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EDITED TRANSCRIPT

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CORPORATE PARTICIPANTS

Steve Odland *Office Depot Inc. - Chairman & CEO*

PRESENTATION

Unidentified Speaker

Let me get the intro out of the way while we're getting everything ready. Good morning. We are very pleased to have Office Depot today with Chairman and CEO, Steve Odland, and EVP and CFO, Patricia McKay. As a note, Office Depot will hold a breakout session at 12.30 in room H on the 13th floor.

Before I turn the mic cover, I'm required to read the following. Office Depot Inc. is or during the past 12 months has been a noninvestment banking client for securities-related service for Bear Stearns & Co. and within the past 12 months, Bear Stearns and Co. or one of its affiliates has received compensation from this company. So without further delay, Mr. Steve Odland.

Steve Odland - *Office Depot Inc. - Chairman & CEO*

Good morning, everyone. I will read the obligatory slide. Please refer to our Safe Harbor slide. Obviously certain statements made in this presentation are forward-looking. I think you can get the rest.

We are very pleased to be here this morning. I think most of you are familiar with Office Depot but we are a leading global provider of office products and services. Our sales in fiscal 2005, which is also calendar 2005, were $14.3 billion. We operate today in 22 countries and we're multichannel. I think most of us think of us as and know our retail chain, but we also are in catalogs. We are on the Internet and in contract.

Interestingly we are rated as the world's third-largest Internet retailer behind Amazon and Dell, which is a statistic that we're very proud of. We have three divisions, North American retail, North American business solutions and then our international division. We were incorporated only in 1986 with our first store we opened in Florida. So grew from one store to the size we are today. Listed in '91 and an S&P member since '99.

61% of our sales are in basic supplies. So those are pens, paper and so forth. 26% in technology, computers and peripherals and then furniture and other sales are 13% of our business. We now have over 1000 stores, about 1049 stores, in the U.S. and Canada. In the business solutions division, we have, that is North America, we have the catalog, contract and e-commerce business and then in international, we have all channels represented and I mentioned our size in e-commerce.

As I said, most people think of us as a retailer, but in fact less than half of our sales are in retail. The rest are in the direct business and then if you look at the right side of the pie chart, the direct business breaks out nearly half and half between Internet sales and then telephone and mail-order sales.

We have three growth priorities of course and they align to our three divisions. In North America, we think that there is plenty of room for improvement in store productivity. At the same time, we think that there is tremendous room for continuing our store build-out and I'll talk about that in a moment. North American business solutions is more of a matter of expanding in the sales force and our direct marketing activities there. It is a very few assets and so the ROIC on that business is quite high. And then international, we have challenges today in Europe, which we are working through, but long term, our goal is to grow our geographic presence.

If you just look at the whole U.S. market, it is a sizable market; 323 billion according to the industry association and growing 2% to 3.5% compounded average growth rate. So a nice clip. Retail is two-thirds and delivery is one-third. Then if you look at how it is broken out, the office supply stores -- Staples, OfficeMax and Office Depot -- only have about 10% marketshare of the entire market. I think a lot of people say, well, there are three of you today and really that would be a narrow view of the market. The market is much more fragmented than that split across specialty retailers, contract specialists, supermarket and drug have a sizable percentage and then of course the club stores. So a fragmented set of competition.

We do follow job growth trends for the most part and I think that if those of you who are students of economics know the job growth comes in small businesses and small businesses are really the heart of our target market today. We do have our contract business, which takes care of Fortune 500 companies, but really truly the heart of our business is in the small businesses. So when the U.S. employment is growing, it typically means that small businesses are doing well and those are times that are good for us and you can see the right chart last couple of years have been good for us.

We have grown our marketing programs and become more aggressive in the past year. We've relaunched the taking care of business campaign, which is not only an old song; it is what we do literally. This is relevant to us because even 80% of our volume through the stores is done through small businesses. So we truly are not a retail business in the classic sense. Not only is less than half of our business done through the stores, but then 80% of that is done with small businesses.

We have expanded our NASCAR sponsorship, which doesn't sound like a lot here, but it is the fastest-growing sport and an incredible following among small-business people.

One of the ways that we are broadening our margins and broadening our appeal and also differentiating ourselves is with our private brand assortment. We are pretty early on in our private brand assortment changes. We have brands -- obviously the Office Depot brands, but we have now established just recently the [Teva] brand in technology. We also have the Foray brand in writing instruments and then the Christopher Lowell design in furniture. That is all proprietary and we have a hand in all the design of those products. So that is obviously a very attractive segment to us because it helps grow our margins. They are obviously much higher but also creates customer loyalty to our business.

