W. W. Grainger, Mr. Peters spent 11 years at The Home Depot, serving as the company s Vice President and General Manager, Strategic Initiatives, Toronto/San Diego. He also has held positions in physical distribution operations, purchasing and inventory management at McMaster-Carr Supply Company.

Carl (Chuck) Rubin   Age: 50

Mr. Rubin was appointed President, North American Retail in early 2006. Prior to assuming that position, Mr. Rubin held the position of Executive Vice President, Chief Merchandising Officer and Chief Marketing Officer since 2004. Before joining the company, Mr. Rubin spent six years with Accenture Ltd., most recently as Partner, where he worked for clients, including Office Depot, across retail formats in the department, specialty and e-commerce channels, as well as new business startups. Prior to joining Accenture, Mr. Rubin spent six years in specialty retailing and 11 years in department store retailing, where he served as General Merchandise Manager and a member of the Executive Committees for two publicly-held companies.

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Steven Schmidt Age: 55

Mr. Schmidt was appointed President, North American Business Solutions in July 2007. Prior to joining Office Depot, Mr. Schmidt spent 11 years with the ACNielsen Corporation, most recently serving as President and Chief Executive Officer. Prior to joining ACNielsen, Mr. Schmidt spent eight years at the Pillsbury Food Company, serving as President of its Canadian and Southeast Asian operations. He has also held management positions at PepsiCo and Procter & Gamble.

Daisy Vanderlinde Age: 58

Ms. Vanderlinde was appointed Executive Vice President, Human Resources in late 2005. Prior to joining Office Depot, Ms. Vanderlinde was Senior Vice President, Human Resources and Loss Prevention, for AutoZone Inc. from 2001 to 2005, and was a member of the Executive Committee. Ms. Vanderlinde has also served as a senior HR officer for other retailers, including Tractor Supply Company, Marshalls, Inc., and The Broadway Stores.

Mark Hutchens Age: 44

Mr. Hutchens was appointed Senior Vice President and Controller in September 2008. Prior to assuming that position, Mr. Hutchens held the position of Senior Vice President of Finance, International Division since late 2006. Prior to joining the company, Mr. Hutchens served as Assistant Treasurer at Yum! Brands, Inc., from February 2005 to November 2006 and as General Auditor from November 2003 to February 2005. In addition, Mr. Hutchens served in a variety of senior management positions at Yum! from May 1996 to November 2003. Prior to joining Yum! Mr. Hutchens served in various management positions at Ford Motor Company, where he was employed until May 1996.

Information with respect to our directors is incorporated herein by reference to information included in the Proxy Statement for our 2010 Annual Meeting of Shareholders.

Item 1A. Risk Factors.

In addition to risks and uncertainties in the ordinary course of business that are common to all businesses, important factors that are specific to our industry and our company could materially impact our future performance and results. We have provided below a list of these risk factors that should be reviewed when considering our securities. These are not all the risks we face, and other factors currently considered immaterial or unknown to us may impact our future operations.

Our recent transaction with funds advised by BC Partners, Inc. dilutes the interests of our common shareholders, may discourage, delay or prevent a change in control of our company and grants important rights to BC Partners, Inc. The Series A and Series B Preferred Stock that we sold to funds advised by BC Partners, Inc. (the Investors) is immediately convertible into shares of the company s common stock at an initial conversion price of $5.00 per share (subject to a conversion cap). The investment equates to an initial ownership interest of approximately 20%, assuming the full conversion of each series of preferred stock into the company s common stock. Any sales in the public market of the shares of common stock issuable upon such conversion could adversely affect prevailing market prices of our common stock.

The initial dividend rate is 10% on both the Series A and Series B Preferred, and dividends are paid quarterly in cash or are added to the liquidation preference at the company s option and subject to certain restrictions. To the extent that dividends are added to the liquidation preference, this will further increase the ownership interest of the Investors and further dilute the interests of the common shareholders.

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The holders of the Series A and Series B Preferred Stock are entitled to vote with the holders of the company s common stock on an as-converted basis, subject to any limitations imposed by any New York Stock Exchange (NYSE) stockholder approval requirements. The Investors have agreed to cause all of their common stock and preferred stock entitled to vote at any meeting of the company s shareholders to be present at such meeting and to vote all such shares in favor of any nominee or director nominated by the company s Corporate Governance and Nominating Committee, against the removal of any director nominated by the company s Corporate Governance and Nominating Committee and, with respect to any other business or proposal, in accordance with the recommendation of the board of directors (other than with respect to the approval of any proposed business combination agreement between the company and another entity). This may discourage, delay or prevent a change in control of our company, which could deprive our shareholders of an opportunity to receive a premium for their common stock as part of a sale of our company.

Furthermore, the company has entered into an Investor Rights Agreement pursuant to which the company granted certain rights to the Investors that may restrain the company s ability to take certain actions in the future. Subject to certain exceptions, for so long as the Investors ownership percentage is equal to or greater than 10%, the approval of at least one of the directors designated to the company s board of directors by the Investors is required for the company to incur any indebtedness for borrowed money in excess of $200 million in the aggregate during any fiscal year if the ratio of the consolidated debt of the company and its subsidiaries to the trailing four quarter adjusted EBITDA of the company and its subsidiaries, on a consolidated basis, is more than 4x. In addition, for so long as the Investors ownership percentage is (i) equal to or greater than 15%, the Investors are entitled to nominate three of our fourteen directors, (ii) less than 15% but more than 10%, the Investors are entitled to nominate two of our fourteen directors and (iii) less than 10% but more than 5%, the Investors are entitled to nominate one of our fourteen directors. There can be no assurance that the interests of the Investors are aligned with that of our other shareholders. Investor interests can differ from each other and from other corporate interests and it is possible that this significant shareholder may have interests that differ from us and those of other shareholders. If the Investors were to sell, or otherwise transfer, all or a large percentage of their holdings, our stock price could decline and we could find it difficult to raise capital, if needed, through the sale of additional equity securities.

Economic Conditions May Cause a Decline in Business and Consumer Spending Which Could Adversely Affect Our Business and Financial Performance Our operating results and performance depend significantly on worldwide economic conditions and their impact on business and consumer spending. The decline in business and consumer spending resulting from the global recession and the deterioration of global credit markets has caused our comparable store sales to decline from prior periods and we have experienced similar declines in our other domestic and international businesses. Our business and financial performance may continue to be adversely affected by current and future economic conditions and the level of consumer debt and interest rates, which may cause a continued or further decline in business and consumer spending.

Supplier Credit and Order Fulfillment Risk We purchase products for resale under credit arrangements with our vendors. In recent years, we have worked to set payment terms to our vendors under these credit arrangements to occur at a time approximately equal to the anticipated time it takes to sell the vendor s products. In weak global markets, vendors may seek credit insurance to protect against non-payment of amounts due to them. If we continue to experience declining operating performance, and if we experience severe liquidity challenges, vendors may demand that we accelerate our payment for their products. If vendors begin to demand accelerated payment of amounts due to them or if they begin to require advance payments or letters of credit before goods are shipped to us, these demands could have a significant adverse impact on our operating cash flow and result in a severe drain on our liquidity. Borrowings under our existing credit facility could reach maximum levels under such circumstances and we would seek alternative liquidity measures but may not be able to meet our obligations as they become due. In addition if our suppliers are unable to access liquidity or become insolvent, they could be unable to supply us with product. Also, some of our suppliers may serve other industries. Any adverse impacts to those industries, as a result of the economic slowdown or credit crisis, could have a ripple effect on these suppliers which could adversely impact their ability to supply us as necessary. Any such disruptions could negatively impact our ability to deliver products and services to our customers, which in turn could have an adverse impact on our business, operating results, financial condition or cash flow.

Liquidity Historically, we have generated positive cash flow from operating activities and have had access to broad financial markets that provide the liquidity we need to operate our business. Together, these sources have been used to fund operating and working capital needs, as well as invest in business expansion through new store openings, capital improvements and acquisitions. However, due to the downturn in the global economy our operating results have diminished. In September 2008, we entered into a $1.25 billion asset based credit facility to provide liquidity. Also, as discussed above, we issued $350 million in redeemable preferred stock in June 2009. Continued distress in the financial markets has resulted in extreme volatility in the capital markets and diminished liquidity and credit availability. There can be no assurance that our liquidity will not be adversely affected by changes in the financial markets and the global economy. In addition, deterioration in our financial results could negatively impact our credit ratings. The tightening of the credit markets or a downgrade in our credit ratings could make it more difficult for us to access funds, to refinance our existing indebtedness, to enter into agreements for new indebtedness or to obtain funding through the issuance of securities. If such conditions were to recur, we would seek alternative sources of liquidity but may not be able to meet our obligations as they become due.

Financial Covenants in Existing Credit Facility Our asset based credit facility contains a fixed charge coverage ratio covenant that is operative only when borrowing availability is below $187.5 million or prior to a restricted transaction, such as incurring additional indebtedness, acquisitions, dispositions, dividends, or share repurchases. The agreement also contains representations, warranties, affirmative and negative covenants, and default provisions. A breach of any of these covenants could result in a default under our credit agreement. Upon the occurrence of an event of default under our credit agreement, the lenders could elect to declare all amounts outstanding to be immediately due and payable and terminate all commitments to extend further credit. If the lenders accelerate the repayment of borrowings, we may not have sufficient assets to repay our asset based credit agreement and our other indebtedness. Also, should there be an event of default, or need to obtain waivers following an event of default, we may be subject to higher borrowing costs and/or more restrictive covenants in future periods. Acceleration of any obligation under any of our material debt agreements or instruments will permit the holders of our other material debt to accelerate their obligations. See Liquidity and Capital Resources .

Litigation / Regulatory Risks The company and certain of its directors and executive officers (both current and former officers) are often involved in various legal proceedings, which may involve class action lawsuits, state and federal governmental inquiries and investigations, employment, tort, consumer litigation and intellectual property litigation. Certain of these legal proceedings are described in detail in our Legal Proceedings Section. These legal proceedings may be a significant distraction to management and could expose us to significant defense costs, fines, penalties, suspensions, debarments and liability to private parties for monetary recoveries and attorneys fees, any of which could have a material adverse effect on our business and results of operations.

Litigation and governmental investigations could result in substantial additional costs. Certain states, and federal agencies, are investigating our pricing under certain contracts. Although we are cooperating with the governmental agencies in these matters, they may determine that we have violated some laws or regulations, and if so, we may face sanctions, including, but not limited to, significant monetary penalties, injunctive relief and loss of business. The company has reached a proposed settlement with the staff of the SEC to resolve the previously disclosed SEC inquiry that commenced in July of 2007 and the formal investigation disclosed in January of 2008 with respect to contacts and communications with financial analysts, inventory receipt and reserves, timing of vendor payments, certain intercompany loans, certain payments to foreign officials, inventory obsolescence and timing and recognition of vendor program funds. Under the proposed settlement, the company, without admitting or denying liability, has agreed to pay a civil penalty and to consent to a cease and desist order from committing or causing violations of Regulation FD and Sections 13(a) and 13(b) of the Securities Exchange

Act of 1934 (and related rules) which require the maintenance of accurate books and records and internal controls. The proposed settlement is contingent on the review and approval of final documentation by the company and the SEC staff, and is subject to approval by the SEC Commissioners. There can be no assurance that the SEC Commissioners will approve the staff s recommendation. The company has also been informed that the company s CEO and two former employees each received Wells notices from the staff of the SEC s Miami Regional Office advising them that the regional staff has made a preliminary decision to recommend that the SEC bring civil enforcement actions against them for possible violations of Regulation FD. Under the processes established by the SEC, these individuals will have an opportunity to present their perspective and to address the issues raised by the SEC staff prior to any action being taken by the SEC.

See Part I Item 3 Legal Proceedings for a description of pending litigation and governmental proceedings and investigations.

Competition We compete with a variety of retailers, dealers, distributors, contract stationers, direct marketers and internet operators throughout our worldwide operations. This is a highly competitive marketplace that includes such retail competitors as office supply stores, warehouse clubs, computer and electronics stores, mass merchant retailers, local merchants, grocery and drug-store chains as well as other competitors including direct mail and internet merchants, contract stationers, and direct manufacturers. Our competitors may be local, regional, national or international. Further, competition may come from highly-specialized low-cost merchants, including ink refill stores and kiosks, original equipment manufacturers, concentrated direct marketing channels including well-funded and broad-based enterprises. There is a possibility that any or all of these competitors could become more aggressive in the future, thereby increasing the number and breadth of our competitors. In recent years, new and well-funded competitors have begun competing in certain aspects of our business. For example, two major common carriers of goods have retail outlets that allow them to compete directly for copy, printing, packaging and shipping business, and offer products and services similar to those we offer. While they do not yet have the breadth of products that we offer, they are extremely competitive in the areas of package shipping and copy and print centers. Recently, the so-called warehouse clubs have expanded upon their in-store offerings by adding catalog and internet sales channels, offering a broad assortment of office products for sale on a direct delivery basis. In order to achieve and maintain expected profitability levels in our three operating divisions, we must continue to grow by adding new customers and taking market share from competitors and using pricing necessary to retain existing customers. If we fail to adequately address and respond to these pressures in both North America and internationally, it could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Government Contracts One of our largest U.S. customer groups consists of various state and local governments, government agencies and non-profit organizations. Our relationship with this customer group is subject to uncertain future funding levels and federal and state procurement laws and requires restrictive contract terms; any of these factors could curtail current or future business. Contracting with state and local governments is highly competitive and can be expensive and time-consuming, often requiring that we incur significant upfront time and expense without any assurance that we will win a contract. Our ability to compete successfully for and retain business with the federal and various state and local governments is highly dependent on cost-effective performance. Our government business is also sensitive to changes in national and international priorities and U.S., state and local government budgets.

Execution of Expansion Plans We plan to open approximately 20 stores in the North American Retail Division during 2010. Circumstances outside of our control could negatively impact these anticipated store openings. We cannot determine with certainty whether our new store openings, including some newly sized or formatted stores or retail concepts, will be successful. The failure to expand by successfully opening new stores as planned, or the failure of a significant number of these stores to perform as planned, could have a material adverse effect on our business, financial condition, results of operations and cash flows.

