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ODP.OQ - 2004 Investor Meeting

EVENT DATE/TIME: NOVEMBER 15, 2004 / 2:00PM GMT

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PRESENTATION

Operator

Good morning, my name is Sean McHugh and I'm Office Depot's Director of Investor Relations. I'm very pleased to welcome everyone to Office Depot's 2004 Analyst Meeting. Before we kick off today's events, I have several items I'd like to pass along. First a brief safe harbor statement. Except for historical information, matters discussed today are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995.

These statements involve risks and uncertainties which may cause actual results to differ materially from those discussed at today's meeting. These risks and uncertainties are detailed from time to time in our SEC findings and you may find them at various public webs sites including sec.gov and freeedgar.com.

Second, we welcome your questions today.

Each presenter has allocated time for a Q&A period during his or her segment. To aid the presenters and the rest of the audience, I would ask that you use some of the floor microphones we'll have circulating throughout the audience. And now, without further delay, I'm very pleased to introduce Neil Austrian, Office Depot's Chairman and Chief Executive Officer.

Neil Austrian - *Office Depot Inc. - Chairman, CEO*

Thanks Sean. Good morning. I'm delighted to be here, have all of you here, thank you all very much for coming. Hopefully those of you who were here last night at our small cocktail reception had a chance to meet a large number of the management team that we brought here.

And hopefully that dialog at least started to answer some of the questions that you might have. Several of you asked why we're having this meeting today, because a number of you thought that given the change in management we'd probably cancel this meeting. And I think the more we've talked about it, we've decided that we ought to come here, because it's the right thing to do.

I think this meeting will give you a chance to assess our management team and get a pretty clear understanding that we do have considerable debt. And hopefully, by the end of the meeting we'll be convinced we're not standing still waiting for a permanent CEO to arrive. Let's take a minute and look at the agenda today.

After I give a few other remarks, Chuck Rubin who's head of merchandising and marketing will talk, and Mark Holifield who runs our supply chain is going to talk about where we are, as well as an update on our Magellan merchandising project.

We'll take a quick break, and Rick Lepley and Monica Luechtefeld will talk about North American Retail and our entry into the Northeast. We'll break for lunch, and Cindy Campbell will talk about our North American delivery sales, followed by Rolf van Kaldekerken who will update us on International. Charles Brown to talk about where we are financially, and then I'll make some closing remarks, and we'll be prepared to have some considerable discussion at your leisure.

But before we formally begin, a large number of questions came up last night, where it probably makes sense to try and address those up front. And that will hopefully provide some definition on a number of these issues that you're going to be hearing about a little bit later.

The first question I got asked last night was ‘wasn't this change in management sudden, and how did the board come to a decision at that point in time to make a change in management?’

If you look at the Board of Directors of this company it's a pretty unique and pretty talented board. There also are four new board members that joined our board in the last year. David Bernauer who is the CEO of Walgreen's, Al Bru who had run Frito Lay, Pat McKay who is the CFO of Restoration Hardware, Myra Hart who now teaches at Harvard but was one of the original people in the management team at Staples.

The board has been talking for quite a while about how the company was performing and executing. It's certainly not a mystery to you that we have not done as well as we think we can do and should do. The board had had discussions with groups at the end of the 2003 year end and became increasingly concerned during 2004 that we really weren't executing the way we should on the strategies that had been adopted.

There's never a good time to make a change. Bruce and I talked about that when I got down here. I helped hire Bruce back at Viking Office Products. And I think Bruce would tell you today that waiting to year end all it did was probably prolong three or four months in terms of our timetable to find a new CEO. And I think the board felt, that putting this in motion today, we'd be in a position hopefully to have a CEO in place by the first quarter of next year such that that individual could and would have an impact on fiscal 2005.

At the end of the meeting I'll talk a little about where we are in the search process and an update as to the time table as well as the characteristics and the job specs of the CEO that we're looking for.

Second question that came up is ‘you're brand new, how can you be making all these decisions? Do you have any confidence in the management and how can you even assess the management team? Aren't they all new as well?’

Well, clearly I'm new as the CEO here; I'm not new to Office Depot. In 1998 when I was at Dillon Reed co-heading their leverage buy out group, we bought Viking Office Products, and I got to meet and spend a large, large amount of time with Irwin Helford (ph).

I joined the Board of Viking in 1988, became a board member of Office Depot in 1998 and Office Depot acquired Viking. And I've chaired the finance committee here at Office Depot for the last several years which gave me a very good opportunity to get to know virtually all the people who are reporting to me today as well as some of the people that work for them several ranks down in the management.

I wouldn't say that I'm totally new, I can't claim that I know everything about this industry or business but what I will say is I didn't come in cold. A lot of the decisions that have been made were in the works. A lot of planning has been done, a lot of discussion had been done. If I take any credit at all, very small, all I did was enable the rest of the management team to make those decisions and go ahead so that they were empowered and took ownership for the decision.

If you look at the management team today, what's surprising is how long a lot of them have been here and the talent level that we've got that stayed even though we've changed at the top one or two times. Look at Europe for a minute, which we'll talk about a little later. Rolf van Kaldekerken I got to know, in 1994 when Irwin hired Rolf and I got to meet Rolf when he headed up our German operation.

Graham Cundick who's here, is Senior VP of merchandising and marketing for Europe, Irwin hired, 1990. Wim van Aalst was hired in 2000 who heads our supply chain in Europe and Rob Vale who runs the European operations in 1999. So what you have is a combined 34 years experience in Europe with our top four people.

If you look at the domestic operations, Charlie Brown, our CFO came in 1998. Cindy Campbell who is now running BSG has been with the company since 1995. Mark Holifield who runs our supply chain, he's been here 10 years he came in 1994. Monica Luechtefeld has been here since 1993.

Frank Scruggs who heads Human Resources is new to the company in his role as EVP, Human Resources but Frank and I served as directors together at Office Depot for over seven years.

Rick Lepley who runs retail, most of you think he's new to the company. Rick actually formally joined Office Depot in 1995 in Eastern Europe and he started his company, it was doing business with Office Depot in 1993.

Rick went to Japan in 2001 and came back in 2003. And he and a SWAT team of guys who were really instrumental in putting together the M2 concept for our new stores. Patty Morrison is new. Patty is our Chief Information Officer, she's been here a little over 2.5 years, prior to that she was the CIO at Quaker Oats and before that for a $6 billion division at GE.

And the newest person, Chuck Rubin. Chuck is the head of merchandising and marketing, he's been here a little less than a year, but worked with the company in his role as a consultant at Accenture. So you add up those people, you've got about 53 years of combined experience in terms of the direct reports.

I've got a lot of confidence in them, I've spoken at length with all of them. And I think the statement I can make today is that they're all totally committed to the company, just as I am and I'm really not concerned at this point in time - or if somebody comes up here and tells me differently – [laughter] which is saying the least. It's a very good group; it's a group they're keeping.

I think any new CEO coming in, is going to look at the talent level that we have, and be pretty happy.

There's a natural worry about us entering the Northeast. A number of you asked us last night, ‘why are you doing this instead of opening more stores in the market that you currently dominate?’

I think we can do both. My question is why give up a third of the United States to a competitor? Basically when you look at our two businesses one of, not the only, but one of the major reasons you have a margin difference is a much larger percentage of their stores are in areas where they're the only ones there.

We believe there's room for two competitors. We also believe that we're not going to do things on an irrational basis. I think we've got enough financial tools in place and enough controls in place that we're not going to do things that aren't productive. Can we make money in the Northeast? All the signs say that we can.

Do we expect Staples to fight back aggressively? You bet. The same way we're going to fight in Chicago to defend the territory that we've got. You know it's a trade off of short term profits today versus long-term gains tomorrow. And I think those of us who are here running the company believe on a long-term basis it makes sense.

If I can use the sports analogy that John Madden gave me. John told me when you play not lose, you've already lost. What I can commit to you is that we're not about to lose. A number of you worry about the cost cuts. Half of you that talked to me last night said we cut too deep. The other half said you didn't cut enough.

I think many, if not all the initiatives, other than the corporate headquarters, were being worked on by the management team when I got here. And I think all it took was a little nudge to say what's the right thing to do. When you look at the decision that was made in terms of outsourcing our call centers, an awful lot of work went into that. And an awful lot of analysis was done by Tim McGrath who runs our call centers and has been here for five years. Looking at the research that pulled up through the voice of the customer, whether or not we were giving up customer service. Because quite honestly we were already using two of those outsourced call centers to handle some of our problems at the time.

The other rumor that went around last night was that we're going to outsource everything. I don't think that's true either. I think what we're looking at is, a way to rationalize the business, the cost side of the business, and use those resources to grow the top line. I don't believe the outsourcing in any way, shape or form represents to anyone that this is a company in trouble.

I look at this business as an operating turnaround, not a financial turnaround. This is one of the strongest businesses that I've seen. We've got over $1 billion in cash. We've got enormous cash flow. We've made our bets in three principle areas, U.S. retail, U.S. contract, European contract, and mail order, and I think now is a question of just executing on that.

Interestingly enough, you'll see some of those (inaudible) to check outs, our customers think we're doing something right. When you look at our customer research, they tell us we're doing pretty well. And that's the voice I'd listen to, rather than the voice of our competitors. I was asked in hindsight, would I make the acquisition of Guilbert. Absolutely, absolutely.

We got the cost savings that Rolf and his team had projected when we made that acquisition. What we didn't get were the sales increases that we thought were inherent in the business where we could change the culture of the Guilbert sales force that Rolf will talk about, and we missed.

But I think we're back on the right track. Finally, I was asked, do I have a vision for this company, where do I think it can go. That's a little hard to answer after six weeks. But having sat on the board, and having listened to so many presentations, you get a sense of what could be. And you look down the road, and I don't see any reason why a retail business can't do 6.5 to 7% profit. I don't see any reason why Cindy's group can't do 8%.

I don't see any reason why in Europe, we can't do 12%. What does that mean to the bottom line, somewhere between 5.5, 6% pre tax. I think we can do that. I think it's just going to take a little bit of time and a lot of work.

Let me take a few minutes for those of you not familiar with Office Depot and kind of look at some very topline kind of information that will set the stage for today.

We're basically a $13 billion business, $13.5 Charlie reminds me. It's a big business. Retail is 34% of the company, our BSG group is 30%, International is 26%. And embedded in all those numbers is our e-commerce business which is approaching $3 billion. And that's primarily seen today in our contract side.

Business unit structure. North America is approaching $5.8 billion with 923 stores in the U.S. and Canada. Business service group, $4 billion, they cut across contract, catalog, e-commerce. Our for sure business is technology up in Bristol, which basically is catalog and telephone.

In our international group with $3.5 billion, which really is -- serves every kind of channel today, catalog, contract, e-commerce, retail. Our Office Depot catalog, our Viking catalog, because their sales force are in 21 different countries. We can sell to customers of any size. Through our retail business, we service consumers, independent professionals, small companies.

Even our large contract customers come into the stores with their preferred customer card. The catalog shot basically drops down at some point to consumers but is mainly geared toward independent professionals and small business. Contracts, both domestically and internationally, it's mainly geared to medium business and our large corporations.

And basically everybody that we touch shops through the internet. We've grown the business pretty well. Basically today we operate in 23 countries, about 900 plus stores in North American, 76 owned stores internationally, another 150 stores we operate under the Office Depot name under a joint venture.

We've got 2,800, 2,900 contract sales people on a global basis. Over 40 e-commerce sites, over 50 warehouses and distribution centers, 36 call centers that will go down by about 10 as we consolidate the domestic call center business. Eight thousand skews at the store level, 14,000 in our delivery system and over 46,000 employees.

When I came to the company as the Chief Executive, I tried to articulate three priorities we were going to focus on. These aren't new priorities, the point being I wanted everyone in the company to understand that there were three mission critical things we had to do this year and focus all of our efforts on these three things.

What it means is a lot of 'nice to do' things aren't going to get done. Improve North America retail profitability and continue the Northeast expansion. The steady growth increase, our market share in BSG and to our European colleagues, put the growth back and integrate the Guilbert sales force so that we can get back to where we should be in Europe.

I think it's pretty clear to me at least now, everybody in the company understands these three priorities. There is no ambiguity whatsoever. And what we've done, is place accountability in the hands of the people that can make it happen.