I mentioned our expansion plans in North American retail. You can see that for several years we were way behind and as everybody knows how the comp store sales work where the stores mature over a five-year period, really you have got three to four years where they contribute to your comp. So when we had a situation in '01 through '03 with very few stores, it did materially impact our comps. What you are seeing today is largely a result of our mature store comps adding to our sales today. We had about 100 stores that were opened -- exactly 100 stores that were opened in 2005. We said that we are going to open about 100 stores again in fiscal 2006. But this is an area where I think we have a lot of opportunity. We have we think about 1500 stores more that we can build in the current format before we achieve saturation.

All of our stores today are being opened in what we call the M2 format and as those of you who have followed us for a long time know that we have worked through several versions of our new store prototype. This is where we've settled; we have modified it a little bit in the past year. We think we are there. So we are not only opening new stores in this format, but we also are going to have to go back now and remodel nearly 800 stores.

Our store base is the oldest in the industry. I think on average our stores are about 8.5 years old and we haven't touched them throughout the majority of that period. So they not only are the oldest, they look the oldest and so we need to go back through and employ the capital. We have said publicly that it is probably somewhere between $225,000 and $250,000 per store for each of the remodels, but this is going to be part of our capital plan for the next three years or so.

I don't want to go into the details of the store, but there are a lot of merchandising aspects, adjacencies, category management things that we've done in addition to the pure look of the store, which we think is easier for people to navigate.

A couple of other growth initiatives in North American retail. We are just anniversarying our introduction of what we call the Advantage card, which is a frequent shopper card. A lot of people have these kinds of things, but this has been very successful for Office Depot. It is structured with a $50 reward credit per quarter or $200 a year for members who buy a certain amount. Our copy and print center is also included in that. We contour this to various users and have incentives go out via direct mail. But these users are very important because they buy significantly more than the average customer and we are growing our Advantage group at a very high clip right now. So it's still ramping and we think that it will continue to do so over the coming years. So we're very pleased with the program and it does create an advantage for us.

Global sourcing is also a source of growth, as well as margin expansion for us. When I talked about private brand before, those products are not necessarily sourced globally. The number of products that we do source globally today are a relatively small percentage of our sales, but we have plans to expand that significantly over the coming years and source that directly from foreign countries. So that is the big opportunity for us coming forward.

And then of course those of you have followed us know that I've talked a lot about the cost initiatives and our cost structure is disadvantaged versus the industry. We know that and we are working hard to close that gap. Now, there is no silver bullet in this. A lot of people want us to point to one thing that says, okay, this is what is going to close the gap and there isn't one thing. I think that that is why it hasn't been done. There are literally hundreds of projects that we are exploring -- not exploring -- but we are working on right now and we have teams on. These are 12 projects, some of which you have heard me talk about and I won't read them, but what any one of them is immaterial and sounds immaterial. So adjusting bag specifications for consolidating [armory car], these are not sexy kinds of things, but on average, these 12 all have seven figure cost savings to them. So these are important things when you add them up over the number of projects that we're pursuing. And this is the right way in my opinion to take cost out of the business.

The other thing is you don't see labor on here. We have not and don't intend to cut labor. It is an important part of our service proposition. So these are things that truly are renegotiations of contracts with third parties and so forth that can add to our bottom line without in any way affecting our shopping experience.

Now turning to the business solutions division. We have an enormous number of growth possibilities here as well. One of the things that we do in this division is we have outbound telephone contacts. What we will do -- we have sophisticated calling lists and ways to go out and do that. We train our people and they make outbound calls to small businesses predominantly to generate sales. If it is a very efficient way to drive demand creation and it also then enhances a relationship with existing accounts that are not large enough to have a salesperson call on them. We are expanding the use of this tool and we are very pleased with the results and the payback on that.

The second area is in the contract sales force. Now contract of course goes to the larger customers. I think the Fortune 500 companies here and that is a traditional sales force and we are adding salespeople at a rapid clip. We have found that they pay out within the first year in terms of deepening the account relationships, as well as expanding the number of accounts. So this is something that we will continue to do.

The third thing is category expansion. Today, we don't sell the fullest line of products in our business solutions area and we are expanding the number of products that we sell. We also have not offered traditionally our private brand to the depth of assortment that we have on the retail side. And so we intend to do that as well. So you see great positive sales when you expand the number of items that are available and that doesn't require new invested capital because they are in our system anyway. When you expand that, the sales ramp accordingly. So it is a very efficient way to grow the business.