International Activity As of December 26, 2009, we sold to customers in 51 countries throughout North America, Europe, Asia and Latin America. We operate wholly-owned entities, majority-owned entities or participate in other ventures covering 40 countries and have alliances in an additional 11 countries. As a result of our global operations, we face such risks as foreign currency fluctuations, unfavorable foreign trade policies, unstable political and economic conditions, and, because some of our foreign operations are not wholly owned, the potential for compromised operating control in certain countries. In addition, we are required to comply with multiple foreign laws and regulations that may differ substantially from country to country, requiring significant management attention and cost. In addition, the business cultures in certain areas of the world are different than those that prevail in the United States, and we may be at a competitive disadvantage against other companies that do not have to comply with standards of financial controls, Foreign Corrupt Practices Act requirements, or business integrity that we are committed to maintaining as a U.S. publicly traded company. Our results may continue to be affected by all of these factors. All of these risks could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Product Availability; Potential Cost Increases In addition to selling our private brand merchandise, we are a reseller of manufacturers branded items and are thereby dependent on the availability and pricing of key products, including ink, toner, paper and technology products, to name a few. As a reseller, we cannot control the supply, design, function or cost of many of the products we offer for sale. Disruptions in the availability of raw materials used in production of these products may adversely affect our sales and result in customer dissatisfaction. Further, we cannot control the cost of manufacturers products and cost increases must either be passed along to our customers or result in an erosion of our earnings. Failure to identify desirable products and make them available to our customers when desired and at attractive prices could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Global Sourcing of Products/Private Brand In recent years, we have substantially increased the number and types of products that we sell under our private brands including Office Depot® and other proprietary brands. Sources of supply may prove to be unreliable, or the quality of the globally sourced products may vary from our expectations. Economic and civil unrest in areas of the world where we source such products, as well as shipping and dockage issues could adversely impact the availability or cost of such products, or both. Moreover, as we seek indemnities from the manufacturers of these products, the uncertainty of realization of any such indemnity and the lack of understanding of U.S. product liability laws in certain parts of Asia make it more likely that we may have to respond to claims or complaints from our customers. Most of our imported goods to the United States arrive from Asia, and the ports through which these goods are imported are located primarily on the U.S. West Coast. Therefore, we are subject to potential disruption of our supplies of goods for resale due to labor unrest, security issues or natural disasters affecting any or all of these ports. Finally, as a significant importer of manufactured goods from foreign countries, we are vulnerable to security concerns, labor unrest and other factors that may affect the availability and reliability of ports of entry for the products that we source. Any of these circumstances could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Possible Business Disruption Because of Weather Weather conditions may affect any business, especially retail businesses, including snow storms, high winds and heavy rain. Because of our heavy concentration in the southern United States (including Florida and the Gulf Coast), our company may be more susceptible than some others to the effects of tropical weather disturbances. For example, during 2004 and 2005, we sustained disruption to our businesses in the United States due to the number and severity of weather events in the Southeastern United States, including record numbers of hurricanes. Winter storm conditions in the Midwest and Southwest, areas that also have a large concentration of our business activities, could result in supply chain constraints or other business disruptions. We believe that we have taken reasonable precautions to prepare for any such weather-related events, but our precautions may not be adequate to deal with such events in the future. As these events occur in the future, if they should impact areas in which we have concentrations of retail stores or distribution facilities, such events could have a material adverse effect on our business, financial condition, results of operations and cash flows.

New Systems and Technology From time to time, we modify our information systems and technology to increase productivity and efficiency. We are undertaking certain system enhancements and conversions that, if not done properly, could divert the attention of our workforce during development and implementation and constrain for some time our ability to provide the level of service our customers demand as well as our ability to complete requisite filings with the SEC. Also, when implemented, the new systems and technology may not provide the benefits anticipated and could add costs and complications to our ongoing operations. A failure to effectively convert to these systems or to realize the intended efficiencies could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Labor We are heavily dependent upon our labor force to identify new customers and provide desired products and services to existing customers. We attempt to attract and retain an appropriate level of personnel in both field operations and corporate functions. Our compensation packages are designed to provide benefits commensurate with our level of expected service. However, within our retail operations, we face the challenge of filling many positions at wage scales that are appropriate to the industry and competitive factors. We operate in a number of jurisdictions. It can be cumbersome to comply with labor laws and regulations, many of which vary from jurisdiction to jurisdiction. This has added to our labor costs in some locales as we have had to add personnel to monitor and track compliance with sometimes arcane rules and regulations that impact retailers in particular. As a result of these and other factors, we face many external risks and internal factors in meeting our labor needs, including competition for qualified personnel, overall unemployment levels, works councils (in our international locations), prevailing wage rates, as well as rising employee benefit costs, including insurance costs and compensation programs. We also engage third parties in some of our processes such as delivery and transaction processing and these providers may face similar issues. Changes in any of these factors, including especially a shortage of available workforce in the areas in which we operate, could interfere with our ability to adequately provide services to customers and result in increasing our labor costs. Any failure to meet increasing demands on securing our workforce could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Unionization While our management believes that our employee relations are good, we cannot be assured that we will not experience pressure from labor unions or become the target of campaigns similar to those faced by our competitors. The potential for unionization could increase if the United States Congress passes federal legislation that would facilitate labor organization. The unionization of a significant portion of our workforce could increase our overall costs at the affected locations and adversely affect our flexibility to run our business in the most efficient manner to remain competitive or acquire new business. In addition, significant union representation would require us to negotiate wages, salaries, benefits and other terms with many of our employees collectively and could adversely affect our results of operations by increasing our labor costs or otherwise restricting our ability to maximize the efficiency of our operations.

Fuel Costs We operate a large network of stores and delivery centers around the globe. As such, we purchase significant amounts of fuel needed to transport products to our stores and customers. We also incur significant shipping costs to bring products from overseas producers to our distribution systems. While we may hedge our anticipated fuel purchases, the underlying commodity costs associated with this transport activity have been volatile in recent periods and disruptions in availability of fuel could cause our operating costs to rise significantly to the extent not covered by our hedges. Additionally, we rely on predictable costs and available energy to light our stores and operate our equipment. Increases in any of the components of energy costs could have an adverse impact on our earnings, as well as our ability to satisfy our customers in a cost effective manner. Any of these factors that could impact the availability or cost of our energy resources could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Possible Changes to Our Global Tax Rate As a result of our operations in many foreign countries, in addition to the United States, our global tax rate is derived from a combination of applicable tax rates in the various jurisdictions in which we operate. Depending upon the sources of our income, any agreements we may have with taxing authorities in various jurisdictions, and the tax filing positions we take in various jurisdictions, our overall tax rate may be lower or higher than that of other companies or higher or lower than our tax rates have been in the past. At any given point in time, we base our estimate of an annual effective tax rate upon a calculated mix of the tax rates applicable to our company and to estimates of the amount of income likely to be generated in any given geography. The loss of one or more agreements with taxing jurisdictions, a change in the mix of our business from year to year and from country to country, changes in rules related to accounting for income taxes, changes in tax laws in any of the multiple jurisdictions in which we operate or adverse outcomes from the tax audits that regularly are in process in any of the jurisdictions in which we operate could result in an unfavorable change in our overall tax rate. Additionally, during the third quarter of 2009, we recorded tax expense of approximately $322 million to establish valuation allowances on deferred tax assets in certain taxing jurisdictions. Although we anticipate being able to remove the valuation allowances in future periods, as long as they are in place, we are unable to record deferred tax benefits in those jurisdictions. This consequence will cause our effective tax rate to be volatile, possibly changing from period to period. Unfavorable changes in our overall tax rate could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Regulatory Environment While businesses are subject to regulatory matters relating to the conduct of their businesses, including consumer protection laws, advertising regulations, wage and hour regulations and the like, certain jurisdictions have taken a particularly aggressive stance with respect to such matters and have stepped up enforcement, including fines and other sanctions. We transact substantial amounts of business in certain such jurisdictions, and to the extent that our business locations are exposed to what might be termed a challenging enforcement environment or legal or regulatory systems that authorize or encourage private parties to pursue relief under so-called private attorney general laws and similar authorizations for private parties to pursue enforcement of governmental laws and regulations, the resulting fines and exposure to third party liability (such as monetary recoveries and recoveries of attorneys fees) could have a material adverse effect on our business and results of operations, including the added cost of increased preventative measures that we may determine to be necessary to conduct business in such locales.

Compromises of our Information Security Through our sales and marketing activities, we collect and store certain personal information that our customers provide to purchase products or services, enroll in promotional programs, register on our web site, or otherwise communicate and interact with us. We also gather and retain information about our associates in the normal course of business. We may share information about such persons with vendors that assist with certain aspects of our business. Despite instituted safeguards for the protection of such information, we cannot be certain that all of our systems are entirely free from vulnerability to attack. A breach of our security system resulting in customer or employee personal information being obtained by unauthorized persons could adversely affect our reputation, disrupt our operations and expose us to claims from customers, financial institutions, payment card associations and other persons, which could have a material adverse effect on our business, financial conditions and results of operations. In addition, our online operations at www.officedepot.com depend upon the secure transmission of confidential information over public networks, including information permitting cashless payments.

Disclaimer of Obligation to Update

We assume no obligation (and specifically disclaim any such obligation) to update these Risk Factors or any other forward-looking statements contained in this Annual Report to reflect actual results, changes in assumptions or other factors affecting such forward-looking statements.

Item 1B. Unresolved Staff Comments.

None.

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Item 2. Properties.

As of January 23, 2010, our North American Retail Division operated 1,130 office supply stores in 46 U.S. states, the District of Columbia and Puerto Rico and 21 office supply stores in five Canadian provinces. As of January 23, 2010, our International Division operated 137 office supply stores (excluding our participation in arrangements through non-consolidated entities) in five countries outside of the United States and Canada. The following table sets forth the locations of these facilities.

STORES

State/Country	#	State/Country	#
UNITED STATES:			
Alabama	20	North Dakota	2
Alaska	2	Ohio	14
Arizona	5	Oklahoma	17
Arkansas	12	Oregon	19
California	149	Pennsylvania	14
Colorado	39	Puerto Rico	6
Connecticut	4	South Carolina	21
Delaware	3	South Dakota	1
District of Columbia	1	Tennessee	27
Florida	144	Texas	147
Georgia	49	Utah	9
Hawaii	4	Virginia	25
Idaho	6	Washington	37
Illinois	47	West Virginia	2
Indiana	22	Wisconsin	14
Iowa	3	Wyoming	3
Kansas	8	TOTAL UNITED STATES	1,130
Kentucky	21		
Louisiana	37	**CANADA:**	
Maryland	27	Alberta	6
Massachusetts	2	British Columbia	7
Michigan	22	Manitoba	2
Minnesota	11	Ontario	5
Mississippi	16	Saskatchewan	1
Missouri	25	TOTAL CANADA	21
Montana	4		
Nebraska	6	FRANCE	49
Nevada	19	HUNGARY	17
New Jersey	10	ISRAEL	46
New Mexico	7	SOUTH KOREA	12
New York	10	SWEDEN	13
North Carolina	37	TOTAL OUTSIDE NORTH AMERICA	137

We closed one North American retail store during January 2010.

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As of January 23, 2010, we had 21 North American supply chain facilities in 15 U.S. states. These facilities, which support our North American Retail and North American Business Solutions Divisions, included fifteen DCs and six crossdock facilities. Five of the fifteen DCs we operated as of January 23, 2010, were combination facilities, which share real estate, technology, warehouse management systems and inventory and satisfy the needs of both retail stores and delivery customers. As of January 23, 2010, we also had 39 DCs in 16 countries outside of the United States and Canada, which support our International Division. The following tables set forth the locations of our supply chain facilities as of January 23, 2010.

DCs (North America)

State	#	State	#
UNITED STATES:			
Arizona	1	Massachusetts	1
Florida	1	Minnesota	1
California	2	New Jersey	1
Colorado	1	Ohio	1
Georgia	1	Texas	2
Illinois	1	Washington	1
Maryland	1	TOTAL UNITED STATES	15

Crossdock Facilities (North America)

State	#	State	#
UNITED STATES:			
Florida	1	Mississippi	1
Georgia	1	Pennsylvania	1
Illinois	1	Texas	1
		TOTAL UNITED STATES	6

International DCs

Country	#	Country	#
Belgium	1	Italy	1
China	6	Japan	1
Czech Republic	1	South Korea	1
France	5	Spain	1
Germany	2	Sweden	3
India	10	Switzerland	1
Ireland	1	The Netherlands	1
Israel	1	United Kingdom	3
		TOTAL INTERNATIONAL	39

Our corporate offices in Boca Raton, Florida consist of approximately 625,000 square feet of office space in three interconnected buildings. This facility is being leased over 15 years with certain renewal options. The lease is accounted for as a capital lease. We also lease a corporate office in Venlo, the Netherlands which is approximately 226,000 square feet in size, and own a systems data center in Charlotte, North Carolina which is approximately 53,000 square feet in size.

Although we own a small number of our retail store locations and several of our European distribution centers, most of our facilities are leased or subleased, with initial lease terms expiring in various years through 2032.

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Item 3. 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, either individually or in the aggregate, will materially affect our financial position, results of our operations or cash flows.