Why North American retail? It's pretty clear. It's 44% of our sales, 28% of our operating profit on a segment basis. I know a number of you have asked how we're allocating all of our G&A. It's not going to change it a whole lot, even if it did, there's not I'm going to do about it right now, because I can't get rid of all the G&A that would go with any of the segments. It's pretty clear that we have an opportunity, when you look at competition, to improve our North American retail profitability.

So where does this leave us and what's different today than when you were here a year ago? Far fewer initiatives, much improved focus to the company. Rick Lepley has profit and loss for the stores. Cindy Campbell has profit and loss for the BSG group. Rolf has always had profitability for Europe.

That does not mean that Mark Holifield, and the supply chain, and Chuck Rubin in merchandising don't have a very, very strong and powerful voice and input. What it means is I expect Rick and Cindy to fight with them, to make sure we get the kind of profits we need, and if at the end of the day they can't agree, then they can come to me.

But without this kind of accountability, nobody owns the profits. What are the objectives that we've got for today? It's clear that we recognize we've got several problems that have to be addressed. We hope today is going to give you some insight as to how we plan to address them in the timetable.

It's pretty clear we cannot cost reduce our way out of the problems we've got. This is a top line growth issue that we have today. Yes we make some cuts, the organization understands it's not business as usual. But at the same time, the way we're going to increase shareholder value is through sales growth, both at retail, and in our BSG group.

We've got retail gross margins we have to deal with. You're going to hear today about the technology initiatives, what we're planning to do with attachment rates, and what we plan to do to drive supplies next year. How new store openings are going to help, both in the Northeast, and in the areas we now have dominance.

We're going to address who are key customers are, and what that customer wants and needs from Office Depot. We're going to utilize merchandising and our supply chain as a competitive advantage, which we believe we have today in both those organizations. And finally, focus critically on the top line of the three business units that I have talked about.

I'm happy to take questions at the end of the meeting when I wrap up, which I think is more appropriate, I'll give you some update on the search at that point in time. At this point, I'd like to ask Chuck Rubin to come up who's our EVP of marketing and merchandising.

Chuck Rubin - *Office Depot Inc. - EVP, Marketing & Merchandizing*

Good morning everybody. It's nice to be here, it was nice speaking with some of you last night. To get started let me introduce two members of my team who joined us on this trip who I'm proud to have here. First, Wilson Zhu who is our Vice President of Private Brand and Global Sourcing and definitely sitting next to him is Tony Ueber who is Vice President of our Marketing Strategy, branding and decision support area, as I say, I'm very happy to have them here.

In reference to build on what Neil is talking about, each of them have been with Office Depot about two years. So I truly am the newest guy here on the block. Earlier this year we combined the merchandising and marketing organizations with both reporting to me. This integration supports some of the things that you'll hear throughout today.

This allowed us to plan and execute in a more effect and more structure and a more purposeful way with clearly responsibilities. Specifically, we've developed a strategy that's more unified and more customer centric. It's begun to manifest itself and it will continue to manifest itself in a few different ways.

Firstly, in how we position the brand, secondly in the product mix that we offer and thirdly in how we develop our private brand strategies. Of course, the strategy has to be enabled by the appropriate mechanisms. In our case there are three critical ones. One is the analytical rigor which balances the art and science of retail. Secondly as a much more disciplined process orientation which will not only help us improve our business in the short term but in fact sustain it long term. And thirdly, an organization that in my case is a group of marketers and merchants who have integrated and focused on the same purpose, which will improve the collaboration and the execution of our efforts.

The ultimate goal of this is obviously to more efficiently reach our target audience, with relevant product assortments and messages that speak to them. So for customer centric, let me start my comments with a little bit more about who that customer really is.

As you can see in this chart, the vast majority of our customers, in fact even a higher majority of our revenue is derived out of our business customer. This group has not always been our clear focus. For 2005, it has to be. Our efforts, our resources, will be dedicated to stressing the assortment for the marketing vehicles to speak for this group.

In terms of brand awareness, let's take a look at how customers view Office Depot. As you can see on a national basis, along with our competition, we all have pretty high brand awareness in the 90 plus percentile range. In terms of top of mind performance which is the box towards the bottom which is framed out, our top of mind performance is higher than Office Max and slightly behind Staples.

It's important to note that this high brand awareness, that we're very pleased with these results given that we're not in the Northeast where as Neil mentioned, over a third of the national GDP is generated.

In terms of brand perceptions, our business customers rate us very highly on core brand functional components. Things around value, convenience, products and service, those are the four blocks that are presented up here.

And in fact, Office Depot is at parity with Staples and on most factors, is significantly better than Office Max. In terms of brand loyalty, Office Depot scores higher than Office Max and Staples and if a look at the core components of loyalty, things like satisfaction and willingness to recommend, we come out higher than both of our key competitors.

So for 2005, we need to build up a strong brand recognition and customer loyalty. However, to prepare for this, we have been and we will continue to address issues that have restrained our performance this past year and even before that. Specifically, issues that included a customer definition that was too broad, we included consumers as well as business customers more than we should have.

A brand benefit that was not clearly articulated and a creative campaign that was not targeted at this core business customer, really differentiated from our competition.

To achieve our 2005 financial goals, we have taken a number of options to address these issues. Specifically, we expanded the Office Depot Advantage Loyalty Program and I'll speak more to this in a moment.

We've developed and we will continue to develop more tools to make our marketing spend more efficient and cost effective and again I'll speak to this in a moment. We're defining a more distinct brand benefit that's closely in line with the needs of our core business customer. This we believe will allow us, being the largest share of their wallet as well as further attracting more desirable new customers.

Fourth, we'll be deploying a new creative direction that will speak to our core business customer. And fifth, we're activating this clearer brand positioning for a refined product assortment that will better target this business customer. This will reflect itself in things like package sizes and in terms of the type of license product that you see in some of our competition.

Our Advantage Loyalty Program, which is now about nine months old, continues to grow and exceed our membership plans with almost two million members to date. As we look at 2005, we're targeting a membership of 3.3 million. These numbers are proving to be the right kind of customer, with close to 60% of them business members.

And compared to our average customer, they're spending on average three times as much per purchase and are stopping more frequently within our different channels. Obviously those two together, you end up spending more money with us annually. Additionally, one half of them are newly identified retail customers which allow us to learn more and target them better.

Given the critical mass that we've now reached, we're close to the two million numbers. We're already begun targeted marketing efforts and we're very encouraged with the results we've seen so far. In 2005, we'll continue to invest in the advantage program with the goal of growing our share wallet, adding new customers and ensuring that current customers stay with us.

We'll further integrate our Advantage Program into existing marketing vehicles and leverage the earnings into our assortment and pricing strategies. We will also augment the program by offering incremental benefits to our advantage members by partnering with appropriate third parties.

I mentioned a minute ago some of the new analytical tools used by both the marketing and merchandising organization to allow our marketing spend to be more effective in driving profitable sales as well as being more cost efficient. One such tool set, very aggressive in our insert spend which is the largest chunk of our media spend.

Now on the screen you see an example, it's actually a live example, with the departments that have been camouflaged, if you will. But what it shows that in an analysis of our 2003 spend, reflected for instance with department A, that it was receiving very little insert space even though it was quite responsive to the advertising, meaning that it was driving significant incremental performance, not absolute performance but incremental performance over the norm.

That compared to department C which was receiving more space, that's the red off to the left, even though department C was less responsive. We're not alone in this kind of misappropriation of space. It's quite a common problem for many retailers and certainly Office Depot was guilty of this.

Our solution was to develop and deploy a standardized methodology to optimize the allocation of space by category and product and in fact even the overall size of the insert. We were forced to consider various options in allocating space across product categories and items. And some products in fact have received significantly more space while others less.

To put it a different way, what we implemented in what we'll continue to utilize is an earned space model with products earned in space as opposed to being entitled to it. It's a process where art and science are blended. Nonetheless, one that's really not all that common amongst many retailers.

We're very pleased with the results so far and this program will continue into 2005 as we continue to try to leverage our media strength to make it more efficient.

I spoke a bit about our customers and a bit about our marketing practices. Let me talk a little bit about our products, what we sell.

This slide shows that customers rate our product selection very highly. In fact, when it comes to the breadth of our office supplies and breadth of our suppliers as well as providing a true one stop shopping environment, we score higher than our competition. We view this as a true competitive edge against any of our competitors whether they're the primary Staples and Office Max and also Warehouse Clubs and Discounters.

A look at the Office Depot mix of product sales, showing that technology is increasing the penetration compared to 2003, while furniture and office supplies has been reduced. In fact, our 2004 mix is pretty comparable to what 2002 shook out to be. Now while I'll talk a bit more in detail in a moment about both technology and supplies, let me address that overall mix of product sales.

Overall, our margins have suffered as a result of this mix towards technology and you're all aware of that, we talked about that in previous calls. Throughout this past year we've invested heavily in technology through people, through marketing efforts and through the focus of a number of folks who work within the company.

Some of us suggested that this is an overinvestment on our part. We do not believe this. Instead, we remain committed that technology is accretive, not dilutive to our business. What we really do believe is that we have underinvested in our supplies business. We have put too little space, too little focus, too little support into that business. And this will clearly change as we move into 2005.

Let me step back for a second and set the context of our business customers' overall purchase pattern. This is an industry- wide view which highlights where office product shoppers spend their money. It exposes that just over half of their spend is allocated to technology purchases with about a third of their spend in basic office supplies and the balance for about 16% into furniture.

These numbers support the different businesses that we're committed to and we'll remain committed to them as we remain in 2005. In terms of technology, as the year progressed, our strategy focused more on our core business customer. This slide reflects the mix of desktops to notebooks which is apparently about 50/50 with laptops obviously being more business oriented as I'm sure most of you who are carrying them around today in your briefcases can attest to.

Laptops, along with our CTO offerings as a proprietary offering are configured, or their custom build program are more profitable than the conventional desktops and drive higher attachment rates of higher margin accessories. With the help of Mark's inventory management team, we've done a terrific job of managing our inventory in our technology area and had very, very little end of life exposure on that inventory.

This slide shows the frequency of office supply purchases. Now you'll note the middle row in the blue, technology is certainly more than an occasional purchase for the business customer. But it truly is office supplies, core office supplies that drive the frequency of purchase and obviously the higher overall margins that we're seeking.

As I mentioned a moment ago, it's the supplies business that's been most disappointing for Office Depot over the past year and even before. While they've done a very good job of managing our gross margin rates, we have not achieved acceptable sales levels. This must change for us to deliver a better blended gross margin for 2005.

As we look ahead, we have a number of efforts in place to improve our performance both in sales and margin. Let me give you a sense of just a few of those. Firstly, we'll be streamlining our assortments so that they are easier for customers to understand and shop, particularly at retail. For example, currently we are implementing in the stores a new binder, the three ring binders that carry, which is a large profitable business for us.

We're opening up a new binder retail plan-o-gram, which is based on actual customer shopping patterns and we believe will get us back to a higher sales level and a more friendly environment for our customers. Secondly, new products and alliances that add newness to what is sometimes perceived as a very vanilla category in office supplies will be introduced.

Thirdly, new pricing strategies that encourage multiple item purchasing, that optimize gross margins and will be reinforced and we believe this will be particularly attractive to our core business target customer. We have products to enhance the attachment rates in supplies to other product categories. For instance ink to printers will be intensified. We'll be score carding performance on attachments closely and selectively tying salespeople’s' pay to that performance.

Fifth, we’ll be increasing marketing through marketing media specifically targeted to our core business customer. With supplies, for example during Q1 of '04 which is a critical back to business timeframe, we were underrepresented in key supplies categories. This will change as we move toward 2005.

Six, we've strengthened our organizational capabilities and I'll talk about that in a few moments. And finally seven, we will be expanding our private brand offerings. Private brand is a significant goal for us at Office Depot. Our surveys show that nearly all office supply shoppers have bought at one point a store brand during the past year.

Most said that they selected it because of a lower price. But historically, not just for office supply companies, but for lots of retailers, private brand has really served as an opening price point strategy. Leave the brands to carry the quality and the time frame would be the price point.