Now turning to international. I'll focus on Western Europe today. You see the big three countries are Germany, U.K. and France and then obviously it goes down from there. And our business aligns predominantly to Western Europe. Our largest businesses are in Germany, U.K. and France and then the Benelux area. So too, as I talked about, the small businesses in North America, so too in Europe, we find a similar correlation with job creation and small businesses there.

The story however has been different in Europe where they have much tougher situations and I know that you know that many of the countries are over 10% unemployment. They have not been creating jobs over the past half a dozen years. We are hopeful that that will change in the coming year but that -- and if it does, that will be a positive sign for us.

Then beyond there, we have many expansion opportunities. If you think about where small businesses are being created and where the job growth opportunities are in the world, they are in Eastern Europe; they are in China; they are in South America; areas where we are not currently. And so those are future expansion possibilities for us.

In our existing markets, we have restructured our leadership and we have announced recently that we have hired a new managing director for Europe. He starts in a few weeks and we are moving from a country by country structure that has been put together through many acquisitions, as well as some greenfield development in Europe. We're moving that to a more organized pan-European structure. That is not to say that we're going to move away from local marketing, which we can not do. We of course will continue that, but we are not getting the efficiencies today of marketing across and the cost efficiencies of marketing across the continent, which we need to do.

The other thing we're doing is we're taking some of the initiatives that I talk about in North America and expanding it to our European business. The businesses between North America and Europe are not distinctly different. The good news is we know the business but because they were run so separately historically, they have not been run the same way. And so we think there is a best way to do it and we intend to get there on a global basis.

So you'll see us expand our telephone account management in Europe, as well increase our sales force and create a strong selling culture. Now this is an important thing in Europe because historically the European business has been a mail-order business and just psychologically that has resulted in sending out catalogs and then we wait for sales to come rather than an aggressive approach to going out and getting sales. And so that is a mentality shift that needs to happen in our European business and that we are working on.

So too our private brand business has not historically been a priority and we are increasing our focus there. The brands in Europe are called [nice day] and Viking. They are strong brands, but have a tremendous amount of room for additional assortment and certainly marketing of those. And then finally the loyalty programs, which I've talked about in the U.S., have not been introduced in Europe and we intend to do that as well.

Our cost initiatives also carry across Europe. There, it is a little bit different. Our cost opportunities there revolve around centralizing and reorganizing the merchandising, marketing and back-office functions. Also we have, due to the organization and how we put it together through acquisitions, we have lots of call centers and we need to consolidate those, as well as consolidate some of our country operations. And then finally our supply chain network needs to be rationalized over the next several years.

We did announce in the past quarter that we are taking steps to integrate the Guilbert brand. You may recall that Guilbert was a company that was acquired a couple of years ago by Office Depot. It is a contract business that now today is largely operational in France and the brand name has still been in use in France, which is its home country. So we will change the Guilbert brand over to office Depot getting the synergies of the private brand and the marketing efforts there and I talked about the headquarters.

Now back to the whole Company. I think those of you who have followed us know that our focus is on driving profitable growth, number one. It is not to drive simply cost savings. We want to drive profitable growth. That is our top priority. But at the same time, we want that profitable growth to be done with increased margins and thereby increase cash flow.

We are working on instituting a culture of thrift. I don't think we've had that historically in the Company. We have made material impact in the past year, but have a ways to go with that and so you see us streamlining our operations and we have taken some charges in the past couple of quarters as part of that streamlining effort.

We also are very disciplined in our capital allocation and capital management approach. We now have very significant and rigorous financial constraints around every dollar invested in the business. We have changed the bonus system for all of our management to an [EBA] mindset. We have broken down to its components of income and ROIC and those are the two components of all bonuses paid in the Company today. So a real change from where we were to where we are and where we are going.

The fourth-quarter numbers were released a few weeks ago. We had I think good numbers. These are non-GAAP numbers because we have left out the onetime charges, but you can reconcile all of that obviously on our website and in our statements. EBIT grew 34%. Earnings more than doubled. Earnings per share were up the same amount. On an adjusted basis, earnings per share were up 31%. So a very strong clip.

Very proud of our work in the cash flow area. Free cash flow was up 50%, nearly 50% in the entire fiscal year and you can see at the bottom line there the share repurchase was increased dramatically from fiscal '04 to fiscal '05 to nearly $800 million or over $800 million worth of shares repurchased.