As previously disclosed, the company reached a proposed settlement with the staff of the U.S. Securities and Exchange Commission (SEC) to resolve the previously disclosed SEC inquiry that commenced in July of 2007 and the formal investigation disclosed in January of 2008 with respect to contacts and communications with financial analysts, inventory receipt and reserves, timing of vendor payments, certain intercompany loans, certain payments to foreign officials, inventory obsolescence and timing and recognition of vendor program funds. The company and its officers and employees have cooperated with the SEC staff in this investigation. The SEC staff intends to recommend to the SEC a proposed settlement with respect to the company which would conclude for the company all matters arising from the SEC investigation. Under the proposed settlement, the company, without admitting or denying liability, has agreed to pay a civil penalty and to consent to a cease and desist order from committing or causing violations of Regulation FD and Sections 13(a) and 13(b) of the Securities Exchange Act of 1934 (and related rules) which require the maintenance of accurate books and records and internal controls. Regulation FD is a rule regarding communication with analysts and investors. The proposed settlement is contingent on the review and approval of final documentation by the company and the SEC staff, and is subject to approval by the SEC Commissioners. There can be no assurance that the SEC Commissioners will approve the staff s recommendation. The company has also been informed that the company s CEO and two former employees each received Wells notices from the staff of the SEC s Miami Regional Office advising them that the regional staff has made a preliminary decision to recommend that the SEC bring civil enforcement actions against them for possible violations of Regulation FD. Under the processes established by the SEC, these individuals will have an opportunity to present their perspective and to address the issues raised by the SEC staff prior to any action being taken by the SEC.

On January 14, 2010, the federal court in the Southern District of Florida dismissed the Second Consolidated Amended Complaint filed by the New Mexico Educational Retirement Board, lead plaintiff in a Consolidated Lawsuit, with prejudice. On February 9, 2010, the lead plaintiff filed a notice to appeal this decision. As background, in early November 2007, two putative class action lawsuits were filed against the company and certain of its executive officers alleging violations of the Securities Exchange Act of 1934. The allegations made in these lawsuits primarily related to the accounting for vendor program funds. Each of the foregoing lawsuits was filed in the Southern District of Florida and captioned as follows: (1) Nichols v. Office Depot, Inc., Steve Odland and Patricia McKay filed on November 6, 2007 and (2) Sheet Metal Worker Local 28 Pension Fund v. Office Depot, Inc., Steve Odland and Patricia McKay filed on November 5, 2007. On March 21, 2008, the court in the Southern District of Florida entered an Order consolidating the class action lawsuits (the Consolidated Lawsuit). Lead plaintiff in the Consolidated Lawsuit, the New Mexico Educational Retirement Board, filed its Consolidated Amended Complaint on July 2, 2008, and its Second Consolidated Amended Complaint on April 20, 2009.

In addition, in the ordinary course of business, our sales to and transactions with government customers may be subject to audits and review by governmental authorities and regulatory agencies. Many of these audits and reviews are resolved without incident; however, we have had several claims and inquiries by certain governmental agencies into contract pricing, and additional inquiries may follow. While these claims may 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.

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Item 4. Submission of Matters to a Vote of Security Holders.

The company held a special meeting of stockholders on October 14, 2009. Of the total number of common shares outstanding on August 28, 2009, a total of 224,590,051 were represented in person or by proxy. Results of votes with respect to proposals submitted at that meeting are as follows:

a. To consider a proposal to approve the conversion at the option of the holders of our 10% Series A Redeemable Convertible Participating Perpetual Preferred Stock into shares of our common stock in excess of 19.99% of the shares of our common stock outstanding on June 23, 2009, in compliance with the rules of the New York Stock Exchange. Our stockholders voted to approve this proposal with 220,850,091 votes for and 3,610,189 votes against. There were 129,771 abstentions.

b. To consider a proposal to approve the conversion at the option of the holders of our 10% Series B Redeemable Conditional Convertible Participating Perpetual Preferred Stock into shares of our common stock and the right of the holders of the Series B Preferred to vote with shares of our common stock on as-converted basis. Our stockholders voted to approve this proposal with 221,614,968 votes for and 2,841,336 votes against. There were 133,747 abstentions.

c. To approve the adjournment of the Special Meeting to solicit additional proxies if there are insufficient proxies at the Special Meeting to approve each of the foregoing proposals. Our stockholders voted to approve this proposal with 207,905,413 votes for and 16,510,386 votes against. There were 174,253 abstentions.

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PART II

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Our common stock is listed on the New York Stock Exchange (NYSE) under the symbol ODP. As of the close of business on January 23, 2010, there were 7,459 holders of record of our common stock. The last reported sale price of the common stock on the NYSE on January 23, 2010 was $5.99.

The following table sets forth, for the periods indicated, the high and low sale prices of our common stock, as quoted on the NYSE Composite Tape. These prices do not include retail mark-ups, markdowns or commission.

	High	Low
2009		
First Quarter	**$ 4.170**	**$ 0.590**
Second Quarter	**5.370**	**1.250**
Third Quarter	**6.940**	**3.480**
Fourth Quarter	**7.840**	**5.570**
2008		
First Quarter	$ 15.540	$ 10.600
Second Quarter	14.390	10.690
Third Quarter	11.430	5.510
Fourth Quarter	5.940	1.450

We have never declared or paid cash dividends on our common stock. Our asset based credit facility includes limitations in certain circumstances on restricted payments including share repurchases and the payment of cash dividends. These restrictions are based on the then-current and pro-forma fixed charge coverage ratio and borrowing availability at the point of consideration. Further, so long as investors in our 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 if dividends on the preferred stock have not been paid in full in cash.

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The foregoing graph shall not be deemed to be filed as part of this Form 10-K and does not constitute soliciting material and should not be deemed filed or incorporated by reference into any other filing of the company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent the company specifically incorporates the graph by reference.

On April 25, 2007, the board of directors authorized a common stock repurchase program whereby we were authorized to repurchase $500 million of our common stock. The company has not made any repurchases under this authorization, and the remaining authorized amount at December 26, 2009 was $500 million. As previously mentioned, the company s asset based credit facility includes limitations in certain circumstances on restricted payments including share repurchases.

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Item 6. Selected Financial Data.

The following table sets forth selected consolidated financial data at and for each of the five fiscal years in the period ended December 26, 2009. It should be read in conjunction with the Consolidated Financial Statements and Notes thereto, included in Item 8 of this report, and Management s Discussion and Analysis of Financial Condition and Results of Operations, included in Item 7 of this report.

(In thousands, except per share amounts and statistical data)	**2009**	2008	2007	2006	2005(3)
Statements of Operations Data:					
Sales	**$ 12,144,467**	$ 14,495,544	$ 15,527,537	$ 15,010,781	$ 14,278,944
Net earnings (loss) attributable to Office Depot, Inc (1)(2)	**$ (596,465)**	$ (1,478,938)	$ 395,615	$ 503,471	$ 273,792
Net earnings (loss) available to common shareholders (1)(2)	**$ (626,971)**	$ (1,478,938)	$ 395,615	$ 503,471	$ 273,792
Net earnings (loss) per share:					
Basic	**$ (2.30)**	$ (5.42)	$ 1.45	$ 1.79	$ 0.88
Diluted	**(2.30)**	(5.42)	1.43	1.75	0.87
Statistical Data:					
Facilities open at end of period:					
United States and Canada:					
Office supply stores	**1,152**	1,267	1,222	1,158	1,047
Distribution centers	**15**	20	21	20	20
Crossdock facilities	**6**	12	12	10	10
Call centers					3
International (4):					
Office supply stores	**137**	162	148	125	70
Distribution centers	**39**	43	33	32	25
Call centers	**29**	27	31	30	31
Total square footage North American Retail Division	**28,109,844**	30,672,862	29,790,082	28,520,269	26,261,318
Percentage of sales by segment:					
North American Retail Division	**42.1%**	42.2%	43.9%	45.2%	45.6%
North American Business Solutions Division	**28.7%**	28.6%	29.1%	30.5%	30.1%
International Division	**29.2%**	29.2%	27.0%	24.3%	24.3%
Balance Sheet Data:					
Total assets	**$ 4,890,346**	$ 5,268,226	$ 7,256,540	$ 6,557,438	$ 6,098,525
Long-term debt, excluding current maturities	**662,740**	688,788	607,462	570,752	569,098
Redeemable preferred stock, net	**355,308**				

(1) Fiscal year 2009 Net loss attributable to Office Depot, Inc. and Net loss available to common shareholders include charges of approximately $322 million to establish valuation allowances on certain deferred tax assets. See Management s Discussion and Analysis of Financial Condition and Results of Operations for additional information.

(2) Fiscal year 2008 Net loss attributable to Office Depot, Inc. and Net loss available to common shareholders include impairment charges for goodwill and trade names of $1.27 billion and other asset impairment charges of $222 million. See Management s Discussion and Analysis of Financial Condition and Results of Operations for additional information.

(3) Includes 53 weeks in accordance with our 52 53 week reporting convention.

(4) Facilities of wholly-owned or majority-owned entities operated by our International Division.

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Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations.

RESULTS OF OPERATIONS

OVERVIEW

Our business is comprised of three segments. The North American Retail Division includes our retail office supply stores in the U.S. and Canada, which offer office supplies and services, computers and business machines and related supplies, and office furniture. Most stores also offer a copy and print center offering printing, reproduction, mailing and shipping. The North American Business Solutions Division sells office supply products and services in the U.S. and Canada directly to businesses through catalogs, internet web sites and a dedicated sales force. Our International Division sells office products and services through catalogs, internet web sites, a dedicated sales force and retail stores.

Our fiscal year results are based on a 52- or 53-week retail calendar ending on the last Saturday in December. Each of the three years addressed in this Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is based on 52 weeks. Our next 53 week fiscal year will occur in 2011. Our comparable store sales relate to stores that have been open for at least one year. A summary of factors important to understanding our results for 2009 is provided below and further discussed in the narrative that follows this overview.

Total company sales were $12.1 billion in 2009, down 16% compared to 2008. Sales in North America decreased 16% for the year and comparable store sales in North American Retail decreased 14%. International Division sales decreased 16% in U.S. dollars and 9% in local currencies.

Gross margin for 2009 improved by 30 basis points from 2008, following a 140 basis point decline in the prior year. The increase in 2009 primarily reflects improved product margins and lower levels of inventory shrink and valuation charges partially offset by the deleveraging of fixed property costs on lower sales levels.

As part of our previously announced strategic reviews, we recorded charges of $253 million, $199 million and $40 million in 2009, 2008 and 2007, respectively. These expenses (the Charges) include primarily charges for lease accruals, severance expenses and asset impairments.

Total operating expenses were down $1.9 billion compared to 2008. Of this amount, $1.3 billion relates to the non-cash charges for impairment of goodwill and trade names recognized in 2008. The remaining change primarily reflects lower payroll and advertising expenses as well as reductions in distribution costs and fixed asset impairments.

During the third quarter of 2009, we recorded a non-cash tax expense to establish valuation allowances on deferred tax assets of $321.6 million ($1.18 per share) because of the uncertainty of future realizability of these assets.

Diluted (loss) earnings per share for 2009, 2008, and 2007 were $(2.30), $(5.42), and $1.43, respectively. The Charges had a per share impact of $0.86, $5.01 and $0.11 in 2009, 2008 and 2007, respectively.

Cash flow from operating activities was $296 million in 2009, compared to $468 million in 2008, primarily reflecting the reduction in business performance related to weak economic conditions.

On June 23, 2009, we issued $350 million of redeemable preferred stock and received cash, net of fees paid, of approximately $325 million. During the second half of 2009, we accrued paid-in-kind dividends on the redeemable preferred stock totaling approximately $30 million, measured at fair value.

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OPERATING RESULTS

Our overall sales decreased 16% in 2009, and 7% in 2008, and increased 3% in 2007. Adverse economic conditions throughout our sales territories contributed to the declines for 2008 and 2009. The 2007 sales increase was driven by higher U.S. dollar sales in the International Division.

The increase in gross profit as a percentage of sales in 2009 resulted primarily from improved product margins and lower levels of inventory shrink and valuation charges partially offset by the deleveraging of fixed property costs on lower sales levels. Gross margins in 2008 reflect significant deleveraging of fixed property cost on lower sales as well as the impact of a highly promotional environment. An increase in private brand sales and a shift to core supplies benefited gross margin in 2008.

Total operating expenses as a percentage of sales was 30.1% in 2009, 38.3% in 2008 and 25.9% in 2007. The 2009, 2008 and 2007 amounts include Charges of $240 million, $183 million and $40 million, respectively. The 2008 amount also includes goodwill and trade name impairment charges of $1.3 billion and operational asset impairments of $109 million. After considering these charges, the remaining 2008 operating expenses were approximately 60 basis points lower than in 2009 and 190 basis points higher than in 2007. The 2009 and 2008 changes reflect the impact of relatively fixed levels of labor costs on a declining sales base. The 2009 change also includes the deleveraging of fixed distribution costs on lower sales while the 2008 change reflects increases in legal and professional fees and the impact of no bonus expense in 2007.

Discussion of other income and expense items, including material Charges and changes in interest and taxes follows our review of segment results.

NORTH AMERICAN RETAIL DIVISION

(Dollars in millions)	**2009**	2008	2007
Sales	**$ 5,113.6**	$ 6,112.3	$ 6,813.6
% change	**(16)%**	(10)%	%
Division operating profit (loss)	**$ 105.5**	$ (29.2)	$ 354.5
% of sales	**2.1%**	(0.5)%	5.2%

Sales in our North American Retail Division decreased 16% in 2009 and 10% in 2008. During 2009, we closed 120 underperforming stores as part of the strategic review initiated during the fourth quarter of 2008. Comparable store sales in 2009 from the 1,139 stores that were open for more than one year decreased 14%. Comparable store sales in 2008 from the 1,207 stores that were open for more than one year decreased 13% for the full year and showed successive declines throughout each quarter of the year. The sales declines in both 2009 and 2008 were driven by macroeconomic factors as consumers and small business customers curtailed their spending in response to the global financial crisis that began in 2008. While transaction counts were down in 2009, a drop in average order value was the greater contributor to our sales decline. Additionally, our commitment to proactively reduce promotions in select categories resulted in lower sales compared to 2008. Within each of our three major product categories of supplies, technology and furniture, we experienced sales declines compared to 2008. The negative comparable store sales were driven by fewer sales of higher priced, discretionary categories in furniture and technology.