We believe this presents one of the largest opportunities for Office Depot in all businesses, but particularly in supplies where there is such commoditization. This is a snapshot of our performance in 2004 compared to 2002. Look

at our private brand, and you'll see that for this year, it will represent about 15% of our total revenue and be spread across about 2,300 SKU’s a significant increase since 2002.

During that time, we have expanded and repurposed our Office Depot brand to maintain a consistent quality and value proposition across all categories that we carry. We've also devised other brands beyond Office Depot to target key product niches. Things like Foray, writing instruments and Christopher Lowell furniture.

You'll note that that penetration has increased across all of our selling channels in both Burke (ph) and Cindy's organizations. As we look to 2005, our private brand efforts will continue to grow. New products will be developed that expand our reach both within categories and into new categories.

We'll also position our brands to not only offer our customer terrific value and price but in fact our quality will become equivalent to the national brands. In fact we're so confident of the quality and the value of our product, we offer 100% product guarantee satisfaction on every product that we sell.

We're able to do this due to the exhaustive testing that every product that we offer through private brand, the testing that's strung by an independent third party. Additionally, all of our private brand partners must meet the standards defined in our social accountability program which ensures that the conditions and the factories that we produce our goods meet the ethical and social conditions that we would want to be associated with.

As I mentioned, private brand will grow for 2005 and beyond. For 2005, we have a target that's listed up here at 18 to 20%. Obviously that means that the back half of the year has to have us tracking at higher than 20% to be able to blend out at that rate. We believe this is very achievable given that we only offer private brand in about 30% of our subcategories of product that we offer.

When you consider the greater margins, the product differentiation from our competition, and the improvement in customer loyalty, we feel very bullish about private brand.

Global sourcing will become a more significant contributor to our 2005 financial results as well. Now the program consists of a couple of components. Certainly, there's a direct import part of our private brands where we actually work directly with overseas manufacturers to develop and deliver product to our customers.

This is in contrast to working with current branded manufacturers to develop product that they manufacture, and they put our label on. This direct import program will continue to increase for 2005. But additionally, there's another side to our global sourcing which we call global tendering. For

Office Depot, global tendering is the consolidation of our worldwide purchasing power, specifically it's merchants in North America working with the merchants in Europe side by side to leverage our joint efforts in working with the vendor community.

This helps us secure the best product at the best price. To date this program has yielded over a 17% reduction in cost of goods sold for the 14 categories that we've addressed. But for 2005, we will address more categories and anticipate further significant savings. Enabling these efforts of both the traditional RFP process as well as web based e-auctions. Both of these will continue to play a role as we move forward.

We're very confident of our improved performance in 2005. To achieve this, we have recently implemented a number of organizational changes and I'd like to touch on those now. These have included responsibility consolidations to streamline that accountability, become more focused on our mission, internal promotions and new hires of proven results-oriented executives. These changes will provide us greater skills and improve our execution while increasing our clear accountabilities. A few that I'd like to call out. Firstly as I previously mentioned, we have integrated merchandising and marketing with both reporting to me.

This aligns the goals of both merchandising and marketing much more so than have been historically. Secondly, we've introduced additional merchandise managers and direct channel managers to provide more coordination of our product categories, focus on the merchandising nuances of our Internet and catalog channels and further focus on flawless execution in our strategy.

Thirdly, we've created a merchandise planning team to provide significantly more analytical support capabilities in our category management pricing and our merchandise planning assets. Fourth we've strengthened our marketing research capabilities by bringing in a new person. This has already helped us improve our understanding of our customer.

And lastly, what I want to mention for the moment is we've improved our catalog Internet and B2B commerce experience which will help strengthen the knowledge and experience from a merchandising perspective to support Cindy's business.

I mentioned earlier the need to balance the art and science of retail. This year we've invested heavily in the so called science part which allows us to make more fact based decisions. Mark Holifield will discuss the Magellan project in a few moments and that really is the backbone of a lot of these changes. So let me call out a few improved capabilities, some already supported by Magellan.

Firstly, we've improved the research capabilities; I mentioned we've added someone new to lead that area. With improved capabilities within that area so we can better understand who our customer is, it's something much more granular than just the demographic level.

We understand better what customer groups are worth, what share of wallet we own by category and what are their needs and preferences. We've deployed a more sophisticated marketing mix model to improve the effectiveness of our media spend and some of that I spoke to earlier when I referenced the insert effectiveness.

Thirdly, we've improved the analytical skills to support merchandising, strategic and tactical decisions. Things like how effective is my assortment plan, what vendors, what price points, what classifications are really driving my sales? Are they driving our profits? And lastly we have created a fact based approach to support our pricing strategy.

How competitive is the marketplace, how does this allow with the category role of the item? What are the items that must be priced aggressively, what are the items that we can maximize our gross margin? These analytical capabilities along with others that I haven't mentioned are critical for us to achieve our success for 2005.

They're critical for us to listen to what the customer is telling us. They are also critical so that we don't base our decisions purely on the art or the intuition which we did too frequently. To sustain our improvement, to execute better, leverage for technology as Magellan, and lower our overall G&A, we've developed and deployed a number of new processes.

These processes are standardized and formalized, they're analytically driven and they're score carded to ensure that we're performing as we said for all these disciplines for Office Depot. Some of the examples that we pursued are listed on the screen and Mark Holifield will speak to those in a few moments.

Now more than ever we are improving these processes. They are essential for us as I mentioned to improve our performance in '05 and to sustain that long-term. They're critical for us to improve our sales and margins, reduce our G&A and maintain better in-stock positions.

So in summary, I've talked about a number of things around our strategy. Our focus on the core customer, a further refinement of our brand positioning, targeting our product mix to key customer segments and building our private brand. These strategies in themselves are not going to grow our business.

They are the enablers that will allow us to execute this with an integral organization, integrated organization, more efficient and effective processes and the analytical rigor to make the best decision each time we select a product, target a customer or make an offer.

The results will manifest themselves in a more intense focus on the target customer, increased merchandising and marketing effectiveness, improved sales and margin, more consistent execution and lower G&A. Thank you very much for listening this morning and I think I'll be able to take a couple of questions.

QUESTIONS AND ANSWERS

Unidentified Participant

I have two questions. The first one, a lot of retailers had a tough time with back- to-school school and can you maybe address some of the shortfalls they might have had, was that a merchandising issue, weather.

And then second, I don't know if you saw the article, the New York Times yesterday on Wal Mart and their detail of marketing expertise. And if you didn't, they can pretty much tell what you should sell in the store right before a hurricane, et cetera, et cetera. Your new software, given the people, the systems you have, can you get to that kind of granularity, and how long would it take you to get there?

Chuck Rubin - *Office Depot Inc. - EVP, Marketing & Merchandizing*

Let me take that one first. I did not read the article so I cannot comment on that. As far as our abilities in marketing, first of all, we have a little experience with hurricanes in Florida so I didn't see the article but I have some of the experience as to a store organization sitting in the front here.

We have, marketing, the old joke about marketing is that you know that half of your spend works, you're just not quite sure which half. We have become over this past year far, far more analytical in determining, projecting performance. What the right items are, what the right price points are, by leveraging historical information.

So we have dramatically improved and as many retailers are attempting to do we have made huge strides forward. In fact our insert productivity, again, our largest chunk of our media spend has improved dramatically. Now there's always the risk because there's always new products. And without some historical baseline, that's where you have to skew the pendulum a little bit more towards the art side of retail as opposed to the science.

But because so much of our business is commodity oriented, we do have lots of history, and we're able to filter through that pretty extensively so we've made very good strides. As far as back-to-school is concerned, back-to-school in fact was disappointing. I think it was disappointing for most retailers.

We saw it pick up towards the back end as you got closer to school opening and we have, given our national distribution of scores, excluding mostly the Northeast, we saw then a pretty consistent trend towards improvement, very close to the opening. We had difficulty as many did with certain product classifications.

Texas Instruments calculators for instance, which typically are big drivers of volume were disappointing for us and others. We had some challenges on some of our novelty products. So we were disappointed with it, we were disappointed with the traffic. Misery loves a little bit of company but in this case not all that much.

I'm pleased to say that we were able to move through inventory, the liability inventory, the lifecycle-based inventory efficiently and without any significant negative impact to our performance, to our bottom line performance.

Unidentified Participant

(off mic) Can you hear me now? I'm going to try to tie a couple little things that you said together. Number one you said you've increased your investment in technology, you think that's the right thing to do and you're going to continue to do that. Number two, you said that your supplies business has been weak for the last year. And you thought that was primarily an execution issue.

But do you think that in some areas you were trying to compensate for the margin deterioration in technology by keeping supplies prices too high? You think that's why you lost some business in that and do you think you need to be more competitive on pricing, particularly in supplies? Thanks.

Chuck Rubin - *Office Depot Inc. - EVP, Marketing & Merchandizing*

Let me clarify one point. We made some investments in technology for 2004. We believe that the level of investment, financial investment, will diminish in 2005. We've gotten technology to the place from a capital standpoint that we believe it needed to be. So that would diminish in 2005.

I don't, for instance, see any further remerchandising to be done. The supplies component, the pricing initiatives that we put in place generally, I don't believe that has had a negative impact on our top line performance in supplies. Most of the pricing changes that we put through we actually test and control on.

And we determine whether there's any impact to top line revenue. And where there is, we don't go forward with the increase in price but where there isn't, then we pursue that.

So generally I don't think that's really what drove our supplies shortfall. I think what did drive it is that there were issues that we had. We complicated a business such to the point that customers were at times, I think, frustrated. Frustrated in terms of offering an assortment that was too broad potentially with too many choices, too many vendors, too many SKUs. In other cases, it was an assortment that was difficult to shop.

If you talk about our retail stores, there was a plan-o-gram that just wasn't quite as intuitive from a customer's perspective. And hence it may have been somewhat frustrating. We've had a number of other operational execution issues, where we had not as a smooth a process as is in place right now.

When you combine all of them, I don't think there's a single silver bullet, but when you combine all of them, I think it materialized into a supplies business that just didn't live up to what we have to have it live up to. Right now, where we stand is over the past couple of months actually we've made pretty good progress working jointly between, let's just focus on stores for a second.

Between the stores operations group, the inventory management group and the merchandising and marketing group really trying to streamline some of these processes. Supplies, all product categories will benefit. Supplies should benefit the most.

Unidentified Participant

Chuck, if you could speak a little bit about the relationship as your first bullet point of focusing on your target customer to your (inaudible) advantage program, the 1.9 million customers. You've got that chart, it looked like 58% of your sales out of the advantage program are from business customers.

But you have talked earlier about 90% plus of your current or global customers who want to be from the business side. So is that a disconnect, am I reading it wrong, or where do you want that advantage program to go?

Chuck Rubin - *Office Depot Inc. - EVP, Marketing & Merchandizing*

The earlier slide shows that roughly 90% of our current customer base is business customers. I think as we move forward and following the question correctly, the target customer, we have a variety of target customers. We welcome consumers shopping in our stores as well. They generate good traffic and they can generate volume for us.

In terms of resource allocation, whether that's media spend, whether that's product uniqueness, whether that's just focus of the merchandising and marketing group, that has to get reallocated in a more defined way than it has been and that reallocation is more towards the business customer.

The advantage program we believe is one effort to really address that, 60% of that customer base right now has been defined as business customers. There are futures that are made on top of that as well. Consumers are a portion of the advantage program. They're not the most attractive component because they shop less frequently.

We think that as this year transpires, 2005 that is, we'll continue to add members, it will continue to become skewed more towards business customers and we will continue to market more specifically to them with offers that are developed specifically around them.

Unidentified Participant

And just for a definition, how are you classifying SOHO customers, the small office, home office customers? Are they business or personal?

Chuck Rubin - *Office Depot Inc. - EVP, Marketing & Merchandizing*

Business.

Unidentified Participant

Can you elaborate on the private label program, because I guess my observation would be it's pretty easy to do what private label programs asked but it's hard to do a private label program well such that you actually differentiate the products and brand them for Office Depot. So how are you going about that?

Chuck Rubin - *Office Depot Inc. - EVP, Marketing & Merchandizing*

Well, first of all I have Wilson Zhu. So I bought Wilson Zhu. Private brand is an area when I came to the company, the company had already started the process of investing in private brand. Wilson was here and it already started to assemble a pretty impressive array of partners to support our effort.