From a balance sheet standpoint, you can see that we are working some of the cash off the balance sheet. We still need to do some work here on working capital. We are not pleased with what has happened there. But if you look at return on equity and more importantly I think return on invested capital, you see a good move so far in our return on invested capital and that is something that, with a focus on it and a bonus on it, you will see continued emphasis on going forward.

So from a full-year standpoint, we are over $14 million and this is a 52 to 52 -- we had a 53rd week in the fiscal year 2005, which makes the comparisons difficult. This is 52 to 52. So over $14 billion in sales. You can see we opened 100 new stores. We did get some expansion on operating profit and then you can see the diluted EPS on an adjusted basis were up for the total year nearly 20% and ROIC expanded by 140 basis points.

This is an eyechart and we have it separately for you, but the intent here was to lay out all of our streamlining efforts for the Company, but not just on a one-quarter or a one-year basis, but to give everybody a four-year look at our plan, which is how it is laid out so that we know exactly what is coming so that you see in fiscal 2005, we took $282 million worth of charges. Most of that is non-cash. We have got that on the bottom, but we intend to complete our efforts over the next three years and you see about $50 million each in the next two years and $20 million in 2008. A little more cash here as we're dealing with supply chain and offices being consolidated. Most of that, as you can see, is in the international division in the coming years.

So just to wrap up, before I open it up for questions, I have talked about our three growth priorities. They are across our three divisions. We think they are significant profitable growth opportunities as I have laid out in all three areas. We then want to use our expanding cash flow to first of all open new stores and expand our geographic presence.

Number two, to make investments necessary in the core business, things like remodels to the M2 format to take us from a disadvantaged store situation.

Number three, acquiring businesses or assets that are in our key priority areas and you may have noticed a couple of weeks ago, we announced that we have acquired a majority stake in a Korean chain. It is not a big investment, but these are the kind of things which set is up for long-term profitable growth in the international area, particularly in Asia where we are underrepresented.

And then finally, the balance of our free cash flow will be used for repurchasing our shares. I showed you what we did this year and a couple of weeks ago, we announced that our Board has authorized another $0.5 billion share repurchase authorization. So the third $0.5 billion share repurchase authorization in I guess the last three or four quarters. So pleased with the progress there.

So that is our presentation. We will have by the way a group session that begins at 12.30 for anyone who wants to join us for more open questions, but meanwhile we do have time, Chris, for a few questions.

QUESTIONS AND ANSWERS

Unidentified Audience Member

Talk about free cash flow for this year in view of the share repurchase plan. Unless the free cash flow jumped substantially again, which might happen, (inaudible question - microphone inaccessible).

Steve Odland - *Office Depot Inc. - Chairman & CEO*

Yes. We don't give guidance and we don't talk specifically about numbers that we project in cash flow on the balance sheet for the coming year, which is why I've tried to characterize our focus on first of all profitable growth, which should increase cash flow generation.

Number two, the initiatives that we have engaged in like the private label, like the streamlining operations. I'm giving you 12 projects that are all on average seven figures. Those things all should accrue to creation of shareholder value through the generation of more cash flow.

So all of that and then we still have a significant amount of cash on the balance sheet itself, $700 million in cash at the end of the year, and we will use some of that cash for share repurchases as well. Obviously we have room to lever a little bit in there, but there are plenty of opportunities here as well.

Unidentified Audience Member

Just wondering if you could speak for a moment about your private label of interaction or relationship with private label and branded with respect to what we've heard that some of the branded guys will provide certain pricing umbrellas from which you could then price your private label and the importance of that relationship in the interactions between your private label and branded.

Steve Odland - *Office Depot Inc. - Chairman & CEO*

This is an industry where there clearly are some brands that are important to have in the store across supplies and technology, things like post-it notes, things like HP printers are recognized brands, but it is an amazing number of product lines in the store that really are not recognized. If you go unaided and you talk to consumers and you say what brand of envelopes do you buy, they don't really know. And so I think that there are an enormous number of possibilities in our business to expand private brand even more.

But through our category management efforts -- you probably hear me talk about category management and some people say what on earth are you talking about. Well, through those efforts, we need a good, better, best range of products in a lot of categories for a good and better range in certain categories. There are few categories where simply one item and one price point makes some sense. And as you do that, you can create margin enhancement opportunities because if you go from a situation where you have a single line of products, you have to have a price point that is mostly an entry-level price point and so you're diminishing the margin. If you have a good, better, best strategy, you have a chance to margin up with the quality of the products as well. So there is some science to merchandising. It is a lot of art but there is some science to it and we are determined to deploy the science.

Unidentified Audience Member

Regarding the remodeled stores, can you give us any numbers regarding the traffic or conversion (inaudible question - microphone inaccessible) remodeled --?