The North American Retail Division reported operating profit of approximately $106 million in 2009, compared to an operating loss of $29 million in 2008. This measure of operating performance is consistent with the internal reporting of results used to manage the business and allocate resources and does not include charges associated with the strategic decisions made as part of the internal review initiated during the fourth quarter of 2008. Please see Charges discussion in the Corporate and Other section of MD&A.

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The increase in Division operating profit for 2009 was driven by lower asset impairments, an improvement in product margins and lower operating expenses. The improvement in product margins was driven primarily by a more favorable product mix, lower levels of inventory shrinkage and valuation charges as well as lower product costs. These product margin improvements were partially offset by the deleveraging of fixed property costs on lower sales levels. During 2008, we recorded fixed asset impairment charges of approximately $98 million. Store impairment charges in 2009 totaled $3 million. Additionally, as a result of the 2008 fixed asset impairments, we experienced lower levels of depreciation expense. During 2009, we closed underperforming stores as part of the strategic review initiated during the fourth quarter of 2008 contributing to the increase in Division operating profit in 2009. Operating expenses, including distribution costs and payroll and advertising expenses were down in both 2008 and 2009. In addition to the fixed asset impairment charges, the operating loss in 2008 included increased levels of inventory shrink compared to 2007. Division operating profit in both 2008 and 2009 was negatively impacted by the unfavorable impact our sales volume decline had on gross margin and operating expenses (the flow through impact).

At the end of 2009, we operated 1,152 retail stores in the U.S. and Canada. We opened six new stores during 2009 and 59 stores during 2008. During 2009, we closed 121 stores in North America, of which 120 were part of the strategic review initiated during the fourth quarter of 2008. We anticipate opening approximately 20 stores in 2010. Also, we will continue to review locations as leases become due and will close or relocate stores when appropriate.

NORTH AMERICAN BUSINESS SOLUTIONS DIVISION

(Dollars in millions)	**2009**	2008	2007
Sales	**$ 3,483.7**	$ 4,142.1	$ 4,518.4
% change	**(16)%**	(8)%	(1)%
Division operating profit	**$ 98.2**	$ 119.8	$ 220.1
% of sales	**2.8%**	2.9%	4.9%

Sales in our North American Business Solutions Division decreased 16% in 2009 and 8% in 2008. The sales declines in both 2009 and 2008 reflect the impact of challenging economic conditions. The 2009 decline was principally driven by a decrease in the number of customer transactions, which resulted in part from aggressive pricing from some of our competitors in our large, national accounts and contraction in our public sector business. On a product category basis, the Division experienced weakness in durables such as furniture, technology and peripherals, as customers delayed their purchases of these products in favor of consumables like paper, ink and toner.

Division operating profit totaled $98 million in 2009, compared to $120 million in 2008. This measure of operating performance is consistent with the internal reporting of results used to manage the business and allocate resources and does not include charges associated with the strategic decisions made as part of the internal review initiated during the fourth quarter of 2008. Please see Charges discussion in the Corporate and Other section of MD&A.

The decrease in Division operating profit in 2009 was driven by the flow through impact of lower sales levels as well as lower product margins, reflecting a less profitable product mix and cost increases that could not be passed on to our customers. Division operating profit for 2009 also reflects increased promotions in our direct business during the first half of the year. These negative impacts were partially offset by reductions in operating expenses, including a decrease in distribution costs as well as lower payroll and advertising expenses. The decrease in Division operating profit in 2008 resulted primarily from the flow through impact of lower sales levels, an increased accrual for bad debts consistent with the economic downturn and higher costs related to advertising and professional fees.

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INTERNATIONAL DIVISION

(Dollars in millions)	**2009**	2008	2007
Sales	**$ 3,547.2**	$ 4,241.1	$ 4,195.6
% change	**(16)%**	1%	15%
% change in local currency sales	**(9)%**	(2)%	6%
Division operating profit	**$ 119.6**	$ 157.2	$ 231.1
% of sales	**3.4%**	3.7%	5.5%

Sales in our International Division in U.S. dollars decreased 16% in 2009 and increased 1% in 2008. Local currency sales decreased 9% in 2009 and 2% in 2008. The sales declines in both 2009 and 2008 resulted from the global economic crisis, which had a negative effect on both business investment and office supply expenditures and resulted in lower sales levels in both our contract and direct businesses. Although we are becoming more effective at retaining our higher value customers, sales in the direct business declined 11% in local currency in 2009 because of softness in higher priced items such as furniture and technology. Sales in the contract business declined 8% in local currency as larger businesses have reduced their workforces and their discretionary spending on office supplies. Additionally, the International Division s sales were reduced in 2009 as a result of our exit from the retail business in Japan.

Division operating profit totaled $120 million in 2009, compared to $157 million in 2008. This measure of operating performance is consistent with the internal reporting of results used to manage the business and allocate resources and does not include charges associated with the strategic decisions made as part of the internal review initiated during the fourth quarter of 2008 nor a goodwill impairment charge of $863 million recognized at the corporate level in 2008. Please see Charges discussion in the Corporate and Other section of MD&A.

The decreases in Division operating profit in 2009 and 2008 were driven by the flow through impact of lower sales levels. This negative impact was partially offset by lower operating expenses, including a decrease in distribution costs as well as lower payroll and advertising expenses. Other factors, including a shift to lower margin customers and cost increases that could not be fully passed on to our customers, negatively impacted Division operating profit in both 2009 and 2008. During 2008, we also recorded a non-cash gain of approximately $13 million related to the curtailment of a defined benefit pension plan in the UK and non-cash impairment charges of approximately $11 million related to our customer list intangible assets.

For U.S. reporting, the International Division s sales are translated into U.S. dollars at average exchange rates experienced during the year. The Division s reported sales were negatively impacted by approximately $305 million in 2009 and positively impacted by $127 million in 2008 from changes in foreign currency exchange rates. Division operating profit was negatively impacted by $6 million in 2009 and positively impacted by $2 million in 2008 from changes in foreign exchange rates. Internally, we analyze our international operations in terms of local currency performance to allow focus on operating trends and results.

CORPORATE AND OTHER

Asset Impairments, Exit Costs and Other Charges

During the fourth quarter of 2008, we announced the launch of an internal review of assets and processes with the goal of positioning the company to deal with the degradation in the global economy and to benefit from its eventual improvement. The results of that internal review led to decisions to close stores, exit certain businesses and write off certain assets that were not seen as providing future benefit. These decisions resulted in material charges that were recognized during the fourth quarter of 2008 and fiscal year 2009. Additional information about these activities is provided below.

As of the end of 2009, we have substantially completed all activities falling under our strategic reviews. Although we do not expect to recognize new Charges under these programs in future periods, positive and negative adjustments to previously accrued amounts as well as accretion on discounted long-term accruals such as lease obligations will continue to impact our results in future periods. We currently estimate accretion of approximately $15 million for 2010 and declining amounts in subsequent periods. All such amortizations and settlements or adjustments to related accruals will be included in store and warehouse operating and selling expenses and recognized at the corporate level, outside of Division operating profit.

During 2008, we also recognized material goodwill and trade name impairment Charges. In 2007, we recognized Charges associated with the ending stages of a previously-disclosed business review. A summary of the Charges and the line item presentation of these amounts in our accompanying Consolidated Statements of Operations is as follows.

(Dollars in millions, except per share amounts)	**2009**	2008	2007
Cost of goods sold and occupancy costs	**$ 13**	$ 16	$
Store and warehouse operating and selling expenses	**188**	52	25
Goodwill and trade name impairments		1,270	
Other asset impairments	**26**	114	
General and administrative expenses	**26**	17	15
Total pre-tax Charges	**253**	1,469	40
Income tax effect	**(19)**	(103)	(11)
After-tax impact	**$ 234**	$ 1,366	$ 29
Per share impact	**$ 0.86**	$ 5.01	$ 0.11

Of the total 2009 Charges, approximately $194 million either have or are expected to require cash settlement, including longer-term lease obligations that will require cash over multi-year lease terms; approximately $59 million of Charges are non-cash items.

The primary components of Charges during 2008 and 2009 include:

Goodwill and Trade Name Impairments We perform our annual review of goodwill and other non-amortizing intangible assets during the fourth quarter. As a result of this review for 2008, we recorded non-cash Charges of $1.2 billion to write down goodwill and $57 million related to the impairment of trade names. As previously disclosed and summarized here, our recoverability assessment of these non-amortizing intangible assets considered company-specific projections, assumptions about market participant views and the company s overall market capitalization around the testing period. No impairments were identified in 2009 or 2007.

Retail Store Initiatives As a result of the strategic review, we closed certain stores in North America and exited our retail operations in Japan. Additionally, we reduced the planned number of North American retail store openings for 2009. In total, we closed 126 stores in North America and 27 stores in Japan. Six of the North American locations were closed during the fourth quarter of 2008 and the remaining stores were closed during 2009. The stores closed under this program were underperforming stores or stores that were no longer a strategic fit for the company. The Charges associated with the initiatives related to our retail stores totaled $122 million and $104 million in 2009 and 2008, respectively. The 2009 Charges were primarily related to lease accruals, inventory write downs, severance expenses and other facility closure costs. Included in the 2009 Charges is the impact of a reclassification to the accrued lease liability of previously accrued lease related costs such as tenant improvement allowances and various rent credits associated with facilities closed during 2009. The net effect of this reclassification was to lower the lease-related Charges recognized in 2009 by approximately $32 million. The 2008 Charges related primarily to asset impairments, inventory write downs and lease accruals.

Supply Chain Initiatives As a result of the strategic review of our supply chain operations, we consolidated certain facilities in North America and Europe. During 2009, we closed five distribution centers and six crossdock facilities in North America and completed the consolidation of our distribution centers in Europe.

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Charges related to these actions totaled approximately $57 million in 2009 and related primarily to lease accruals, inventory write downs, severance expenses and other facility closure costs. The 2008 Charges under these initiatives totaled approximately $22 million and consisted primarily of accelerated depreciation, severance related costs and lease accruals.

Asset Sales and Sale-Leaseback Transactions As a result of the strategic review and to enhance liquidity, we entered into multiple sale and sale-leaseback transactions. Total proceeds from these transactions were approximately $150 million and are included in the investing section on our Consolidated Statement of Cash Flows. Losses on these transactions are included in the Charges and totaled approximately $22 million in 2009. Gains have been deferred and will reduce rent expense over the related leaseback periods. One transaction was the sale of an asset previously classified as a capital lease. Payments to satisfy the existing capital lease obligation are included in the financing section of the Consolidated Statement of Cash Flows. An additional sale-leaseback arrangement associated with operating properties included provisions that resulted in the transaction being accounted for as a financing. Accordingly, approximately $19 million has been included in long-term debt on the Consolidated Balance Sheet at December 26, 2009.

Headcount Reductions and Other Restructuring Activities Each of the Divisions, as well as Corporate eliminated positions in an effort to centralize activities and eliminate geographic redundancies. Total severance and termination benefit costs associated with these actions totaled approximately $22 million and $13 million during 2009 and 2008, respectively. During 2009, we also recorded Charges for contract terminations on certain leased assets totaling approximately $17 million and for other restructuring activities totaling approximately $7 million. Additionally, we recognized a non-cash loss of approximately $6 million in conjunction with the disposition of other assets during 2009. Charges for other restructuring activities in 2008 totaled approximately $60 million and related primarily to asset write downs and costs associated with the restructuring of our back office operations and call centers in Europe.

The Charges recognized in 2007 totaled $40 million and related primarily to the consolidation of warehouses and distribution centers in North America and Europe as well as management restructuring and call center consolidation in Europe.

In addition to the Charges that relate to the strategic reviews, during 2008, we recognized other material charges because of the downturn in our business. Those charges include material asset impairments relating to stores we continue to operate, charges to impair amortizing customer relationship intangible assets, as well as an increase in our allowance for bad debts related to our private label credit card portfolio and certain other accounts receivable balances to reflect the economic downturn. As these charges are considered reflective of operating an ongoing business in difficult times, they were included in the 2008 Division operating results.

General and Administrative Expenses

Total general and administrative expenses (G&A) decreased from $743 million in 2008 to $723 million in 2009. The portion of G&A expenses considered directly or closely related to division activity is included in the measurement of Division operating profit. The company continues to evaluate G&A and other expense allocation across the Divisions and may refine methodologies in future periods. 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 companies. The remainder of the total G&A expenses are considered corporate expenses. A breakdown of G&A is provided in the following table:

(Dollars in millions)	**2009**	2008	2007
Division G&A	**$ 361.7**	$ 394.6	$ 341.8
Corporate G&A	**361.4**	348.6	303.9
Total G&A	**$ 723.1**	$ 743.2	$ 645.7
% of sales	**6.0%**	5.1%	4.2%

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Decreases in Division G&A in 2009 were primarily driven by reductions in payroll related costs and the impact of changes in foreign exchange rates offset partially by higher levels of performance-based variable pay.

Corporate G&A includes Charges of approximately $26 million, $17 million and $15 million in 2009, 2008 and 2007, respectively. After considering these charges, corporate G&A expenses increased by $4 million in 2009 and $40 million in 2008. The change in 2009 primarily reflects increased depreciation expense and higher levels of performance-based variable pay. The increase in depreciation expense resulted primarily from the capital lease associated with our new corporate campus as well as the company s implementation of a new enterprise software system which was placed in service at the beginning of the third quarter of 2009. The increases were offset partially by reduction in legal and professional fees as well as lower payroll-related costs. Corporate G&A for 2009 also includes approximately $9 million from the effect of accelerated vesting of certain employee stock grants following approval of the redeemable preferred stock issuance. Change in control features in certain employment contracts could result in additional G&A expenses in future periods if covered executives are involuntarily, or in certain cases, voluntarily terminated. The 2008 increase primarily reflects higher performance-based variable pay, costs for professional and legal fees and approximately $7 million of severance charges related to a voluntary exit incentive program for certain corporate employees.