You're right, private brand, it's easy to develop, but it's also very hard to make it quality and sustain it. We believe we've already got a terrific foundation in this. So we've got an organizational structure that's in place. We have a quality assurance program, we have a social accountability component that's already in place and performing very well.

So we've got the foundation that's laid. When you look at the product that we actually offer out there, we think that we have leapfrogged our competition in terms of what we're doing. Christopher Lowell furniture is a private brand that we work in tandem with Christopher Lowell, he's an interior designer of some note that the television show and column, et cetera, for those of you who don't know him.

That furniture is a private brand that we believe is a shining star in our assortment compared to what others carry. It's fashionable, it's great value, it's very functional. We also have developed a line of writing instruments under the Foray label, which we believe is attractive for the customer but also attractive financially for us. As we go forward, you'll see us leverage those labels.

You'll especially see us leverage the Office Depot label. And underlying all of our effort is this belief that it has to be quality. If we're willing to stand behind it, there has to be the quality built into it. So we feel pretty confident about where we're headed. We haven't, this is not an overnight expansion that we're pursuing.

If we're not as sensitive to building the quality in, we could probably pump that private label penetration up even higher on a faster basis, but that's not the healthy way to do it. This is and will continue to be one of the core foundations of Office Depot for years to come. So we believe that we're doing it in a controlled fashion, we're very solid partners and very, very comfortable with where we are.

Just as a point of reference, I mentioned it last night to a couple of people, we're going to end up at 15% penetration for the year this year, 2004, we're already tracking obviously higher than that 15% on a monthly basis for us to blend out for the year at that. So, private brand is a marathon, it's not a sprint. We're going about it, training and putting it in place the right way.

Unidentified Participant

Couple questions for you. First, when I met with you earlier this summer you had suggested, this Dan Binder, you had suggested that the merchandising team was probably a little bit weak and you were making continuous efforts to try to strengthen that. I'm just curious, given some of the additions you've made, how do you feel about the team today. Are there additional spots open?

That's the first question, the second question was, you had mentioned that the supplies business had a very broad offering. Is there actually an opportunity to consolidate vendors in that space? Is that part of it? Or is it something where you just editing SKUs with existing vendors?

Chuck Rubin - *Office Depot Inc. - EVP, Marketing & Merchandizing*

Let’s address the first question on the team, I mentioned a couple of changes. We are very comfortable with where the team is. I think we need to continue to strengthen the team we have on the ground and then maybe a selective addition that we need to make, but I think the team is significantly strengthened from when we talked a number of months ago.

I just brought in a new VP of Merchandising who will be overseeing supplies with extensive Internet, catalogue and B2B sales experience, so he – a guy by the name of Scott Koerner - he's a very engaging guy who I have high confidence in. The addition of divisional merchandise managers also strengthens our ability to execute.

Understand that we are a very flat organization and while I am supportive of a flat organization, we were struggling with the balance of both execution and strategy. And by adding in this divisional merchandise managerial level, who, we will have both recruited internally and promoted internally, as well as going outside to strengthen the team, it balances our ability to execute better while the vice presidents in merchandising are able to move their sightline up a little bit and stay focused on the longer-term business.

So we feel very good about that. And finally from an organizational standpoint, we have strengthened our talent, both from Scott, who I mentioned, as well as the direct channel managers, strengthened the talent on the direct side of the business, which supports Cindy’s business. This is an area that over the past couple of years, it appears as though we have been somewhat weak. There are nuances to the Internet and catalogue and contract business that we weren't attending to as well as we could have.

And we've now strengthened that, so I feel pretty good. As far as the broad offering that you mentioned, is there opportunity to consolidate vendors? Yes, there are. I mentioned to some people last night that I hosted a vendor conference, the first one in years at Office Depot, last week. In fact, many of the speakers today also spoke at that conference.

We hosted 90 of our top vendors and outlined where we were going for 2005, and laid out some specific challenges. That, in fact, was one of the challenges. There will not be spaces for every vendor that we do business with today going forward and that means that some vendors will prosper and others will suffer.

Today we have sometimes the same product offered through different vendors, between the different channels that we distribute through, so there's an opportunity for that alone. And then when you layer in the things that I mentioned earlier, and talked in more depth about last night, we have assortments that probably are just at times too broad.

I think too confusing for our customer. If you walk in, especially supplies where it is commodity oriented, I think sometimes the breadth of our assortment of vendors and even SKUs is broader than it needs to be and hence, is a little more confusing for the customer.

Unidentified Participant

Just one last question. If you could just comment on where we should see the private label brand increasing? You mentioned that over 30% of the subcategories offer it today, correct?

Chuck Rubin - *Office Depot Inc. - EVP, Marketing & Merchandizing*

Well, I think that's - I mentioned you'll see it both deepen and broaden, so the classifications of product that we offer today will get deeper and there will be more classifications. Paper is probably worth noting. Paper is a large private brand classification today, I don't see that expanding much in 2005.

So the expansion that we have will be in non-paper categories. That in turn is an interesting point because paper, if you look at it from a margin standpoint, paper is the most conservative margin opportunity, if you will, for private brand.

It's everything else that's more effective from a margin standpoint and we look at 2005, the expansion potential in private brand is in pretty much everything outside of paper, since we've tapped that one so deeply already.

Unidentified Participant

A question on the assortment changes. I'm just trying to think of how you're thinking about this longer term. You have 8,000 SKUs in your stores. I'm just trying to picture it. How many SKUs do you think you're going to reduce there? And then is it a strategy you’ll be offering one type of product per category, or would you offer a good, better, best?

Or is it an initiative where you want to drive gross margins there by directing your customers' purchase actions towards a higher gross margin product?

Chuck Rubin - *Office Depot Inc. - EVP, Marketing & Merchandizing*

Well, certainly one of the goals is to try to optimize the margin and by positioning products, you can do that. I don't think that would make it as black and white as you're describing. I don't think that the goal is to offer one line of product across the store for each classification of product.

I think there's a different implementation of this based on the product category, but overall, the strategy is to make the assortment easier to shop for the customer. We have certain classifications of product today that you'll see over the next number of months. We'll start to clean up, if you will, that we offer an assortment that is more confusing than it should be.

Now there's other assortments quite frankly we may need to add in some SKUs. So I don't see the 8,000 SKU count for our retail stores changing dramatically. It's the allocation of that SKU count that you may see shift a little bit. You also might see, and I think I mentioned this, you also might see that the SKU count doesn't change, it's the vendor mix that changes.

We may carry 3 or 4 vendors in a classification of product today, but tomorrow, it could be 2 vendors. There's, we believe, clarity for the customer in that, and we also believe from a financial point of view that there's an opportunity for us to leverage that better.

Unidentified Participant

There's been a question on technology merchandising. I don't know if John Lostroscio is here today or not, but if you can give us an update as to where you stand on the cleanliness of the PC inventory? I know it was up quite dramatically from where it was a year, 2 years ago?

And what the objective were and the follow up, also, on the consumer versus business mix, I think you spoke a little bit about the notebooks versus desktops (inaudible), but can you tell us how the I-Pod, I think you're carrying those in your stores, how that fits into the mix?

Chuck Rubin - *Office Depot Inc. - EVP, Marketing & Merchandizing*

John is not here today. He actually had commitments to help run our business down in Delray Beach, so he stayed back home. As far as the cleanliness of our inventory, as I mentioned, we're very, very pleased with that. It's really supported by two key things that bear repeating. One is Paul Larkin, who heads up our inventory management.

He's done a terrific job of controlling our inventory flow of product and technology. The second thing that they've been able to leverage, along with merchandising, is the CTO offering that we have. It's configured to order capability, which is unique in our channels of distribution. Our vendors, even those vendors who aren't available on the CTO , give us huge kudos for this.

In essence, what we've been able to do is for inventory that's offered for sale at retail, we are able to control the inventory flow of that and as we lower that inventory, waiting for new introductions of product, we are able to fill that gap with the CTO offering, which is a virtual inventory offering.

So the customer doesn't walk out of the store that day with the CTO purchase with the product in hand, it gets delivered to them in a few days and it's allowed us to really manage that inventory and truly, truly control the risk that we have in that end of life inventory. As far as the - second question was, I'm sorry, consumer business technology?

Oh, the I-Pod, that's right. The I-Pod, we carry an HP I-Pod or the H-Pod as it's called at retail. We carry the Apple I-Pod online. We are, as most people, excluding Comp USA I think, we do not sell Apple directly in stores today. The H-Pod model is doing OK. It's in a somewhat limited distribution based on quantity. How does that fit in with consumer versus business?

We think that when we define our business customer usage, that applies to things that they would use in the course of conducting business, whether that's a briefcase to carry a notebook and their essentials or whether it's an I-Pod that they may carry while they're traveling on business in airports, which many of us do consistently. What you will see us curb back on – actually, in fact we really – I should reword that. What we won't be getting into, are things that you're seeing some of our competition do with clearly oriented-licensed product that is clearly consumer oriented. We believe things like the I-Pod have a niche to fill for our business customer. I think that I'm getting the sign to wrap up.

So with that, I appreciate everyone's interest and support and I will introduce my partner in inventory management, Mark Holifield.

PRESENTATION

Mark Holifield - *Office Depot Inc. - EVP, Supply Chain*

Thank you Chuck. Good morning everyone. Thank you for coming to our meeting today and thank you for your interest in Office Depot. Before I get too far , I'd like to introduce some key people in the supply chain team and the Magellan team. First, I'd like to introduce Dennis Andruskiewicz. He's our Senior Vice President of Distribution and has been with Office Depot for 5 years.

I'm going to spend some time talking with you today about some success we've enjoyed on distribution over the years. Dennis is one of the key reasons that success has happened. I'd also like to introduce Paul Larkin. Paul is Vice President of Inventory Management.

Paul has been with Office Depot for 6 years, started in inventory management with us, moved out in the field working in distribution, and thought he'd come back and run our inventory again, and he's doing a great job of that. I'll show you some great results in inventory management as well. I'd like to introduce Carol Martin.

Carol is Vice President of Merchandising currently on assignment with the Magellan project. Carol has been with Office Depot for 10 years in a variety of merchant roles and is doing a great job with the Magellan program as well. If you take anything away from my presentation today, what I'd like it to be is this; that everything we're doing as to supply chain and with the Magellan program, it's all about North American retail profitable growth, and

it's all about North American delivery profitable growth. I'm going to spend some time talking about supply chain.. I'm going to spend some time talking about Magellan.

First, our supply chain focuses on 4 key areas. It's pretty simple. It's 101. Customer service is the first, foremost and most important focus for our supply chain. Nothing else matters if we are not in stock for the customer at the shelf in the store.

Nothing else matters if we don't fill the order on time and complete or have the product in our warehouse ready to go when the customer calls. Nothing else matters if we are not on time and complete with that delivery at the customer delivery point. So customer service is the first and foremost focus area for the supply chain. At the same time, we want to manage our inventory very carefully.

Our second focus is in inventory productivity. We want to make sure that we can contribute to the company's cash flow appropriately, make sure that we're getting a good return on our investment in inventory. Third, our total supply chain costs. That includes distribution costs, but that also includes costs downstream in the supply chain at the store and back upstream with the vendor.

The fourth area, critically important, is responsiveness. I'm going to talk a little bit about how we measure our responsiveness at Office Depot and how we look at our supply chain as critical responses where it's important to our business. About a year ago, we reorganized our supply chain operation. First, we consolidated our existing operation under Dennis.

Before, the distribution organization reported up to the business units. We had retail distribution and we had BSG distribution, separate buildings, separate inventories, separate management. So we consolidated that so that we could unlock synergy. We also consolidated inventory management in the pricing group.

We thought that it was important to bring a single focus for product flow and information flow, so that we could better manage our inventory, our in-stock position and our cost structure. Let's set the table with a picture of our distribution network. There's 10 Crossdocks in our network. Those are the blue diamonds on the map. You can see that they are disbursed throughout the U.S.