Steve Odland - *Office Depot Inc. - Chairman & CEO*

We haven't talked about the exact metrics behind it, but if you think about -- first of all, I'm a little harder on the guys than I think a lot of companies are in terms of what should go in and what needs to hurdle. If you think about what we are doing in the remodels on an 8.5-year-old average chain, a lot of it is paint and things like that, which you would normally need to do in stores anyway. So you could characterize a chunk of that as deferred maintenance. I don't. I put it all into the remodel costs and our objective is to have all of our stores hurdle a 13% IRR on that investment.

If you excluded what normally could be counted as maintenance, it would have a significantly higher hurdle. So without getting into all the specifics, you can probably back into it. It is accretive and it does pay out the capital deployed. Other questions?

Unidentified Audience Member

Taking a look at some growth trends on the income statement. Has sales growth in the fourth quarter (inaudible question - microphone inaccessible) 720 -- 7.2% year-over-year and it has expense growth ex-charges of about 1% year-over-year. How long do you think that gap is sustainable and is there a target that we want to take X dollars of cost out of the business?

Steve Odland - *Office Depot Inc. - Chairman & CEO*

I think if you look at -- I don't know if everybody heard the question, but higher sales growth and expense growth. That is a good thing I think. You can't do it infinitely, but I think when you look at a business like ours that has a materially different cost structure than the competition, there is the possibility of doing this. Again, there is no silver bullet in this. There is no one area you can point to and say here is a problem.

I also believe that there is no structural disadvantage to this business versus others in the industry. Therefore, it is all right for dropping to the bottom line. We just need to do it in a way that doesn't derail profitable growth. So our objective is obviously to materially impact our cost structure over the next several years.

Unidentified Audience Member

Could you just talk about your capital structure? Are you happy with the present capital structure? Do you think there is enough debt on the balance sheet? I think you had $700 million in cash, a little less than $600 million in debt. And then the second question that kind of relates to that is would you consider doing like a large stock option tender for your stock, maybe 1 billion to 1.5 billion or maybe a onetime dividend to return some of this cash to shareholders?

Steve Odland - *Office Depot Inc. - Chairman & CEO*

It's a good question and I have had long conversations with the Board about our capital structure. When I joined the Company about a year ago, we were sitting with over $1 billion in cash on the balance sheet. There are -- obviously I laid out our priorities for our cash deployment, which are to open those new stores, to remodel the stores and we're materially behind on that. We also have opportunities for acquisitions and we will do acquisitions over time if we believe they are accretive. I think those of you who know me know that I am generally anti-acquisition because I think most of them destroy shareholder value, but at the same time, when there are acquisitions in our industry in a business that we know very well that can expand our business either within a geography or expand it geographically, it is the right thing to do. So I want to be careful about doing something like you outlined and then find ourselves in a situation where we would have to reverse it if an opportunity came up.

At the same time, I think we do have too much cash on the balance sheet and we have said that we will move that and we have moved that in the last nine months and we are a BBB- today. So we're investment grade, which gives us room should something come up to be able to do debt issue without having to deal with our equity side. So not entirely comfortable with where we are. I think we're too heavy on the cash side and we do have some room for debt. Although we have some other business priorities as well.

Unidentified Audience Member

Just a follow-up. What's your view on your investment-grade rating? As you mentioned, you're at low BBB. Would you be willing to sacrifice your investment-grade rating for the right acquisition?

Steve Odland - *Office Depot Inc. - Chairman & CEO*

If I thought there were no opportunities to deploy cash in the business, if I thought there were no opportunities to deploy cash for any acquisition in the next three years, I certainly would be much more open to breaking that investment grade. Because of the possibilities and the former two, I want to make sure that we have access into the debt markets should something material come along.

One more question.

Unidentified Audience Member

(inaudible question - microphone inaccessible)

Steve Odland - *Office Depot Inc. - Chairman & CEO*

I think you'll see a balance of both. Obviously our largest business is in North America and we think that acquisitions that can be accretive to that business are very impressive. The business still has a lot of room for consolidation. I showed the marketplace today and even the top three chains as people think about it have only a 10% marketshare. So I think you'll see us focus here, but at the same time, I outlined some opportunities in other areas of the world that we will be looking at.

I suspect that just looking across the world, there is no huge major player out there that would require an enormous acquisition. These tend to be smaller kinds of things around the world and therefore requiring smaller cash investments.

With that, I think we are out of time. Again, we will have an open session and would welcome you joining us at 12.30. Thank you.