Gain on Sale of Building

In December 2006, in connection with a decision to move to a new, leased, headquarters facility, we sold our corporate campus and entered into a leaseback agreement pending completion of the new facility. The sale resulted in a gain of approximately $21 million recognized in 2006 and $15 million deferred over the leaseback period. We recognized approximately $7 million in amortization of the deferred gain on the sale during both 2008 and 2007. This amortization largely offset the rent expense during the leaseback period. During 2007, we entered into a longer-term lease on our current corporate campus, and we moved into this facility during the fourth quarter of 2008.

Other Income and Expense

(Dollars in millions)	**2009**	2008	2007
Interest income	**$ 2.4**	$ 10.0	$ 9.4
Interest expense	**(65.6)**	(68.3)	(63.1)
Miscellaneous income, net	**17.1**	23.7	27.8

Interest expense decreased for 2009 compared to 2008, reflecting a reduction in interest expense on borrowings as we did not borrow under our asset based credit facility during the second half of 2009. Partially offsetting this positive factor was increased interest expense resulting from the amortization of debt issuance costs related to our asset based credit facility and the capital lease associated with our corporate campus. The decrease in interest income during 2009 resulted primarily from lower investment rates. The increase in interest expense in 2008 was driven by additional capital leases and a higher level of short-term borrowings throughout the year.

Our net miscellaneous income consists of our earnings of joint venture investments, royalty income, gains and losses related to foreign exchange transactions, and realized gains and impairments of other investments. The majority of miscellaneous income is attributable to equity in earnings from our joint venture in Mexico, Office Depot de Mexico. The decrease in 2009 primarily reflects lower joint venture earnings resulting from changes in foreign currency exchange rates. This decrease was partially offset by the impact of foreign currency transactions as we recognized lower foreign currency losses in 2009, compared to 2008. The decrease in 2008 reflects foreign currency losses offset partially by higher joint venture earnings.

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Income Taxes

(Dollars in millions)	**2009**	2008	2007
Income tax expense (benefit)	**$ 287.6**	$ (98.6)	$ 63.0
Effective income tax rate*	**(92)%**	6%	14%

* Income taxes as a percentage of earnings (loss) before income taxes.

During 2009, the company recognized income tax expense of $287.6 million. The expense primarily reflects valuation allowances recorded in the third quarter totaling $321.6 million, with $279.1 million related to domestic deferred tax assets and $42.5 million related to foreign deferred tax assets. The establishment of valuation allowances and development of projected annual effective tax rates requires significant judgment and is impacted by various estimates. Both positive and negative evidence, as well as the objectivity and verifiability of that evidence, is considered in determining the appropriateness of recording a valuation allowance on deferred tax assets. An accumulation of recent pre-tax losses is considered strong negative evidence in that evaluation. Because of the downturn in our performance during this recessionary period, as well as the significant restructuring activities and charges we have taken in response, during the third quarter of 2009 the cumulative pre-tax results for the past 36 months of certain taxing jurisdictions reached or nearly reached loss positions. While we have seen signs that cause us to be optimistic about the future, we are likely to be adding to the accumulated pre-tax losses in these jurisdictions before the projected return to profitability of these operations. We may be able to use some of these assets to reduce taxes payable in coming quarters or by carrying back to prior years. Further, we anticipate being able to remove the valuation allowances in future periods when positive evidence outweighs the negative evidence from the relevant look-back period. However, the actual timing and amount of potential removal of the valuation allowances by jurisdiction currently cannot be reliably estimated. The short-term consequence of being unable to record deferred tax benefits will cause our effective tax rate to be volatile, possibly changing significantly from period to period.

The decrease in the effective income tax rate during 2008 reflects the largely non-deductible nature of the goodwill impairment charge and non-deductible foreign interest, as well as the impact of a $47 million increase in deferred tax asset valuation allowances resulting from the change to loss positions in certain jurisdictions. The effective tax rate for 2007 reflects the impact from 2007 discrete benefits and valuation allowance changes, as well as the impact from a shift in the mix of pretax income, reflecting a higher proportion of international earnings taxed at lower rates. The 2007 discrete items include a benefit of approximately $10 million from the reversal of an accrual for uncertain tax positions and a local jurisdiction ruling that secured certain prior year filing positions. Additionally in 2007, because of a jurisdictional restructuring, changes in foreign country tax law and certain book to tax return adjustments, we recognized tax benefits totaling $48 million, primarily related to eliminations of valuation allowances on deferred tax assets.

In general, the effective tax rate in future periods can be affected by variability in our mix of domestic and foreign income, the variance of actual results to projected results, utilization of deferred tax assets, the statutory tax rates in various jurisdictions, changes in the rules related to accounting for income taxes, outcomes from tax audits that regularly are in process and our assessment of the need for accruals for uncertain tax positions.

The company periodically seeks to limit future tax expense by entering into tax ruling agreements with international jurisdictions. As part of the process of obtaining these tax ruling agreements, it is possible that the company may have to concede significant tax attributes in the negotiating process which may increase tax expense. Such a concession should not have a near-term cash tax impact.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

At December 26, 2009, we had approximately $660 million in cash and equivalents and another $726 million available under our asset based credit facility based on the December borrowing base certificate. We consider our resources adequate to satisfy our cash needs at least over the next twelve months. We anticipate that market conditions will continue to be challenging through 2010, and in response, we are focused on maximizing cash flow. We have made strong progress towards reducing inventory levels and remain focused on accelerating the collection of our accounts receivable balances. During the first half of 2009, we entered into sale-leaseback transactions and sales of certain assets, and during the third quarter of 2009, we entered into a committed factoring arrangement in France that allows us to sell certain foreign trade receivables to a third party which provides up to approximately $85 million additional liquidity, depending on the level of eligible receivables and currency exchange rates. As of December 26, 2009, we had not sold any receivables under this agreement.

We hold cash throughout our service areas, but we principally manage our cash through regional headquarters in North America and Europe. We may move cash between those regions from time to time through short-term transactions and have used these cash transfers at the end of fiscal quarterly periods to pay down borrowings outstanding under our credit facilities. Although such transfers and debt repayments took place during the first three quarters of 2007, we completed a non-taxable distribution to the U.S. in the amount of $220 million during the fourth quarter of 2007, thereby permanently repatriating this cash. Additional distributions, including distributions of foreign earnings or changes in long-term arrangements could result in significant additional U.S. tax payments and income tax expense. Currently, there are no plans to change our expectation of foreign earnings reinvestment or the long-term nature of our intercompany arrangements, though accounting impacts of any change in these classifications would be recognized in the period of the change.

On September 26, 2008, the company entered into a Credit Agreement (the Agreement) with a group of lenders, which provides for an asset based, multi-currency revolving credit facility (the Facility) of up to $1.25 billion. The amount that can be drawn on the Facility at any given time is determined based on percentages of certain accounts receivable, inventory and credit card receivables (the Borrowing Base). At December 26, 2009, the company was eligible to borrow approximately $872 million of the Facility. The Facility includes a sub-facility of up to $250 million which is available to certain of the company s European subsidiaries (the European Borrowers). Certain of the company s domestic subsidiaries (the Domestic Guarantors) guaranty the obligations under the Facility. The Agreement also provides for a letter of credit sub-facility of up to $400 million. All loans borrowed under the Agreement may be borrowed, repaid and reborrowed from time to time until September 26, 2013 (or, in the event that the company s existing 6.25% Senior Notes are not repaid, then February 15, 2013), on which date the Facility matures.

All amounts borrowed under the Facility, as well as the obligations of the Domestic Guarantors, are secured by a lien on the company s and such Domestic Guarantors accounts receivables, inventory, cash and deposit accounts. All amounts borrowed by the European Borrowers under the Facility are secured by a lien on such European Borrowers accounts receivable, inventory, cash and deposit accounts, as well as certain other assets. At the company s option, borrowings made pursuant to the Agreement bear interest at either, (i) the alternate base rate (defined as the higher of the Prime Rate (as announced by the Agent) and the Federal Funds Rate plus 1/2 of 1%) or (ii) the Adjusted LIBOR Rate (defined as the LIBOR Rate as adjusted for statutory revenues) plus, in either case, a certain margin based on the aggregate average availability under the Facility. The Agreement also contains representations, warranties, affirmative and negative covenants, and default provisions which are conditions precedent to borrowing. The most significant of these covenants and default provisions include a capital expenditure limitation of $500 million in any fiscal year and limitations in certain circumstances on acquisitions, dispositions, share repurchases and the payment of cash dividends. The cash dividend restrictions are based on the then-current and proforma fixed charge coverage ratio and borrowing availability at the point of consideration. The company has never declared or paid cash dividends on its common stock. The company was in compliance with all financial covenants at December 26, 2009. The Facility also includes provisions whereby if the global availability is less than

$218.8 million, or the European availability is below $37.5 million, the company s cash collections go first to the agent to satisfy outstanding borrowings. Further, if total availability falls below $187.5 million, a fixed charge coverage ratio test is required which, based on current forecasts, could effectively eliminate additional borrowing under the Facility. Any event of default that is not cured within the permitted period, including non-payment of amounts when due, any debt in excess of $25 million becoming due before the scheduled maturity date, or the acquisition of more than 40% of the ownership of the company by any person or group, could result in a termination of the Facility and all amounts outstanding becoming immediately due and payable.

At December 26, 2009, we had approximately $726 million of available credit under our asset based credit facility (the Facility). At December 26, 2009, there were no borrowings outstanding under the Facility and there were letters of credit outstanding under the Facility totaling approximately $146 million. An additional $0.7 million of letters of credit were outstanding under separate agreements. Average borrowings under the Facility from December 27, 2008 to June 27, 2009 were approximately $180 million at an average interest rate of 3.92%. We did not borrow under our asset based credit facility during the second half of 2009.

In addition to our borrowings under the Facility, we had short-term borrowings of $44.1 million. These borrowings primarily represent outstanding balances under various local currency credit facilities for our international subsidiaries that had an effective interest rate at the end of the year of approximately 2.35%. The majority of these short-term borrowings represent outstanding balances on uncommitted lines of credit, which do not contain financial covenants.

In December 2008, the company s credit rating was downgraded which provided the counterparty to the company s private label credit card program the right to terminate the agreement and require the company to repurchase the outstanding balance credit card receivables. The company and the counterparty subsequently amended the agreement to permanently eliminate this provision. The company maintains a $25 million letter of credit in support of this agreement.

Redeemable Preferred Stock Issuance

On June 23, 2009, we issued 274,596 shares of 10.00% Series A Redeemable Convertible Participating Perpetual Preferred Stock (Series A Preferred Stock), and 75,404 shares of 10.00% Series B Redeemable Conditional Convertible Participating Perpetual Preferred Stock (Series B Preferred Stock together the Preferred Stock) for net proceeds of approximately $325 million. Each share of Preferred Stock has an initial liquidation preference of $1,000 and the conversion rate of $5.00 per common share allow the two series of preferred stock to be initially convertible into 70 million shares of common stock. The conversion rate is subject to anti-dilution adjustments. In compliance with the rules of the New York Stock Exchange, Office Depot requested shareholder approval for the conversion and voting rights for these shares. Approval was received at the shareholder meeting on October 14, 2009.

Dividends on the 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 and allowed by credit facilities. The company s asset based credit facility currently limits the ability to make such payments. The company may seek modifications to the credit facility to allow for dividends to be paid in cash. If not paid in cash, an amount equal to the cash dividend due will be added to the liquidation preference and measured for accounting purposes at fair value. The dividend rate will be reduced to (a) 7.87% if, at any time after June 23, 2012, the closing price of the company s common stock is greater than or equal to $6.62 per share for a period of 20 consecutive trading days, or (b) 5.75% if, at any time after June 23, 2012, the closing price of the company s common stock is greater than or equal to $8.50 per share for a period of 20 consecutive trading days.

The board of directors approved dividends equal to the stated dividend rate on the Preferred Stock for periods through January 1, 2010. The stated-rate dividend has been added to the liquidation preference of the respective Series A and Series B Preferred Stock, in lieu of making a cash payment. This $18.1 million increase in liquidation preference in lieu of a cash payment has no impact on the Consolidated Statements of Cash Flows.

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For accounting purposes, the company measured the fair value of the dividend using a binomial simulation model that captured the intrinsic value of the underlying common stock on the declaration date and the option value of the shares and future dividends. The dividend resulted in $30.5 million in the aggregate, which includes the $18.1 million increase in liquidation preference, being charged against additional paid-in capital and added to the Preferred Stock carrying value as of December 26, 2009.

After the third anniversary of issuance the Preferred Stock is redeemable, in whole or in part, at the option of the company, subject to the right of the holder to first convert the Preferred Stock the company proposes to redeem. The redemption price is initially 107% of the liquidation preference amount and decreases by 1% each year until reaching 100% after June 23, 2019. At any time after June 23, 2011, if the closing price of the common stock is greater than or equal to $9.75 per share for a period of 20 consecutive trading days, the Preferred Stock is redeemable at 100% of the liquidation preference amount, in whole or in part, at the option of the company, subject to the right of the holder to first convert the Preferred Stock the company proposes to redeem. The Preferred Stock is redeemable at the option of the holder at 101% of the liquidation preference in the event of certain fundamental change provisions (as defined in the Certificate of Designations for each series), including sale, bankruptcy, or delisting of our common stock.

Cash Flows

Cash provided by (used in) our operating, investing and financing activities is summarized as follows:

(Dollars in millions)	**2009**	2008	2007
Operating activities	**$ 296.4**	$ 468.3	$ 411.4
Investing activities	**25.3**	(338.7)	(372.5)
Financing activities	**173.3**	(186.3)	7.9

Operating Activities

The decrease in net cash provided by operating activities in 2009 primarily reflects a reduction in business performance related to weak economic conditions. Depreciation and amortization decreased by approximately $30 million year over year primarily reflecting the impairment of fixed and intangible assets recorded in the fourth quarter of 2008. Although we did experience lower levels of bad debt expense, the decrease in charges for losses on inventories and receivables resulted primarily from lower charges for shrinkage in 2009, compared to 2008. As previously discussed, the company recognized valuation allowances of approximately $322 million related to deferred tax assets during the third quarter of 2009. This represents a non-cash expense, and therefore, it has been added back to our net loss in the Consolidated Statements of Cash Flows to arrive at cash provided by operating activities. Additionally, net cash provided by operating activities includes the impact of non-cash Charges and increases in accruals for severance and lease obligations. We received dividends from our joint venture in Mexico of approximately $14 million in 2009. Working capital was a source of cash of approximately $207 million and $187 million in 2009 and 2008, respectively. The source in 2009 was driven by our continued focus on collecting accounts receivable balances and controlling our inventory levels. Working capital is influenced by a number of factors, including the aging of inventory and timing of vendor payments. The timing of payments is subject to variability during the year depending on a variety 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 Consolidated Financial Statements. The change in cash flows from operating activities during 2008 reflects improvement in working capital that was significantly offset by a decrease in business performance.