These are what we use to support our retail stores. You will note there's a blue diamond up there in Northeastern Pennsylvania, so we are well positioned to support our Northeastern growth strategy on stores. The red squares represent our CSCs, the customer service centers, they support the delivery business. These support our delivery customers. That's where we store the 14,000 SKUs and respond to customer orders throughout the U.S.

So as you can see, we're well positioned in the Northeast there as well. Nothing new. Our Boston facility, Connecticut facility, Philadelphia, Baltimore and our Northeastern Crossdock have all been there operating for quite some time. So we're very well positioned for our growth strategies there. Let's go to our first area of focus in the supply chain, the customer service.

Our service metrics are strong. Our retail stores must be in-stock when the customer comes in, to get the product. It must be on the shelf. Our retail in-stock levels are at 99% and we measure that 2 different ways. We measure it that with our perpetual inventory system, where we identify what is in the inventory of the store on the perpetual inventory.

And then we also have store people walk the store every day, scanning every hole , every out , or every load in the store so that we can replenish that slot. And thus our retail in-stock levels, are at 99%. Our BSG filtrate, that is, the filtrate for delivery orders, is better than 99%. That means when a customer calls and requests an item from us, it's inside our warehouse and we're able to fill that order.

Our on-time delivery, down at the customer level, taking those orders and delivering them, we're also at 99% there. Those are good numbers. We are happy with those, but we constantly strive to improve them and we will continue to do that. Let's talk about that second area of the supply chain focus, inventory management.

As you may know, we've got a constant focus on inventory productivity at Office Depot and that's led to continuously improving results. We're really quite pleased with this, and pleased to see record results in this area. We continue to make excellent progress, combining inventory management and the supply chain together to help us to be more responsive and drive these types of results.

Let's take a look at inventory turnover another way. We benchmark ourselves against others. We do that so that we can measure how we're doing and identify areas for improvement. As you can see, in this dimension, we compared very favorably with other retailers and distributors.

Now, everybody knows that different product types, delivery mix, a whole bunch of other factors can impact these numbers, but we believe that these numbers are valid to compare as these are the groups we're often compared to and the numbers speak for themselves. We similarly benchmark gross margin return on investment and inventory yields and the picture there is quite similar.

Back to those 4 key areas, the third I talked of was total supply chain costs. Let's talk first about our retail distribution costs. These numbers reflect the indexed cost of operating all aspects of that 10 Crossdock network that supports stores. That includes labor, depreciation of equipment, transportation, and all that goes in to getting product to our stores from our Crossdocks and through our Crossdocks.

As you know, this is a labor intensive business, over the years, there have been a number of increases in health and welfare costs, yet we continue to make improvements. There have also been increases in fuel costs. We continue to make improvements there. By the way, we didn't do this while sacrificing internal service to our stores. Our accuracy rates in stores and our on-time rates in stores are the best they've ever been.

Let's look at the delivery side of the business. This is the BSG distribution cost. They have declined as well over the years. Again, indexed costs, all the costs of operating our warehouse network, our 22 warehouses, all the costs of distribution and transportation are in this, labor, rent, depreciation, supplies .

Particularly of note here is we've taken out about $150 million in cumulative cost savings over the past 3 years, a very meaningful impact on our EPS results. Over this period of time, all of our customer service trends have been positive. So how do we (inaudible) some of that? One way we did it was optimizing our modes of delivery. Starting in 2002, we took a very hard look at the way we were managing transportation for delivery.

In the past, we used a one-size-fits-all approach for the most part, and that was private fleet. About 80% of our deliveries went through private fleet. Trucks that Office Depot owns and operates and Office Depot drivers. Now the service of that is quite good . You know, having your own trucks on the road, having your own drivers, is a very high service proposition.

But when you're loading up trucks with only a little bit of product to take over long distances, it doesn't make that much sense. This is particularly true considering the advances the parcel carriers have made, UPS and FedEx, in time-definite delivery and improving their tracking and quality capabilities.

We also found that dedicated contract carriage was a good solution, so here are the things we did. We first took the one-package orders or the two-package orders, the ones that it didn't make sense to stock our private fleet truck and make delivery and we tendered those to UPS.

Secondly, we took high cost markets such as New York City and Detroit, we partnered with dedicated third parties. These are companies that operate dedicated fleets, oftentimes with Office Depot delivery vehicles with Office Depot uniformed drivers and make deliveries. They have cost advantages sometimes because of the labor structures that they operate under.

They also have delivery management expertise and they also can manage trucks very well. Finally, we took small markets and outsourced those to third party where we have less than 5 routes. Small markets, things like Oklahoma City, places like that, where you don't get economies of scale, by partnering with a third party will have those economies of scale. You can lower your overall cost.

So our index transportation cost has come down as well. So where does this take us on mode mix. For 2002, as I said we were about 80% private fleet, with some business going to parcel, third parties and LTL. In 2004, we've taken the mix to about 40% Office Depot private fleet , about 30% with dedicated third parties, and the rest with parcel carriers and LTL .

This shift has been key for the cost directions in BSG deliveries that I showed earlier. Now you don't make shifts like this without imposing some disruption on your business. No doubt some pain occurred out there in the delivery markets, but what I will tell you is that that pain is likely behind us.

The Office Depot fleet, the third-party dedicated carriers and the parcel carriers are all performing at 99% on time, or better at this point. So all that , including our inventory carrying costs, here's the picture of distribution and supply chain costs at Office Depot. The first thing I talked about in supply chain is responsiveness. We attribute that responsiveness to a couple of key areas.

First, fast transit time. As I indicated before, we operate 10 Crossdocks around the United States. Instead of putting up mega warehouses in 4 or 5 locations, we decided that we would put these 10 low inventory, low fixed cost facilities out there, close to our customer. 86% of our North American stores receive at least 5 day-a-week deliveries. Only one pair of our stores is receiving 6 day-a-week deliveries.

This allows us to be responsive to fast-moving trends in stores, allows us to be better in stock, and allows us to improve our inventory productivity while we do that. The average driving time from Crossdocks to North American stores is less than 4 hours. We believe that a distribution network that is hours away is far better than one that's days away.

We also focus on a high velocity of inventory.

We use flow through distribution for about 80% of our flow of goods and about 20% in traditional warehousing for the retail channel. We use a distant time allocation at the Crossdocks and that results in warehouse-like service at a much lower cost. Let me tell you a little bit about how this works at the Crossdocks. Currently we have 10 Crossdocks serving about 923 stores. When we go to make an order to the vendor, we look at all 92 stores or so that will serve our Crossdock .

We roll up the demand, support that demand from all those stores, we look at the inventory position in that store, we identify the safety stock for that store, we identify the space - the plan-o-gram minimum, so that we look good in the store as well. We roll all of that up to a forecasted demand at the Crossdock level. We take that order to the vendor for a bulk order destined for the Crossdock.

Note that that's not store-ready orders, that's in fact the bulk order to the Crossdock. Whenever an order arrives at the Crossdock some days later, we scan a UCC 128 bar code, that links up to an advance ship notice that the vendor sends to us via EDI. That tells us everything that is on that pallet and allows us to distribute that pallet - redistribute that pallet based upon what is happening in stores now; based on today's forecast, based on today's inventory position.

We then take that product directly to the store outbound lane. It gets loaded on the truck and it's down the road for delivery for the next day. These facilities, as you can see, there's not a lot of capital investment in there. There's not a lot of inventory in there. That keeps our costs very low.

In comparison to warehousing, where you bring products in, you receive it, you put it away, then you replenish it to a picking slot, then you go pick it, then you bring it out and the you send it down the road in a truck, there's far more steps in that than in the Crossdocking flow through process. But because we do that last-minute allocation, we gain the benefit of warehouse-like service.

Now that's not to say that flow through is the right strategy for every SKU, because it's not. As I said, about 20% of the space is devoted to traditional warehousing. That allows us to hold upstream , high scarcity products, high value products, things like the I-Pod , where we can hold those in inventory. If we sell one of those in the store, up to 4 or 5 per day, we'll have that in the store tomorrow.

We do believe that that gives us the most responsive supply chain in the business. And we've not stopped learning in this area. We're continuing to improve along the way. As I mentioned before, the distribution units reported into respective business units retail and delivery. Now, as part of the single supply chain strategy, we can unlock synergy and gain leverage. We have those inventories that were separate across the channels.

We can now leverage those inventory tools by eliminating the barriers across the channels. There are a number of examples here on how we're getting that synergy. The Crossdocks now serve delivery customers. Instead of duplicating technology inventory in those 22 customer service centers that serve customers with direct delivery, we're holding that inventory at the Crossdock and fulfilling orders from there.

Our delivery customer service centers are now serving retail customers, both in shipping product to stores and shipping product directly to retail customers when it’s ordered. There's further benefits as well, leveraging our inbound freight, using our delivery fleet to deliver to stores, leveraging space, people, support and management further.

So where do we go from here on the supply chain? Well, we're not done. We're focused on continuous improvement here. Our execution is still not flawless. We always have room for improvement. Our focus would be to continue our stocks where it improves customer service metrics. We know that that is the most critical item in our supply chain focus. What our customers will see from this is improved in-stock, improved fillrates and improved delivery service. And that brings us to the Magellan program.

Now some of you may be familiar with this background based on previous meetings and information, but let me restate the rationale for this initiative. Back in the day when Office Depot was a single channel retailer, it was really quite simple, stamping out large-scale office product super stores across the landscape with a single assortment was pretty easy. It didn't require a lot of sophisticated systems.

Add to that multiple store formats, add to that multiple channels, add to that multiple brands, and pretty soon, you realize you've got to have an improved system to handle that. We also lacked the analytical capability that we needed to help drive intelligent merchandising. Now how did we get that?

Well, our choices were to continue to enhance our in-house systems, develop new ones in-house, or pick a leading retailing system. We chose to implement leading solutions from Retek and from AC Nielsen. We picked Retek because it's the most functionally rich retailing system out there that operates on technology that's state-of-the-art.

It's scalable for our business and it has proven success with other clients. We also believe that it led to an overall lower total cost of ownership, and therefore, improved our investment ROI . In the past, we had no merchandise planning system. We had no assortment planning system. All this was done in an ad hoc manner.

To drive the merchandising that Chuck wants to drive, these types of systems are absolutely critical. So what are our objectives here? First, to improve our sales and margin through more effective store space utilization. That means, improving our store layouts, making sure that our stores are laid out productively with appropriate mix for supplies, furniture, and technology based upon the earned space.

Secondly, laying out stores correctly at the shelf level, making sure that we optimize the use of the shelf space to drive margin and customer satisfaction. Secondly, we want to continue to improve our in stock position through improved forecasting. Improving sales and margin through improved assortments and merchandise plans.

We want to make sure that we have the correct analytics to allow us to plan our assortments better and to track our merchandising performance. Finally, improving our sales and margin for better pricing, decision making and data integrity. Our legacy proves that we haven't had the flexibility to deal with the type of challenges we're faced with today. So here's what we've done with Magellan.

At this point, we have 9 tracks of functionality live. The overall program is pretty much on target, delivering the functionality we said we would deliver, when we said we would deliver it, for the cost that we originally estimated. Now, these types of programs, as you well know from looking at our company, have a fair amount of risk with them. We're managing risk very carefully.

Too many companies have been bit on this. The road to supply chain hell was paved with failed ERP implementations and implementations that just haven't gone right. We've been very cautious. We've assembled a dedicated team both IT and business, we've got the right people. We chose the right software platform in Retek.

We chose the right integrator, the one with the most experience in implementing Retek. We've been very cautious along the way. We've passed through four levels of testing in each implementation that we do, and we broke out the implementation into phases, so there was no big bang, no high risk.

So, what are these phases that we've laid out? First, we use Retek's inventory optimization module, helped us to improve our inventory by managing the parameters that we manage our inventory with in our existing systems. Secondly, we implemented Retek demand forecasting. This improves our overall forecast accuracy, improving our in-stock position at stores while keeping our inventory turns good.

We implemented Merchandise financial planning, Retek's Top Plan product. This gives you a tool to take the overall business plans and lay it out by category down to the sub-class level, allowing you to plan your business and hold merchants accountable for their sales, margin and inventory forecast and actual performance.

We implemented Retek's merchandising system, which includes foundation data. There's not much really sexy about that. It's really about item data, location data, and things like that. But with improved item data, with things like product attributes, things like good/better/best relationships, we can manage our assortments much better.