Investing Activities

We invested $131 million, $330 million and $461 million in capital expenditures during 2009, 2008 and 2007, respectively. The 2009 activity primarily includes investments in information technology and distribution network infrastructure costs. In 2008, capital expenditures also related to the opening, relocating and remodeling of retail stores in North America and expenditures related to our new corporate headquarters facility. In response to the global economic crisis, we significantly reduced our capital expenditures in 2009. As the economy improves, we plan to increase capital expenditures accordingly. We currently estimate that total capital expenditures will be approximately $200 million in 2010 for activities such as new retail stores, investments in our distribution network and ongoing maintenance across all Divisions.

Proceeds from the disposition of assets in 2009, 2008 and 2007 include proceeds from sale-leaseback transactions of $116 million, $67 million and $64 million, respectively. In 2009, we also completed the sale of an asset previously classified as a capital lease, resulting in proceeds of approximately $29 million. Payments to satisfy the existing capital lease obligation are included in the financing section of our Consolidated Statement of Cash Flows. The realized gains on the sale-leaseback transactions are being amortized over the lease terms, and the non-cash losses are reflected as other asset impairments on our Consolidated Statements of Operations. During 2008, we also purchased certain non-operating assets for approximately $39 million. We sold certain of these non-operating assets during the year. We placed restricted cash on deposit in the amount of $6 million and $18 million, respectively, for transactions that were pending at the end of 2008 and 2007.

During 2008, we acquired a majority ownership position in businesses in India and Sweden. The company has the right to acquire or may be required to purchase some or all of the minority interest shares of these businesses at various points over the next year. Also during 2008, we acquired under previously existing put options all remaining minority interest shares of our joint ventures in Israel and China. During 2007, we acquired a Canada-based office products delivery company. Additionally in both 2008 and 2007, we funded previously accrued acquisition-related payments for former owners of entities acquired in 2006.

Financing Activities

Net cash provided by financing activities totaled $173 million compared to a use of cash of $186 million in 2008. The source in 2009 resulted from our issuance of redeemable preferred stock during the second quarter. As previously discussed, we completed the $350 million issuance of redeemable preferred stock on June 23, 2009. These proceeds are shown net of fees paid of approximately $25 million on the transaction during the period. Uses of cash during 2009 period resulted from repayments of borrowings on our asset based credit facility, which totaled $139 million, and $37 million in capital lease payments. Also, during 2009, we incurred approximately $19 million in debt as a result of a land sale-leaseback that was treated as a financing transaction as well as approximately $5 million of other short-term borrowings. Net cash used in financing activities in 2008 primarily resulted from net repayments of short-term borrowings under our previously existing revolving credit facility. At the end of 2007, borrowings under that facility totaled approximately $235 million, all of which was repaid during 2008. This revolving credit facility was replaced with our asset based credit facility during the third quarter of 2008, which had an outstanding balance of approximately $139 million at the end of 2008. In conjunction with our asset based credit facility, we incurred debt issuance costs of approximately $41 million in 2008. In addition to repayments on the revolving credit facility, we also repaid certain other borrowings related to our international subsidiaries and made payments on capital leases. Net cash provided by financing activities in 2007 resulted from higher levels of short-term borrowings to support our working capital needs.

The board of directors has historically authorized a series of common stock repurchase plans, the latest of which is a $500 million authorization in 2007. Under a previously approved plan, we purchased 5.7 million shares at a cost of approximately $200 million in 2007. We did not purchase any shares of our common stock during 2008 or 2009, and as of December 26, 2009 the entire $500 million remained available for additional repurchases under the most recent board approved plan. However, common stock repurchases are currently prohibited under our asset based credit facility and, in certain circumstances, require prior approval under our Preferred Stock agreements. Proceeds from issuance of common stock under our employee related plans totaled $29 million in 2007. Additionally, upon the issuance of certain restricted stock awards, employees surrendered shares to the company equal to approximately $11 million in 2007 in exchange for our settlement of their taxes due on these shares.

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Off-Balance Sheet Arrangements

We maintain a merchant services agreement with a third-party financial services company related to our private label credit card program. Under the terms of this agreement, we have recourse for most private label credit card receivables transferred to the third party. This arrangement is a component of our overall liquidity resources, which we consider adequate to satisfy our cash needs at least over the next twelve months. We record an estimate for losses on these receivables as a liability in our Consolidated Balance Sheets. This liability totaled approximately $16 million and $23 million at December 26, 2009 and December 27, 2008, respectively. The total outstanding balance of credit card receivables transferred was approximately $148 million and $184 million at December 26, 2009 and December 27, 2008, respectively. Additionally, during the third quarter of 2009, we entered into a committed accounts receivable factoring arrangement in France that allows us to sell certain foreign trade receivables to a third party. As of December 26, 2009, we had not sold any receivables under this agreement.

As of December 26, 2009, we had no off-balance sheet arrangements, other than the agreements described in the preceding paragraph and operating leases, which are included in the table below.

Contractual Obligations

The following table summarizes our contractual cash obligations at December 26, 2009, and the effect such obligations are expected to have on liquidity and cash flow in future periods:

		Payments Due by Period			
(Dollars in millions)	Total	Less than 1 year	1 - 3 years	4 - 5 years	After 5 years
Contractual Obligations					
Long-term debt obligations [1]	$ 531.9	$ 27.4	$ 54.6	$ 429.0	$ 20.9
Short-term borrowings and other [2]	44.1	44.1			
Capital lease obligations [3]	411.4	32.4	58.8	56.2	264.0
Operating lease obligations [4]	2,911.6	524.7	836.5	612.0	938.4
Purchase obligations [5]	108.4	51.4	55.2	1.5	0.3
Other liabilities [6]	11.3	11.3			
Total contractual cash obligations	$ 4,018.7	$ 691.3	$ 1,005.1	$ 1,098.7	$ 1,223.6

(1) Long-term debt obligations consist primarily of our $400 million senior notes and the associated contractual interest payments. Also included in this amount are the expected payments (principal and interest) on certain long-term debt obligations related to our international subsidiaries.

(2) Short-term borrowings consist of amounts outstanding under subsidiary lines of credit.

(3) The present value of these obligations are included on our Consolidated Balance Sheets. See Note F of the Notes to Consolidated Financial Statements for additional information about our capital lease obligations.

(4) The operating lease obligations presented reflect future minimum lease payments due under the non-cancelable portions of our leases as of December 26, 2009. Our operating lease obligations are described in Note H of the Notes to Consolidated Financial Statements. In the table above, sublease income is distributed by period.

(5) Purchase obligations include all commitments to purchase goods or services of either a fixed or minimum quantity that are enforceable and legally binding on us that meet any of the following criteria: (1) they are non-cancelable, (2) we would incur a penalty if the agreement was cancelled, or (3) we must make specified minimum payments even if we do not take delivery of the contracted products or services. If the obligation is non-cancelable, the entire value of the contract is included in the table. If the obligation is cancelable, but we would incur a penalty if cancelled, the dollar amount of the penalty is included as a purchase obligation. If we can unilaterally terminate the agreement simply by providing a certain number of days notice or by

paying a termination fee, we have included the amount of the termination fee or the amount that would be paid over the notice period. As of December 26, 2009, purchase obligations include television, radio and newspaper advertising, sports sponsorship commitments, telephone services, certain fixed assets and software licenses and service and maintenance contracts for information technology. Contracts that can be unilaterally terminated without a penalty have not been included.

(6) Our Consolidated Balance Sheet as of December 26, 2009 includes $654.9 million classified as Deferred income taxes and other long-term liabilities. This caption primarily consists of our net long-term deferred income taxes, the unfunded portion of our pension plan, deferred lease credits, liabilities under our deferred compensation plans, and accruals for uncertain tax positions. These liabilities have been excluded from the above table as the timing and/or the amount of any cash payment is uncertain. As of December 26, 2009, accruals for uncertain tax positions, net of items offset by net operating losses, totaled approximately $112.5 million. See Note G of the Notes to Consolidated Financial Statements for additional information regarding our deferred tax positions and accruals for uncertain tax positions and Note I for a discussion of our employee benefit plans, including the pension plan and the deferred compensation plan. The table above includes scheduled, acquisition-related payments.

In addition to the above, we have outstanding letters of credit totaling $147 million at December 26, 2009.

CRITICAL ACCOUNTING POLICIES

Our 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 can be found in Note A in the Notes to Consolidated Financial Statements. We have also identified certain accounting policies that we consider critical to understanding our business and our results of operations and we have provided below additional information on those policies.

Vendor arrangements Our inventory purchases from vendors are generally under evergreen arrangements with periodic updates or annual negotiated agreements. Many of these arrangements require the vendors to make payments to us or provide credits to be used against purchases if and when certain conditions are met. We generally refer to these arrangements as vendor programs, and they typically fall into two broad categories, with some underlying sub-categories. The largest category is volume-based rebates. Generally, our product costs per unit decline as higher volumes of purchases are reached. Many of our vendor agreements provide that we pay higher per unit costs prior to reaching a predetermined tier, at which time the vendor rebates the per unit differential on past purchases, and also applies the lower cost to future purchases until the next milestone is reached. Current accounting rules provide that companies with a sound basis for estimating their full year purchases, and therefore the ultimate rebate level, can use that estimate to value inventory and cost of goods sold throughout the year. We believe our history of purchases with many vendors provides us with a sound basis for our estimates. If the anticipated volume of purchases is not reached, however, or if we form the belief at any given point in the year that it is not likely to be reached, cost of goods sold and the remaining inventory balances are adjusted to reflect that change in our outlook. We review sales projections and related purchases against vendor program estimates at least quarterly and adjust these balances accordingly. During the fourth quarter of 2007, it became apparent that we were not going to reach the anticipated full year purchase levels and we reduced vendor program income recognized in that period by approximately $30 million. No similar adjustments were required in any quarter in 2008 or 2009. The company has reached agreements with some vendors on terms that set future prices based on negotiation and recognition of historical rebate levels such that the volume-based tiers discussed above have been eliminated. An increase in these arrangements could reduce the impact of volume-based estimates.

The second broad category of arrangements with our vendors is event-based programs. These arrangements can take many forms, including advertising support, special pricing offered by certain of our vendors for a limited time, payments for special placement or promotion of a product, reimbursement of costs incurred to launch a vendor s product, and various other special programs. These payments are classified as a reduction of costs of goods sold or inventory, as appropriate for the program. Some arrangements may meet the specific, incremental, identifiable cost criteria that allow for direct operating expense offset, but such arrangements are not significant. Additionally, we receive payments from vendors for certain of our activities that lower the vendors cost to ship their product to our facilities.

Vendor rebates are recognized throughout the year based on judgment and estimates and amounts due from vendors are generally settled throughout the year based on purchase volumes. The final amounts due from vendors are generally known soon after year-end. Substantially all vendor program receivables outstanding at the end of the year are settled within the three months immediately following year-end. We believe that our historic collection rates of these receivables provide a sound basis for our estimates of anticipated vendor payments throughout the year.

Inventory valuation Inventories are valued at the lower of cost or market value. We monitor active inventory for excessive quantities and slow-moving items and record adjustments as necessary to lower the value if the anticipated realizable amount is below cost. We also identify merchandise that we plan to discontinue or have begun to phase out and assess the estimated recoverability of the carrying value. This includes consideration of the quantity of the merchandise, the rate of sale, and our assessment of current and projected market conditions. If necessary, we record a charge to reduce the carrying value of this merchandise to our estimate of the lower of cost or realizable amount. Additional promotional activities may be initiated and markdowns may be taken as considered appropriate until the product is sold or otherwise disposed. Estimates and judgments are required in determining what items to stock and at what level, and what items to discontinue and how to value them prior to sale.

We also recognize an expense in cost of sales for our estimate of physical inventory loss from theft, short shipment and other factors referred to as inventory shrink. During the year, we adjust the estimate of our shrink rate accrual following on-hand adjustments and our physical inventory results. These changes in estimates may result in volatility within the year or impact comparisons to other periods.

During 2008, we lowered our inventory levels to lessen working capital requirements and reduce obsolescence risk. Also, following a strategic review of our business in December 2008, we decided to close certain underperforming stores in North America. To facilitate these closures, we contracted with a liquidation firm that guaranteed the amount to be realized for the inventory in those stores. During the fourth quarter of 2008, we recognized a $15 million Charge to adjust that inventory to the net contracted value. That adjustment had no impact on the remaining inventory in other stores or in our supply chain. During 2009, we completed the closure of stores in North America and Japan and certain distribution centers. In conjunction with these closures, we recognized an additional $13 million Charge to facilitate inventory liquidation. The company has no current plans for significant additional closures that could result in similar charges, though some level of closures should be anticipated each year.

Closed store accruals and asset impairments We regularly assess the performance of each retail store against historic patterns and projections of future profitability. These assessments are based on management s estimates for sales levels, gross margin attainments, and cash flow generation. If, as a result of these evaluations, management determines that a store will not achieve certain operating performance targets, we may decide to close the store. When a store is no longer used for operating purposes, we recognize a liability for the remaining costs related to the property, reduced by an estimate of any sublease income. The calculation of this liability requires us to make assumptions and to apply judgment regarding the remaining term of the lease (including vacancy period), anticipated sublease income, and costs associated with vacating the premises. With assistance from independent third parties to assess market conditions, we periodically review these judgments and estimates and adjust the liability accordingly. In conjunction with the strategic review initiated in the fourth quarter of 2008, we closed 126 stores in North America and 27 stores in Japan. The lease-related costs associated with these closures, which totaled approximately $89 million and $6 million in 2009 and 2008, respectively, were recorded as the facilities closed. These costs were calculated based on our assumption of an extended vacancy period, three years in most cases, reflecting the slow economic conditions and the estimated sublease rates available in the future. These commitments with no economic benefit to the company were discounted at the credit-adjusted discount rate at the time of each location closure. Future fluctuations in the economy and the market demand for commercial properties could result in material changes in this liability. Costs associated with facility closures are included in store and warehouse operating and selling expenses in our Consolidated Statements of Operations. Because the 2008 and 2009 facility closures are considered part of a company-wide business review, the accretion of the discounted lease liability and potential future positive and negative adjustments to the recorded amounts from settlements or changes in market conditions will be recognized at the corporate level, outside of the determination of Division operating profit. Residual costs and benefits of closures from other periods are included in Division operating profit.

In addition to the decision about whether or not to close a store, store assets are regularly reviewed for recoverability of their carrying amounts. The recoverability assessment requires judgment and estimates of a store s future cash flows. Our impairment analysis builds a cash flow model at the individual store level, beginning with recent store performance and trending the anticipated future results based on chain-wide and individual store initiatives. If the anticipated cash flows of a store cannot support the carrying amount of the store s assets, an impairment charge is recorded to operations as a component of store and warehouse operating and selling expenses. To the extent that management s estimates of future performance are not realized, future assessments could result in material impairment charges. During 2008, we recognized impairment charges of approximately $98 million, which were primarily driven by the significant economic downturn.

Income taxes Income tax accounting requires management to make estimates and apply judgments to events that will be recognized in one period under rules that apply to financial reporting and in a different period in our tax returns. In particular, judgment is required when estimating the value of future tax deductions, tax credits, and the realizability of net operating loss carryforwards (NOLs), as represented by deferred tax assets. When we believe the realization of all or a portion of a deferred tax asset is not likely, we establish a valuation allowance. Changes in judgments that increase or decrease these valuation allowances impact current earnings.

Because of the downturn in our performance during this recessionary period, as well as the significant restructuring activities and charges we have taken in response, we established valuation allowances totaling approximately $322 million during 2009. The charge to establish the valuation allowance followed the third quarter 2009 condition of reaching or nearly reaching a cumulative 36 month cumulative loss position in two taxing jurisdictions. Judgment is required in projecting when operations will be sufficiently positive to allow a conclusion that utilization of the deferred tax assets will once again be more likely than not. Positive performance in subsequent periods and projections of future positive performance will need to be evaluated against this existing negative evidence. Our effective tax rate in future periods may be positively or negatively impacted by changes in related judgments or pre-tax operations. Deferred tax assets without valuation allowances remain in certain foreign tax jurisdictions.

In addition to judgments associated with valuation accounts, our current tax provision can be affected by our mix of income and identification or resolution of uncertain tax positions. Because income from domestic and international sources may be taxed at different rates, the shift in mix during a year or over years can cause the effective tax rate to change. We base our rate during the year on our best estimate of an annual effective rate, and update those estimates quarterly, with the cumulative effect of a change in the anticipated annual rate reflected in the tax provision of that period. Such changes can result in significant interim reporting volatility.

We file our tax returns based on our best understanding of the appropriate tax rules and regulations. However, complexities in the rules and our operations, as well as positions taken publicly by the taxing authorities may lead us to conclude that accruals for uncertain tax positions are required. We generally maintain accruals for uncertain tax positions until examination of the tax year is completed by the taxing authority, available review periods expire, or additional facts and circumstances cause us to change our assessment of the appropriate accrual amount.

Preferred stock paid-in-kind dividends In June 2009, we issued $350 million of redeemable preferred stock. The preferred stock carries a stated dividend of 10%, subject to future decreases in certain circumstances, and allows for payment in cash or an increase in the preferred stock s liquidation preference. The company s asset based credit facility includes provisions that currently limit the payment of cash dividends on any stock until the company s fixed charge coverage ratio, as defined, is at least 1.25. This provision has precluded the company from considering payment in cash of the first two quarterly preferred stock dividends. The valuation for accounting purposes of the dividend paid in-kind requires significant judgment to determine the estimated fair value. The company has used a binomial simulation model to measure values of multiple possible outcomes of the various provisions in the agreements that could impact whether the dividend rate would change based on future stock price performance, whether the company would issue a notice to call the preferred shares and whether the holders would convert their preferred stock into common stock. While the fair value of preferred stock dividends paid in-kind has no standing in the contractual rights to liquidation preference of the preferred shareholders nor any cash impact on the company, it impacts the measurement of net income available to common shareholders and reduces earnings per share. Changes in the valuation assumptions such as the risk adjusted rate, stock price volatility and time to call or convert can impact the estimated fair value and therefore the amount reported as net income available to common shareholders and earnings pre share. However, the valuation is most sensitive to changes in the underlying common stock price. For example, a one dollar change in the common stock price from approximate recent levels, holding all other factors constant, could change the estimated quarterly fair value amount by approximately $2 million. This projected sensitivity would not be valid in many circumstances, is provided only for an order of magnitude impact and should not be relied upon for planning purposes. The company believes the model used to estimate fair value is reasonable and appropriate, but the reported dividend amount could change significantly in future periods based on changes in the underlying common stock price and the model inputs. The company may seek modification to its asset based credit facility to allow for preferred stock dividends to be paid in cash, which would eliminate these judgments and estimates for any dividend paid in cash.

SIGNIFICANT TRENDS, DEVELOPMENTS AND UNCERTAINTIES

Competitive Factors Over the years, we have seen continued development and growth of competitors in all segments of our business. In particular, mass merchandisers and warehouse clubs, as well as grocery and drugstore chains, have increased their assortment of home office merchandise, attracting additional back-to-school customers and year-round casual shoppers. Warehouse clubs have expanded beyond their in-store assortment by adding catalogs and web sites from which a much broader assortment of products may be ordered. We also face competition from other office supply stores that compete directly with us in numerous markets. This competition is likely to result in increased competitive pressures on pricing, product selection and services provided. Many of these retail competitors, including discounters, warehouse clubs, and drug stores and grocery chains, carry basic office supply products. Some of them also feature technology products. Many of them may price certain of these offerings lower than we do, but they have not shown an indication of greatly expanding their somewhat limited product offerings at this time. This trend towards a proliferation of retailers offering a limited assortment of office products is a potentially serious trend in our industry that could impact our results.

We have also seen growth in competitors that offer office products over the internet, featuring special purchase incentives and one-time deals (such as close-outs). Through our own successful internet and business-to-business web sites, we believe that we have positioned ourselves competitively in the e-commerce arena.

Another trend in our industry has been consolidation, as competitors in office supply stores and the copy/print channel have been acquired and consolidated into larger, well-capitalized corporations. This trend towards consolidation, coupled with acquisitions by financially strong organizations, is potentially a significant trend in our industry that could impact our results.

We regularly consider these and other competitive factors when we establish both offensive and defensive aspects of our overall business strategy and operating plans.

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Economic Factors Our customers in the North American Retail Division and many of our customers in the North American Business Solutions Division are predominantly small and home office businesses. Accordingly, these customers may continue to curtail their spending in reaction to macroeconomic conditions, such as changes in the housing market and commodity costs, higher credit costs, credit availability and other factors. The downturn in the global economy experienced over the past two years negatively impacted our sales and profits.

Liquidity Factors Historically, we have generated positive cash flow from operating activities and have had access to broad financial markets that provide the liquidity we need to operate our business. Together, these sources have been used to fund operating and working capital needs, as well as invest in business expansion through new store openings, capital improvements and acquisitions. However, due to the downturn in the global economy our operating results have diminished. In June 2009, we issued $350 million of redeemable preferred stock and in September 2008, we entered into a $1.25 billion asset based credit facility to provide liquidity. Continued distress in the financial markets has resulted in significant volatility in the capital markets and diminished liquidity and credit availability. There can be no assurance that our liquidity will not be adversely impacted by changes in the financial markets and the global economy. In addition, deterioration in our financial results could negatively impact our credit ratings. The tightening of the credit markets or a downgrade in our credit ratings could make it more difficult for us to access funds, to refinance our existing indebtedness, to enter into agreements for new indebtedness or to obtain funding through the issuance of securities.

MARKET SENSITIVE RISKS AND POSITIONS

The company has adopted an enterprise risk management process patterned after the principles set out by the Committee of Sponsoring Organizations (COSO) in 2004. Management utilizes a common view of exposure identification and risk management. A process is in place for periodic risk reviews and identification of appropriate mitigation strategies.

We have market risk exposure related to interest rates and foreign currency exchange rates. Market risk is measured as the potential negative impact on earnings, cash flows or fair values resulting from a hypothetical change in interest rates or foreign currency exchange rates over the next year. Interest rate changes on obligations may result from external market factors, as well as changes in our credit rating. We manage our exposure to market risks at the corporate level. The portfolio of interest-sensitive assets and liabilities is monitored and adjusted to provide liquidity necessary to satisfy anticipated short-term needs. Our risk management policies allow the use of specified financial instruments for hedging purposes only; speculation on interest rates or foreign currency rates is not permitted.

Interest Rate Risk

We are exposed to the impact of interest rate changes on cash equivalents and debt obligations. The impact on cash and short-term investments held at the end of 2009 from a hypothetical 10% decrease in interest rates would be a decrease in interest income of less than $1 million.

Market risk associated with our debt portfolio is summarized below:

		2009			2008	
		Fair	**Risk**		Fair	Risk
(Dollars in thousands)	**Carrying Value**	**Value**	**Sensitivity**	Carrying Value	Value	Sensitivity
$400 million senior notes	**$ 400,172**	**$ 345,966**	**$ 5,420**	$ 400,278	$ 206,000	$ 8,380
Asset based credit arrangement	**$**	**$**	**$**	$ 139,098	$ 139,098	$ 696

The risk sensitivity of fixed rate debt reflects the estimated increase in fair value from a 50 basis point decrease in interest rates, calculated on a discounted cash flow basis. The sensitivity of variable rate debt reflects the possible increase in interest expense during the next period from a 50 basis point change in interest rates prevailing at year-end.

Foreign Exchange Rate Risk

We conduct business in various countries outside the United States where the functional currency of the country is not the U.S. dollar. While our company sells directly or indirectly to customers in 51 countries, the principal operations of our International Division are in countries with Euro and British pound functional currencies. We continue to assess our exposure to foreign currency fluctuation against the U.S. dollar. As of December 26, 2009, a 10% change in the applicable foreign exchange rates would result in an increase or decrease in our operating profit of approximately $12 million.

Although operations generally are conducted in the relevant local currency, we also are subject to foreign exchange transaction exposure when our subsidiaries transact business in a currency other than their own functional currency. This exposure arises primarily from inventory purchases in a foreign currency. At December 26, 2009, the notional amount of foreign exchange forward contracts to hedge certain inventory exposures was $54 million. This amount was $67 million at its highest point during 2009. Also, from time-to-time, we enter into foreign exchange forward transactions to protect against possible changes in exchange rates related to scheduled or anticipated cash movements among our operating entities.

Generally, we evaluate the performance of our international businesses by focusing on the local currency results of the business, and not with regard to the translation into U.S. dollars, as the latter is impacted by external factors.

INFLATION AND SEASONALITY

Although we cannot determine the precise effects of inflation on our business, we do not believe inflation has had a material impact on our sales or the results of our operations. We consider our business to be only somewhat seasonal, with sales lower during the second quarter. Certain working capital components may build and recede during the year reflecting established selling cycles. Additionally, business cycles can and have impacted our operations and financial position when compared to other periods.

NEW ACCOUNTING STANDARDS

The Financial Accounting Standards Board (the FASB) has codified a single source of U.S. Generally Accepted Accounting Principles (GAAP), the *Accounting Standards Codification* . Unless needed to clarify a point to readers, we will refrain from citing specific section references when discussing application of accounting principles or addressing new or pending accounting rule changes. 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.

FORWARD-LOOKING STATEMENTS

The Private Securities Litigation Reform Act of 1995 (the Act) provides protection from liability in private lawsuits for forward-looking statements made by public companies under certain circumstances, provided that the public company discloses with specificity the risk factors that may impact its future results. We want to take advantage of the safe harbor provisions of the Act. This Annual Report contains both historical information and other information that you can use to infer future performance. Examples of historical information include our annual financial statements and the commentary on past performance contained in our MD&A. While we have specifically identified certain information as being forward-looking in the context of its presentation, we caution you that, with the exception of information that is historical, all the information contained in this Annual Report should be considered to be forward-looking statements as referred to in the Act. Without limiting the generality of the preceding sentence, any time we use the words estimate, project, intend, expect, believe, anticipate, con similar expressions, we intend to clearly express that the information deals with possible future events and is forward-looking in nature. Certain information in our MD&A is clearly

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forward-looking in nature, and without limiting the generality of the preceding cautionary statements, we specifically advise you to consider all of our MD&A in the light of the cautionary statements set forth herein.

Forward-looking information involves future risks and uncertainties. Much of the information in this report that looks towards future performance of our company is based on various factors and important assumptions about future events that may or may not actually come true. As a result, our operations and financial results in the future could differ materially and substantially from those we have discussed in the forward-looking statements in this Report. Significant factors that could impact our future results are provided in Item 1A. Risk Factors included in our 2009 Annual Report on Form 10-K. Other risk factors are incorporated into the text of our MD&A, which should itself be considered a statement of future risks and uncertainties, as well as management s view of our businesses.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

See the information in the Market Sensitive Risks and Positions subsection of Management s Discussion and Analysis of Financial Condition and Results of Operation set forth in Item 7 hereof.

Item 8. Financial Statements and Supplementary Data.