We also implemented Retek's pricing. That allows us to manage store zones better, it allows us to manage relationships between SKUs better, such as good/better/best, such as the red/yellow/green pin, making sure that we price those accurately across, and that will improve our margins. AC Nielsen Space Plan gives us the plan-o-gramming tools we need to lay out the product on the shelf properly, and to do improved store design. So, that's where we've been. All of those are in place now, and moving forward.

Here's where we're going. First, merchandising data warehouse, Retek Data Warehouse. That module actually went live on Thursday, so this slide is just out of date. That's another on-time, on-budget Magellan delivery with the functionality we said we would deliver. What Merchandising Data Warehouse gives us is the capability for the scorecards that Chuck talked of, which allows Chuck to drive his merchants toward a consistent, analytical approach to managing assortments and merchandising.

Our Retek merchandising system tracks with inventory and purchase order management and allocation, will help us further improve our inventory management, plus provide better integration of our inventory systems with the Retek tools. Merchandise Financial Planning Top Plan wave two will further improve the capability of Top Plan to handle all of our channels. And last, Assortment Planning, Retek's assortment optimization tool, will help us to provide better assortments in the stores and throughout the company.

I talked a lot about systems, but Magellan is not just systems. It is really about retailing process, as well. We've had some key process wins here. First, a new merchandise financial planning process. This allows that sales, margin and inventory accountability and performance management that Chuck needs to drive the merchant organization. This will improve our execution through better merchandise plans. The new assortment planning process is now in place, before Retek's optimization tool. We put this in place first so that we could start to gain benefit as quickly as possible. This ensures a more analytical approach to managing assortments, and includes cross-functional review with store operations, replenishment, space planning folks and merchants to ensure that we're being most effective with our new assortments.

We've got a new plan-o-gram submission process, which eliminates errors in the process, and we've got new training for merchants, which includes strategy development, program negotiation, and category management. So, with combination of good systems and good process, we believe that Magellan will deliver the benefits promised.

We're on track to deliver benefits in the range that we originally expected once systems and processes are fully vetted in. The sales and margin numbers here reflect the estimated 12-month run rate, with expected benefits once we're fully implemented. The inventory reduction is a one-time reduction. These numbers are the same as we presented in New York in October 2003.

So, giving you a high-level view of the supply chain and Magellan, I guess our four key supply chain objectives. We've had a clear track record of success. We possess a customer service focus. We will continue to improve our in-stock in stores, our fillrates in our warehouses, and our on-time delivery. We've demonstrated inventory efficiency leadership. We'll continue on this path, again using inventories to drive profitable growth. We have an excellent track record of reducing costs. We'll continue that. By reorganizing the supply chain, we're now leveraging supply chain skills and infrastructure among the channels for continued improvement. And lastly, the Magellan program is on track, on budget, on time.

At this point, I'd be happy to answer any questions or -- about Magellan or the supply chain. Thanks very much for your interest.

QUESTIONS AND ANSWERS

Unidentified Participant

Mark, obviously Retek and Magellan are doing a lot of things a little bit better along the way, but where do you think you are in terms of the 35 to 65 basis points of improvement? How much of that do you think you're already realizing with the modules that are in place, and how much of that is to come as you put the assortment planning modules in place? And then, as the risk side of that, maybe if you could characterize -- obviously, you're doing a very good job implementing it on time, on budget and as planned, but characterize where you are in terms of the risks of something going wrong at this point versus what you've already kind of got behind you and in place.

Mark Holifield - *Office Depot Inc. - EVP, Supply Chain*

Right. Regarding the margin, in 2004 we probably gained a little bit. As you could tell from the slides, those tracks went live mostly during 2004. In our business case and in our actual results, we've seen a ramp-up period of time before people can really get to the results. In 2005, we'd expect probably a little bit less than half of those margin and sales improvements, and those are in our plans already.

As far as risk goes, we manage risk very carefully. We've got -- as I said before, we've got a key leadership team, people from Accenture who have helped us to implement this. They're the most experienced Retek integrator out there. Retek, we've got a great team from Retek, and we've got a great team in our IT group and in the business group. We also have internal audit involved, helping us to do risk brainstorming with every go-live that we do. That helps us to plan for the worst, expect the worst, and then go forward. So, we have back-out strategies, we have all kinds of capabilities to manage risk.

Yes, there is risk still in front of us. I mean, when you are taking the perpetual inventory of a company and moving it from one system to another, that is not a risk-free proposition. But we're managing risk extremely carefully. We're reviewing the project with the Audit Committee, the Finance Committee, and with others. We have a Steering Committee that includes the top leadership here with us. And each time, we go through a risk assessment, where we are with the program.

Unidentified Participant

Mark, just a couple questions. First of all, given that your in-stock is quite high, and seems like that's probably not the biggest opportunity, could you give us a tangible sense, or a tangible example, of a kind of change you'd make in mix or assortment in a given store or a given market, based on your findings from Retek and the Magellan program? And secondly, as you look at the 35 to 65 basis points of margin, how much of that comes from lower markdowns, and what are the line items within growth that should drive that expansion?

Mark Holifield - *Office Depot Inc. - EVP, Supply Chain*

Right. Some of the tangible assortment changes might be simply tailoring the assortment to the size of the store. This gives us the capability to manage several levels of plan-o-grams, several sizes of plan-o-grams, allows us to identify which SKUs do we need to come out -- need to pull out of the assortment when we go to a smaller store, like a downtown store, or something. So, it identifies which are the SKUs that are most productive and which are the least productive, and gives us that capability.

As far as the margin benefit, there's benefit both in markdowns and in vendor negotiation and in pricing, so there are a number of different line items that impact the margin. Pricing is a margin improvement. The Retek Data Warehouse, the information on each SKU is an improvement -- there's an improvement baked in for that. The inventory management tools, improved forecasting and capability to manage inventory will lower our markdown exposure, so there are -- there's a little bit of margin in every one of those tracks that I put up, practically.

Unidentified Participant

Thanks. Mark, can you talk about how your business might be affected by the slowdown at the West Coast ports and what contingency plans you're taking to avoid out-of-stock situations?

Mark Holifield - *Office Depot Inc. - EVP, Supply Chain*

Yes. Yes, as you may know, the situation in California this year is bad as it's ever been. Delays have been reported between seven and 10 days landing freight at the dock, and then, once you land it on the dock, there's a backlog of trucking, which leads to sometimes a five to seven days away in getting the freight picked up. This has some impact on our holiday business. Our product does come through the southern California ports. Don't think it's huge, but there is some exposure there. We are making contingency plans. We have expedited freight out of southern California to deal with this. We're also making plans for next year, to figure out how to work around the situation. We've got a number of options outlined that I think will avoid this problem in the future.

OK. Sean might have a couple of housekeeping items, and then we'll go to break. Oh, one more question, sorry.

Unidentified Participant

Yes, just a question with regards to distribution infrastructure. If you could sort of talk to the sort of capacity utilization, particularly in the Northeast facility, will you be able to get a lot of leverage once you start to build more and more stores in the Northeast, or is that going to just require a lot more investment in infrastructure?

Mark Holifield - *Office Depot Inc. - EVP, Supply Chain*

I think our delivery infrastructure is quite sound up there with Boston, Hartford, Philadelphia and Baltimore. Those facilities, for the most part, are under capacity at this point. The Crossdock can take on a fair number of stores although, at some point, we will need to increase the Crossdock capabilities up there to support the store counts, as planned. The good news about cross docking is, as we said, it's an extremely low capital investment, very low. You saw the building there, that you don't have to put a lot of material handling equipment in that. All you really need is a wide floor space and you can get that done, so it's really quite low in capital commitment.

Sean McHugh - *Office Depot Inc. - Director, IR*

OK, I think that's it. We're running a bit behind, but we'll be OK for the rest of the day. We'll take about a 30-minute break, and if everyone could be back here at quarter past eleven, we'll pick up with North American Retail. Thanks.

(BREAK)

PRESENTATION

Sean McHugh - *Office Depot Inc. - Director, IR*

OK, it looks like most everyone is back from the break. I'd like to get us started here and, hopefully, keep us on schedule for the balance of the morning and the afternoon, as well. The next portion of the program is our North American Retail. We've got two speakers today, Rick Lepley and Monica Luechtefeld, and right now, to start, I'd like to introduce Rick Lepley, our EVP of North American Retail.

Rick Lepley - *Office Depot Inc. - EVP, NA Retail*

Thank you, Sean. Good morning, everybody. I would like to talk to you this morning about where we are in North American Retail and where we're going.

First of all, as I think most of you know, from 2000 through 2003 we ran a string of 15 or 16 consecutive quarters in which we comped down, and we followed that with three consecutive quarters this year of comping up, and I believe the fourth quarter will also show positive comps.

Our retail profitability has ranged from a low of 3.3% in the year 2000 to a high of 7.2% in the year 2002 and, through the first three quarters of 2004, retail has contributed 6.6%. For four years, our store count in North America has essentially been flat. We ended 2003 with 900 stores, and that was only 12 more than we had ended the year 2000 with. And we've had a flurry of activity in the past weeks and in the next six weeks, and we'll end this year with a total of 970 stores in North America.

At the end of the third quarter, we had a total of 923 stores in North America, 890 stores in 44 states and the District of Columbia, and 33 stores up in Canada. The average size, the average footprint of one of our stores, is 26,000 square feet. The average age is over eight years. In fact, it's about 8-1/2 years. The average store carries about 8,000 SKUs. In the year 2000, we did 142 million transactions. We're supported by a supply chain, as Mark indicated, of 10 Crossdocks in the United States, and we currently employ about 23,000 employees.

The reality of Office Depot retail is that we have an older chain of stores in a much larger box than our competitors, and therein I believe lays a terrific opportunity for improvement. With just the new stores that we added in the final -- in the last two weeks and then the final two weeks of this year, we will have averaged -- lowered our average store age to 8.3 years, and dropped store size on the average down to just over 25,000 square feet.

In 2005 and 2006, our focus will be on initiatives that drive profitable growth, and there are only two major initiatives in which we're focused, the repositioning of our North American real estate and improvements in operational execution in our stores in North America. We've reorganized

North American retail to provide for greater accountability, and to get everybody focused on just one thing, and that's improved contribution from our operating units.

Let's talk for a moment about repositioning North American real estate. I think that this will be our main focus over the next 24 to 36 months. It is unquestionably our number one priority. We've restructured our existing organization. We have hired Bob Ozburn as Vice President of Real Estate. In fact, Bob would be here today, but he's out interviewing people because we've also added positions of Real Estate Portfolio Managers in North America. We've better aligned the key stakeholders during the selection site, and the way this works, essentially, is that our real estate group has a strategy or a plan for each major metropolitan market. They'll go out and find a space, and they'll take it to the regional Vice President. He'll look at the location. He'll decide what size box he'd like to operate there. If he's in agreement, then they'll bring it into our finance group, and our finance group will run all the numbers. They'll do the demographics. They'll do the pro forma. And if the numbers support the deal, it will then be brought to Real Estate Committee.

Real Estate Committee has three members -- myself, Charlie Brown and Bob Ozburn , and our real estate meetings take place monthly, so we look at the whole portfolio not only of new stores coming in, but also all of the leases that are up for renewal 12 months out, sometimes even 18 months out, depending on what the terms of the lease were. So, what we're trying to do is to actually have a plan for every single existing store, to understand when that lease expires in the future, and to decide what it is we want to do with that box. Do we want to make it smaller? Do we want to relocate? Do we want to renew that lease? All of that is part and parcel of the real estate meetings that take place monthly. So, not only are we there to select new sites which have been proposed, but also to review existing sites.

All new stores opened in the future will be the M2 format, providing our customers a differentiated shopping experience. And unquestionably, much of our activity will take place, as you know, in the Northeast.

I've already told you that we expect to end this year with 970 stores. We expect to add about 100 stores in the year 2005, and about 100 more in 2006. It would be reasonable for one to expect that at least a third of these new store openings would be focused in the Northeast.

As I mentioned earlier, our M2 store model is the only model we will introduce going forward. M2 is a highly differentiated and winning proposition. It's got a lower cost to build and a lower cost to operate. It's a customer-preferred shopping experience. The research has been excellent. M2's can run with a lower average inventory. At the same time, our AOV is actually proving to be a little bit higher. The design principles provide for better graphics and color, enhanced store layout, low sightline fixtures, more bulks and fewer peg hooks. We took about 50% of the peg hooks out of a traditional Office Depot store. With M2, we're actually working with the merchants to even try and lower that figure.

M2 has labor model efficiencies that, unquestionably, will make it less expensive to operate. In short, as most of you know who came to the M2 introduction, M2 is really designed for women. Our research shows that about 60% of those people shopping our stores are women and, of the other 40%, some percentage, maybe as much of half of it, is influenced by women. So, we wanted lower sightlines. We knew for sure we needed a better and differentiating color palate, since all office supply superstores are red. We also knew we needed better signage, because research showed that two-thirds of shoppers in office supply superstores ask where something is, which told us that we had to do a better job of not only improving the sightline, but improving the signage.

And you can see at the bottom that we'll have 110 M2 stores in operation by the end of the year, consisting of 80 new stores, 12 relocations, and I believe that we'll be able to finish 23 remodels.

The Northeast is a large, attractive market comprising of nearly one-third of the nation's GDP. We believe that there's a large opportunity for incremental office supply superstore capacity, given that many markets currently host only one competitor. Our Kids 'R Us store acquisition has facilitated our expansion because it gave us access to buildings with the right size footprint in attractive markets, and the portfolio provided meaningful site counts. So, in other words, these will serve as the nucleus around which we can build density in various markets. We plan to open 51 of these locations as Office Depots stores.

Now, the question that I received last night most often, I suppose, was what the status of KRU? So, I brought these numbers with me this morning, and I can fill you in on that. We started out with 124 stores in the transaction. Twenty-three stores fell out along the way for various reasons, so that the net was 101. Of the 101 stores, we're opening 51, and we've sold 17 to PetCo, so we're down to 33. Of the 33, six are already sold. Now we're down to 27. We had seven deals pending right now. We're down to 20. Five of them we have short-term leases on. In other words, the remaining term of the lease is less than 24 months. In some cases, in one that I remember, it's only seven months. So, in all likelihood, we won't be able to dispose of those. We'll just wait them out. And that gets us down to 15 that we still have yet to dispose of.

The timing of this expansion and the acquisition of the M2 stores was fortuitous to us -- for us because of the M2 format. These buildings were perfectly formatted for laying out an M2, and that really places us in a better competitive position going into the Northeast versus our plain and simple traditional format.

Our second priority, as I mentioned at the outset, is to improve store level execution to increase unit contribution. Contribution from units is the focus of everything we're doing in North American retail; contribution at the store level, at the district level, and at the regional level. We've reorganized North American retail to create greater accountability. We're implementing a targeted selection process for new hired employees. We are revising our employee compensation plans. We've re-instituted mystery shopping at our stores in North America. We are conducting extensive district manager audits monthly, and we've focused resources on improving our under-performing stores.

Over the past several months, we've reorganized to drive greater accountability at all levels of our organization. We've appointed new leadership, including George Hill , our new Senior Vice President of Regional Operations. George is here with us this morning. We've appointed three new regional Vice Presidents, and we've appointed a Vice President of Store Operations, Joe Jeffries , who's also here with us this morning.

Now, one year ago, an Office Depot district manager had 15 stores. Today, an Office Depot district manager has 10 stores, so we've added nearly 30 district managers in the past nine months. In the past nine months, we've built a sales organization exclusively to support our copy, print and ship initiatives not only at the store, but also in our BSD group. That's comprised of about 35 to 40 individuals, District Managers in the field, as well as a corporate support staff. We formalized a store manager's council that's comprised of our highest performing store managers, also and perhaps not coincidentally the most outspoken, and we're trying to use them to understand what it is we're doing right and wrong and to leverage the best practices that they're using across the whole chain. We've also realigned our Canadian support organization in order to focus on our Canadian stores, and the results so far have been terrific. So, in the future, decisions about Canada will not only be made by people in Canada, but they'll all be Canadians. We won't be making too many decisions down here about marketing or merchandising, except that we'll be trying to satisfy the demands they have for us to help them improve their business and grow their store count.

Recently, we implemented a Web-based employee selection and development tool. There are a lot of great retailers utilizing this system. What it does is help you qualify and understand the individual that you're hiring, so that you're certain to higher the right type of person who can grow in a retail environment. And what we know from people who've used this testing in the past -- one of these companies, that is Home Depot, is using something very similar to this -- we know that they get higher customer service scores as a result of using these employees. We know, in fact, that their shrink is lower. We know that employees demonstrate a higher level of commitment to their employer, and we know that they're more productive employees as a result of these tests, and that they're driving higher sales per hour.

We're linking compensation to profitability. Of course, payroll is the single largest operating expense line item, so this is obviously our most impactful lever. We've begun to enforce greater pay rate consistency across the chain, and we've gradually been shifting our labor mix between part-time and full-time employees. Our current mix is about 60/40. Our target is 70/30. Though the customer service levels are always a concern, we've been watching that closely and, as we've been making this transition, there's no noticeable change in our customer service levels. So, we're delighted to be able to inform you that customer service levels are not dropping as a result of moving toward this mix. Of course, it's always a concern, and we'll be certain to keep an eye on it.

Last week, as you know, we eliminated duplicate positions in lower volume stores. What you may not know is that this represented less than one-half of an employee per store. In addition, our store level bonus program has now been centered around metrics that drive unit contribution at the store level.

In the fourth quarter of this year, we are re-instituting a mystery shopper program for all our stores in North America. What that means is that, during 2005, each store will receive 12 mystery shops, and a portion of the store manager's bonus will be tied directly to the mystery shop’s results.

In recent months, we've instituted a new and much more detailed district manager audit report. This tool is to be completed on all stores each month. The report ranges from two to six pages depending on the contribution level of the store. The report becomes considerably more detailed and more involved for stores with low or negative profitability. The interesting thing about this is that it's Web-based so, when we go out to travel -- if, for example, we're flying to San Diego to call on stores, we can just go and print all these and take them with us. And as we walk the stores, we can look at the district manager's report and see how the store looks and if, in fact, it agrees with what he has written.

Earlier this year, we formed a team to improve profitability across some of our under-performing locations. This program involves dedicated management resources, a complete initial operational diagnostic of the store, and then create an action plan. They target metrics and milestones, and we have a regular status check on each under-performing store. Year-to-date, these stores have improved cash flow versus last year by $5.2 million. In 2005, we're expanding this initiative to include a larger group of stores. We've already begun to see improvements in operating profit margins in Q2 and Q3 of this year, driven in part by our operating expense reductions.

So, I'd like to end this portion of my presentation with a slide that I showed you at the beginning. We have two priorities. It's quite simple; optimize our North American real estate portfolio, and improve the operational execution out the store level. Everybody in our organization understands that. In order to get this done, we have restructured. We've created smaller areas of accountability for people. And the bottom line is that we believe that focusing on these two areas will allow us to grow profitability at retail in North America.

Well, thanks for your time this morning. I would now like to bring up Monica Luechtefeld, and she'll share a few thoughts with you on our entry into the Northeast. I know that you're all anxious to see that. And when Monica's done, I'll come back up and entertain questions, and perhaps bring George and Joe back up with me.

Thank you. Monica?

Monica Luechtefeld - *Office Depot Inc. - Global E-Commerce*

Thank you. As Rick said, I'm partnered with him on the Northeast strategy, so I came in the M2 colors, for those of you that haven't been to the M2 store.

It's a privilege to be with you this morning, and to have a chance to share with you some of the information about our Northeast initiative. There are really three takeaways that I'd like you to leave with today. Yes, we've been opportunistic as we've looked forward into the Northeast and taken advantage of what the KRU deal brought us. But, at the same time, we've been strategic and focused as we've looked in the Northeast, focused in that we're looking at markets within the Northeast where we can draw density, and strategic because we're leveraging all of the Office Depot assets and bringing all to bear as we move into the Northeast, so that we win customers across the company and can drive the return on investments.

As Neil and Rick told you, the Northeast is a very large market. It represents 30% of the GDP. But what you might not know is the Northeast really only represents about 6% of our current store count. So, there's clearly a lot of upside for us as we grow our share within that marketplace. Our goal and our focus is to take a look at markets, just as you have, where there's additional capacity for retail superstores, and to drive density into those markets. So, we're very focused and very specific.

In addition, we intend to leverage all of our assets, and KRU provides us with an excellent starting place, an excellent footprint, to get going in the Northeast. And yes, that's the opportunistic part. But we've also got a new model to take to the Northeast and, as Rick has talked with you, a model that's meeting our customer's expectations with excellent customer reviews , and that's the M2 model. It's a very shoppable experience. Our customers are receiving the model very positively, and it's a much more efficient store for us to operate in the Northeast.

The third point that we're leveraging in the Northeast is some of the information that Chuck brought to you, a differentiated assortment. We think there's a real opportunity as we move into the Northeast, to leverage some of the initiative we've already begun in the area of furniture, in particular. Our Christopher Lowell assortment is differentiated, unique, and has been widely accepted across the country. And, in fact, Chris is joining us this week in many of our Northeast markets to begin to introduce not only his style of furniture, but to make a differentiated experience for the Northeast customer about Office Depot and our office furniture.

At the same time in our merchandise mix, Chuck talked with you about technology, and technology and the wide assortment of technology that we bring to the Northeast shopper is another differentiated point for us. And the final and, perhaps, the most strategic element is the fact that we're really leveraging all of our assets. As Mark indicated to you, we have capacity in our CSCs in the Northeast, and we not only have some capacity in our Crossdock distribution, but can easily add additional capacity for those stores, from a servicing point of view.

But some of you, as we spoke last night, probably don't realize how many assets we have in the Northeast in our BSG group. We have a large, active presence in our mid and large business customers in the Northeast already through our business services group. We also have strong presence in our Internet business and catalog business, and the stores provide a unique opportunity for us to pull all of those assets together so we all grow more.

We're going to measure our success, as you would expect us to, on our share of market, as well as our operating profit growth, and then, of course, on what we do not only next year, but years after are driving incremental comps into the Office Depot chain.

We looked at the Northeast, as many of you have looked at the Northeast. We looked at primary markets in the Northeast where there's additional capacity for stores, and we've been very focused in trying to find those markets where there's room for stores, not just to add a few, but also to build density where we add that room. And we've found those marketplaces, just as some of you have already outlined in your reports. We took another look at density related to saturation. A lot of times, you've focused on saturation as one of the key concerns. But equally important is the opportunity of having density in a marketplace.

When we looked across all of the Office Depot chain and we looked at our average sales per square foot at retail, we found that we have real positive opportunities where we can get density, and that out-compensates, in some cases, for mid-point relative to saturation. We think that the markets we're entering in the Northeast in the large DMAs are going to perform about that average across the Office Depot chain, and we think there are some unique opportunities in the smaller MSAs for actually beneficial sales per square footage in the Northeast marketplace.

Now, this chart looks a lot different when you're inside Office Depot. Our -- my friends yesterday had me remove quite a bit from this chart for you today. This is our Northeast expansion campaign and, suffice it to say, it's very specific and very targeted. And while the market looks wide, we are finding opportunities in small, individuals MSAs and, clearly, larger DMAs where we can find an opportunity to add stores because there's market capacity, and we can find an opportunity to build density. And Rick talked with you earlier about the discipline that he's instituted into our retail real estate team, and that team has a very disciplined approach to adding stores into this marketplace. So, entry into the Northeast is not just taking advantage of sort of the widespread geographic foothold that KRU gives us, but it's also based on a disciplined approach by Rick's real estate managers to fill in around those stores and find us density.

One of the most differentiated part of our thrust into the Northeast is really the way we're approaching it from a multi-channel point of view. From a status update we've just barely begun, our first Northeast stores opened about three weeks ago, so we're just getting underway. We have some soft openings going on as we speak, and Rick's team has begun opening almost four a week, and will be for the balance of this year. So, we're just getting the momentum going right now.