See Item 15(a) in Part IV.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

Disclosure Controls and Procedures

Based on management s evaluation which included the participation of the company s Chief Executive Officer (CEO), and Chief Financial Officer (CFO), as of December 26, 2009, the company s CEO and CFO concluded that 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, as amended (the Act), were effective to provide reasonable assurance that information required to be disclosed by the company in reports that the company files or submits under the Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and that such information is accumulated and communicated to the company s management, including the CEO and CFO, to allow timely decisions regarding required disclosures.

Changes in Internal Controls

There have been no changes in the company s internal control over financial reporting that occurred during the company s most recent fiscal year that have materially affected, or are reasonably likely to materially affect, the company s internal control over financial reporting.

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Management s Report on Internal Control Over Financial Reporting

Management of Office Depot is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Act. Our Internal Control structure is designed to provide reasonable assurance to our management and the board of directors regarding the reliability of financial reporting and the preparation and fair presentation of published financial statements.

Because of inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In evaluating our Internal Control, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control Integrated Framework*. Based on our assessment, management has concluded that the company s internal control over financial reporting was effective as of December 26, 2009.

Our internal control over financial reporting as of December 26, 2009, has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report which is provided below.

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REPORT OF THE INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Office Depot, Inc.:

We have audited the internal control over financial reporting of Office Depot, Inc. and subsidiaries (the Company) as of December 26, 2009, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management s Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed by, or under the supervision of, the company s principal executive and principal financial officers, or persons performing similar functions, and effected by the company s board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 26, 2009, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the fiscal year ended December 26, 2009 of the Company and our report dated February 23, 2010 expressed an unqualified opinion on those financial statements.

/s/ DELOITTE & TOUCHE LLP

Certified Public Accountants

Boca Raton, Florida

February 23, 2010

Item 9B. Other Information.

None

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PART III

Item 10. Directors, Executive Officers and Corporate Governance.

Information concerning our executive officers is set forth in Item 1 of this Form 10-K under the caption Executive Officers of the Registrant.

Information with respect to our directors and the nomination process is incorporated herein by reference to information included in the Proxy Statement for our 2010 Annual Meeting of Shareholders.

Information regarding our audit committee and our audit committee financial experts is incorporated herein by reference to information included in the Proxy Statement for our 2010 Annual Meeting of Shareholders.

Information required by Item 405 of Regulation S-K is incorporated herein by reference to information included in the Proxy Statement for our 2010 Annual Meeting of Shareholders.

We have adopted a Code of Ethical Behavior in compliance with applicable rules of the SEC that applies to our principal executive officer, our principal financial officer, and our principal accounting officer or controller, or persons performing similar functions. A copy of the Code of Ethical Behavior is available free of charge on the Investor Relations section of our web site at www.offficedepot.com. We intend to satisfy any disclosure requirement under Item 5.05 of Form 8-K regarding an amendment to, or waiver from, a provision of this Code of Ethical Behavior by posting such information on our web site at the address and location specified above.

Item 11. Executive Compensation.

Information with respect to executive compensation is incorporated herein by reference to information included in the Proxy Statement for our 2010 Annual Meeting of Shareholders.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Information with respect to security ownership of certain beneficial owners and management is incorporated herein by reference to information included in the Proxy Statement for our 2010 Annual Meeting of Shareholders.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table provides information regarding compensation plans under which Office Depot equity securities are authorized for issuance as of December 26, 2009:

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants, and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (c)
Equity compensation plans approved by security holders:			
2007 Long-Term Incentive Plan	24,202,715	$11.81	9,243,229
Retirement Savings Plans	Not Applicable	Not Applicable	Not Applicable
Equity compensation plans not approved by security holders:			
None		Not Applicable	
Total	24,202,715	$11.81	9,243,229

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For a description of the equity compensation plans above, see Note I Employee Benefit Plans included under the heading Notes to Consolidated Financial Statements.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

Information with respect to such contractual relationships is incorporated herein by reference to the information in the Proxy Statement for our 2010 Annual Meeting of Shareholders.

Item 14. Principal Accountant Fees and Services.

Information with respect to principal accounting fees and services and pre-approval policies are incorporated herein by reference to information included in the Proxy Statement for our 2010 Annual Meeting of Shareholders.

PART IV

Item 15. Exhibits and Financial Statement Schedules.

(a) The following documents are filed as a part of this report:

1. The financial statements listed in Index to Financial Statements.

2. The financial statement schedules listed in Index to Financial Statement Schedule.

3. The exhibits listed in the Index to Exhibits.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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 on this 23rd day of February 2010.

OFFICE DEPOT, INC.

By /s/ STEVE ODLAND
Steve Odland

Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant in the capacities indicated on February 23, 2010.

Signature	Capacity
/s/ STEVE ODLAND	Chief Executive Officer (Principal Executive
Steve Odland	Officer) and Chairman, Board of Directors
/s/ MICHAEL D. NEWMAN	Executive Vice President and Chief Financial Officer (Principal Financial Officer)
Michael D. Newman	
/s/ MARK E. HUTCHENS	Senior Vice President and Controller (Principal Accounting Officer)
Mark E. Hutchens	
/s/ LEE A. AULT, III	Director
Lee A. Ault, III	
/s/ NEIL R. AUSTRIAN	Director
Neil R. Austrian	
/s/ JUSTIN BATEMAN	Director
Justin Bateman	
/s/ DAVID W. BERNAUER	Director
David W. Bernauer	
/s/ THOMAS J. COLLIGAN	Director
Thomas J. Colligan	
/s/ MARSHA JOHNSON EVANS	Director
Marsha Johnson Evans	
/s/ DAVID I. FUENTE	Director
David I. Fuente	

/s/ BRENDA J. GAINES	Director
Brenda J. Gaines	
/s/ MYRA M. HART	Director
Myra M. Hart	
/s/ W. SCOTT HEDRICK	Director
W. Scott Hedrick	
/s/ KATHLEEN MASON	Director
Kathleen Mason	
/s/ JAMES RUBIN	Director
James Rubin	
/s/ RAYMOND SVIDER	Director
Raymond Svider	

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INDEX TO FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Office Depot, Inc.:

We have audited the accompanying consolidated balance sheets of Office Depot, Inc. and subsidiaries (the Company) as of December 26, 2009 and December 27, 2008, and the related consolidated statements of operations, comprehensive income (loss), stockholders equity, and cash flows for each of the three fiscal years in the period ended December 26, 2009. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Office Depot, Inc. and subsidiaries at December 26, 2009 and December 27, 2008, and the results of their operations and their cash flows for each of the three fiscal years in the period ended December 26, 2009, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company s internal control over financial reporting as of December 26, 2009, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 23, 2010 expressed an unqualified opinion on the Company s internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP

Certified Public Accountants

Boca Raton, Florida

February 23, 2010

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OFFICE DEPOT, INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share amounts)

	December 26, 2009	December 27, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 659,898**	$ 155,745
Receivables, net of allowances of $32,802 in 2009 and $45,990 in 2008	**1,121,160**	1,255,735
Inventories	**1,252,929**	1,331,593
Deferred income taxes	**16,637**	196,192
Prepaid expenses and other current assets	**155,705**	183,122
Total current assets	**3,206,329**	3,122,387
Property and equipment, net	**1,277,655**	1,557,301
Goodwill	**19,431**	19,431
Other intangible assets	**25,333**	28,311
Deferred income taxes	**81,706**	269,960
Other assets	**279,892**	270,836
Total assets	**$ 4,890,346**	$ 5,268,226
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Trade accounts payable	**$ 1,081,381**	$ 1,251,808
Accrued expenses and other current liabilities	**1,280,296**	1,173,201
Income taxes payable	**6,683**	8,803
Short-term borrowings and current maturities of long-term debt	**59,845**	191,932
Total current liabilities	**2,428,205**	2,625,744
Deferred income taxes and other long-term liabilities	**654,851**	585,861
Long-term debt, net of current maturities	**662,740**	688,788
Total liabilities	**3,745,796**	3,900,393
Commitments and contingencies		
Redeemable preferred stock, net (liquidation preference $368,116 in 2009)	**355,308**	
Stockholders equity:		
Office Depot, Inc. stockholders equity:		
Common stock authorized 800,000,000 shares of $.01 par value; issued and outstanding shares 280,652,278 in 2009 and 280,800,135 in 2008	**2,807**	2,808
Additional paid-in capital	**1,193,157**	1,194,622
Accumulated other comprehensive income	**238,379**	217,197
Retained earnings (accumulated deficit)	**(590,195)**	6,270
Treasury stock, at cost 5,915,268 shares in 2009 and 5,938,059 shares in 2008	**(57,733)**	(57,947)
Total Office Depot, Inc. stockholders equity	**786,415**	1,362,950
Noncontrolling interest	**2,827**	4,883

Total stockholders equity	**789,242**	1,367,833
Total liabilities and stockholders equity	**$ 4,890,346**	$ 5,268,226

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

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OFFICE DEPOT, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

	2009	2008	2007
Sales	**$ 12,144,467**	$ 14,495,544	$ 15,527,537
Cost of goods sold and occupancy costs	**8,752,283**	10,489,785	11,024,639
Gross profit	**3,392,184**	4,005,759	4,502,898
Store and warehouse operating and selling expenses	**2,907,900**	3,322,662	3,381,129
Goodwill and trade name impairments		1,269,893	
Other asset impairments	**26,175**	222,379	
General and administrative expenses	**723,114**	743,174	645,661
Gain and amortization of deferred gain on sale of building		(7,308)	(7,493)
Operating profit (loss)	**(265,005)**	(1,545,041)	483,601
Other income (expense):			
Interest income	**2,396**	10,013	9,440
Interest expense	**(65,628)**	(68,286)	(63,080)
Miscellaneous income, net	**17,085**	23,666	27,761
Earnings (loss) before income taxes	**(311,152)**	(1,579,648)	457,722
Income tax expense (benefit)	**287,572**	(98,645)	63,018
Net earnings (loss)	**(598,724)**	(1,481,003)	394,704
Less: Net loss attributable to the noncontrolling interest	**(2,259)**	(2,065)	(911)
Net earnings (loss) attributable to Office Depot, Inc.	**(596,465)**	(1,478,938)	395,615
Preferred stock dividends	**30,506**		
Income (loss) available to common shareholders	**$ (626,971)**	$ (1,478,938)	$ 395,615
Net earnings (loss) per share:			
Basic	**$ (2.30)**	$ (5.42)	$ 1.45
Diluted	**(2.30)**	(5.42)	1.43

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

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OFFICE DEPOT, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(In thousands, except per share amounts)

	2009	2008	2007
Net earnings (loss)	**$ (598,724)**	$ (1,481,003)	$ 394,704
Other comprehensive income (loss), net of tax:			
Foreign currency translation adjustments	**25,769**	(248,591)	179,582
Amortization of gain on cash flow hedge	**(1,659)**	(1,659)	(1,659)
Change in deferred pension	**(7,523)**	(24,128)	23,192
Change in deferred cash flow hedge	**4,657**	(4,657)	
Other	**246**		
Total other comprehensive income (loss), net of tax	**21,490**	(279,035)	201,115
Comprehensive income (loss)	**(577,234)**	(1,760,038)	595,819
Less: comprehensive income (loss) attributable to the noncontrolling interest	**(1,951)**	(2,381)	(459)
Comprehensive income (loss) attributable to Office Depot, Inc.	**$ (575,283)**	$ (1,757,657)	$ 596,278

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

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OFFICE DEPOT, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

(In thousands, except share amounts)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Comprehensive Income (Loss)	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Accumulated Deficit)	Treasury Stock	Noncontrolling Interest	Total Stockholders Equity
Balance at December 30, 2006	426,177,619	$ 4,262	$ 1,700,976		$ 295,253	$ 3,370,538	$ (2,773,582)	$ 16,023	$ 2,613,470
Comprehensive income, net of tax:									
Net earnings				394,704		395,615		(911)	394,704
Foreign currency translation adjustments				179,582	179,130			452	179,582
Change in deferred pension				23,192	23,192				23,192
Amortization of gain on cash flow hedge				(1,659)	(1,659)				(1,659)
Comprehensive income, net of tax				$ 595,819					$ 595,819
Adoption of FIN 48						17,652			17,652
Acquisition of treasury stock							(210,793)		(210,793)
Grant of long-term incentive stock	765,754	8	(8)						
Forfeiture of restricted stock	(87,861)	(1)	1						
Exercise of stock options (including income tax benefits and withholding)	1,849,657	18	43,909						43,927
Issuance of stock under employee stock purchase plans	72,456	1	1,515						1,516
Direct stock purchase plans			46				26		72
Amortization of long-term incentive stock grant			37,745						37,745
Balance at December 29, 2007	428,777,625	4,288	1,784,184		495,916	3,783,805	(2,984,349)	15,564	3,099,408
Acquisition of majority-owned subsidiaries								5,995	5,995
Purchase of subsidiary shares from noncontrolling interest								(14,295)	(14,295)
Comprehensive loss, net of tax:									
Net loss				(1,481,003)		(1,478,938)		(2,065)	(1,481,003)
Foreign currency translation adjustments				(248,591)	(248,275)			(316)	(248,591)

Change in deferred pension				(24,128)	(24,128)			(24,128)
Amortization of gain on cash flow hedge				(1,659)	(1,659)			(1,659)
Change in deferred cash flow hedge				(4,657)	(4,657)			(4,657)
Comprehensive loss, net of tax				$ (1,760,038)				$ (1,760,038)
Acquisition of treasury stock							(944)	(944)
Retirement of treasury stock	(149,940,718)	(1,499)	(626,889)			(2,298,597)	2,926,985	
Grant of long-term incentive stock	2,307,993	23	(23)					
Forfeiture of restricted stock	(465,175)	(5)	1					(4)
Exercise of stock options (including income tax benefits and withholding)	109,744	1	(1,222)					(1,221)
Issuance of stock under employee stock purchase plans	10,666		(785)					(785)
Direct stock purchase plans			(228)				361	133
Amortization of long-term incentive stock grant			39,584					