But our approach in the Northeast has really been a multi-channel approach. We've been leveraging those selling resources that are already in place and in market to begin telling their customers first about Office Depot coming to the marketplace. You'll hear from Cindy a little bit later today about the cross-channel shopping that our customers today have an opportunity to experience in other areas of the country. Our mid and large corporate customers, through their store purchasing card, have the ability in other areas of the country to walk into the retail stores for their rush and emergency purchases, and that drives quite a bit of incremental volume. Well, those customers are excited that they're now going to have the opportunity to shop at the Office Depot store adjacent to their business office for those rush and emergency purchases. And we're signing hundreds of those customers up every week for store purchasing cards as we begin opening in those marketplaces.

In addition, our BSG sales force is in the marketplace introducing some of the smaller business customers to Office Depot's entry into that marketplace, and I can tell you from having spent quite a bit of time on the ground with the sales force and with the customers in the Northeast, that the customer response has been extraordinarily positive. They're excited to have a choice, and they're excited that we are coming to town. Our focus has been, as it always is, is to acquire long-term relationships with customers as opposed to a one-time grand opening purchase, and so we're leveraging things that Chuck spoke about with the Advantage Card, and we're leveraging a business focus assortment to bring those customers back time and time again to the retail store.

And the final point that we've been encouraged about has to do with though business count density. When you look at the Northeast market, the business density around each of our stores is substantially higher than what we find in other areas of the country with other successful Office Depot stores, and so we're very optimistic about that, too.

What it looks like at the end of this quarter is we'll have a total of about 39 stores open just in this quarter in the Northeast. And by the end of the second quarter of next year, we'll have close to about 10% of our store count in the Northeast, up from that 6%. And as Rick has already said, there are plans to continue to keep that momentum going.

So, in summary, our Northeast strategy is much more about simply opening up KRU stores. It's about discipline and strategic opportunities to fill in density around those stores and get density and penetration in each of those small and large marketplaces. Our Northeast strategy is also not simply a retail opening strategy, but it's a strategy that involves using our assets on the ground, our BSG sales force, our opportunities through our Intranet and our strong customer base that already sits in the Northeast, to use this as a leverage point and a communication point. And it involves leveraging our direct mail and catalog business into the marketplace at the same time, and we look for it as an opportunity to get real synergy out of this multiple channel approach. And so, our Northeast strategy is multiple in channel, focused, and disciplined.

And with that, I'll invite Rick to come back and answer questions you may have. Thank you.

Rick Lepley - *Office Depot Inc. - EVP, NA Retail*

OK. Thanks, Monica. Just to remind you again, this is George Hill , our Senior Vice President of Regional Operations, and Joe Jeffries , our Vice President of Store Operations. So, questions?

QUESTIONS AND ANSWERS

Unidentified Participant

Yes, I've got one question for you, Rick, and then a question for Monica. Rick, when you were talking, you put up a slide that showed that you have 900 stores going to 970, then 1070 then 1170. You didn't show a slide that says you're going to open 70 then 100 then 100, and I guess my question is does that mean there's no store closings ahead, from the way you've formulated these slides?

Rick Lepley - *Office Depot Inc. - EVP, NA Retail*

Well, there probably could be a few store closings. Not a great number that I would foresee right now, but we're talking about a net increase with the slide that you're referring to. So, our net number of stores at the end of the year would be 970, 1070, 1170.

Unidentified Participant

And then the second question is for Monica. You mentioned that 6% of the store bases in the Northeast. Can you give us a sense of what percent of the delivery business is done via the Northeast?

Monica Luechtefeld - *Office Depot Inc. - Global E-Commerce*

I'll let Cindy answer that specifically. Where's Cindy ? Yes?

Cindy Campbell - *Office Depot Inc. - EVP, NA Delivery Sales*

OK. Percentage - I happen to have a very bad cold and I can't hear very well, so forgive me for that. I think the question was percentage of delivery business in the Northeast relative to overall delivery business, right? I believe that the -- if you're talking Baltimore, New York, New England, that's probably about 23 % of total sales throughout BSG. There's a large presence in Baltimore. We've enjoyed that for some time, with some significant federal government business in that area.

Unidentified Participant

Great. Just a follow-up to -- then on that. I assume you are incentivizing the delivery customers, whether they're dotcom or catalog, or contract, to visit your stores. Can you tell us what kind of promotional offers you're offering to the contract customers in those markets?

Cindy Campbell - *Office Depot Inc. - EVP, NA Delivery Sales*

Should I talk again?

Monica Luechtefeld - *Office Depot Inc. - Global E-Commerce*

Sure, go ahead.

Cindy Campbell - *Office Depot Inc. - EVP, NA Delivery Sales*

It's important to understand that, for some time, we've counted store purchase card revenues in the bonus calculations for our field sales force. We removed those barriers several years ago, believing that it was very important to drive that type of behavior among our sales force, and encourage them to encourage our customers to use our stores to shop. And as such, I think store purchase card revenue growth has been very significant in the last several years.

Monica Luechtefeld - *Office Depot Inc. - Global E-Commerce*

I think another thing that Cindy's team is working on in the Northeast is the opportunity to leverage the employee benefits inside of our large corporate accounts. We have a lot of large corporate customers, and their employees are excited about the ability to get benefits and use our store for their own personal purchases and their home office business purchases. They'll be shopping our stores, and we'll be incentivizing them to shop our stores during particularly back-to-school, which is a consumer period, as well as the holiday period. And there are programs we're putting in place for those customers, too.

Rick Lepley - *Office Depot Inc. - EVP, NA Retail*

I'd add one thing, that the fastest growing region in the country for BSG is the Northeast. And I think with the presence of stores, that growth might even be fueled. What we found around the world is that stores tend to help the growth of the catalog business, the Internet business, the delivery business in general.

Unidentified Participant

Rick, when Bruce initially announced the Millenium remodeling program a few years back, one of the slides he put up was one that showed the average store age of Office Depot older than either Staples or Office Max. Now that you've sort of pulled back on your remodeling plans and you want to see what kind of return you're going to get on those investments, how much of a disadvantage is that as you try to gather the troops and fight in the places you're already at with these older stores?

Rick Lepley - *Office Depot Inc. - EVP, NA Retail*

The trade-off is that they're, in some respects, more efficient to operate because the rent's lower, people are very familiar with where products are. I think you have to separate the two issues. One is, does it make sense to remodel, and at what dollar point do you cut it off. In other words, we know that M2 remodels ran between 250 and 275. We'll have 23 done by the end of this quarter. So, we'll take some time and analyze those and understand them before we go forward. It could be -- and, in fact, George has touched on a store now where I've given these guys a budget of $100,000 and said, 'Show me what that will do,' because I'd like to understand the metrics of what kind of looks that gets, so, obviously, much easier to be able to make that pay than 275, let's say.

I don't think we're at a disadvantage. If you look at our red stores, they're not really much different than our competitors' stores, in that -- everything's red. That's the disadvantage, is that, when the customer leaves any of those stores, he's sometimes even confused about which one he just shopped at. That's a fact. And I think that's the distinction we were also trying to incorporate into the design of M2.

Unidentified Participant

I just wanted to clarify something. You said George is regional head. Is that all the stores, or just some regions?

Rick Lepley - *Office Depot Inc. - EVP, NA Retail*

George is in charge of the regional operations. He's in charge of the six regions in the United States. Under the regions are the district managers, for example, and, of course, then the store managers. Joe is Vice President of Store Operations. If Office Depot had one store, Joe would run it. Nothing goes into a store without Joe approving it.

Unidentified Participant

So, in other words, George is similar to anyone who's the head of store operations in any other retail company, right?

Rick Lepley - *Office Depot Inc. - EVP, NA Retail*

It would be, yes.

Unidentified Participant

And I guess Chuck would be the head of merchandising in any retail company. But the difference is, George reports to you, but Chuck does not. Why is that?

Rick Lepley - *Office Depot Inc. - EVP, NA Retail*

It was just never set up that way. That's just the way Office Depot has been for a long time. Merchandising has never reported to store operations, at least in the time that I've been around.

Unidentified Participant

Right. I mean, you're the head of the entire retail group, right?

Rick Lepley - *Office Depot Inc. - EVP, NA Retail*

I'm in charge of the stores in North America, yes.

Unidentified Participant

All right. You're the equivalent of another chain that has a CEO in charge of -- who's the head of a store ...

Rick Lepley - *Office Depot Inc. - EVP, NA Retail*

Well, it depends how you look at it. The way I tend to look at it is I'm Chuck's customer. I'm Mark's customer. They also have the same responsibilities to Cindy in the delivery business. So, when you compare us to other retailers, we're more than just a retailer. It's not that easy; because we have a merchandising function and a supplies function, but they have to also service our business services group, not just our stores.

Unidentified Participant

... Another question I have, in terms of expanding Northeast, is Long Island is an attractive area, but it's very difficult to get -- find locations there, so I'm just wondering what your strategy -- or is that just an area that you're going to bypass and look at other areas that you can get in.

Rick Lepley - *Office Depot Inc. - EVP, NA Retail*

Actually, a couple of these sites are on Long Island, those KRU sites. I've been to Long Island twice in the last 60 days, and we can't prioritize every market, and we're not willing to say here which markets we have moved in front of others in terms of priority. But certainly, we're going to go to Long Island. It's just a matter of when.

Unidentified Participant

You have -- you're going to have stores in New Jersey pretty soon?

Rick Lepley - *Office Depot Inc. - EVP, NA Retail*

Sure. Already do.

Unidentified Participant

Thank you.

Unidentified Participant

Just two questions. One is, could you talk about the return on invested capital of the Northeast stores versus typical Office Depot opening up in markets where you already exist?

Rick Lepley - *Office Depot Inc. - EVP, NA Retail*

Actually, maybe Charlie's going to talk about that later, could answer that question better, if you're specifically talking about the run on the KRU stores versus other stores we open. I'll probably let Charlie talk about that.

Unidentified Participant

I wasn't specifically talking about that (inaudible). But is this -- how long --I assume the store open in the Northeast is a high return store over the store opening up in the Northeast.

Rick Lepley - *Office Depot Inc. - EVP, NA Retail*

Yes, but it may not be the same return as a store in Florida, let's say, because the real estate could cost more in the Northeast.

Unidentified Participant

Right, so how much lower is it?

Rick Lepley - *Office Depot Inc. - EVP, NA Retail*

Well, specifically, I don't even know if I know that offhand, and I'm not going to guess and tell you. Little bit.

Unidentified Participant

Could you also help us with the math? The -- you bought 124 stores initially. You're only keeping 51. What is the – what does it work out to the average cost of the Office Depots that are bought, recognizing there are still some there? And the ones that you haven't gotten rid of, how are those being accounted for right now?

Rick Lepley - *Office Depot Inc. - EVP, NA Retail*

Well, as I told you, the initial deal was for 124 stores. Twenty-three stores fell out by mutual agreement. For one reason or another we couldn't use them. They may have had a restrictive covenant that prevented us from taking over the store. So, the bottom line is that the deal was 101 stores in the transaction. Charlie, do you know the final amount with those specific 101? Yes, our cost, I don't know if you know it or not.

Charlie Brown - *Office Depot Inc. - EVP & CFO*

We're going to end up with about $20 million that's essentially the uncovered price. So, we’re evaluating stores in the Northeast are organic expansion, just like we would anywhere else, so we still have a hurdle rate, and they have to clear it. Clearly, that wasn't the case with KRU. KRU we viewed as a strategic initiative, and that excess was essentially a market-entry premium. And so, what you have to believe is we can follow it up with incremental stores next year in the Northeast of around 50, then 50 after that, and then it starts to be very accretive. But KRU by itself is not.

Rick Lepley - *Office Depot Inc. - EVP, NA Retail*

So, effectively, it's not a nucleus to build around. Did that answer your question about the stores that fell out and the number that were finalized?

Charlie Brown - *Office Depot Inc. - EVP & CFO*

The question was how are we accounting for the stores that we don't have a deal on. We're accounting for those as surplus property, just like we would when we close a store. So, we're accruing up the rent through the life of the lease, and then taking an estimate of sub - rental income against that. So, very conservative in that regard.

Rick Lepley - *Office Depot Inc. - EVP, NA Retail*

Then, at most, there will only be 15 of those to deal with.

Unidentified Participant

OK, two questions, actually. Just a follow-on to the last one is I think what we're trying to get at is what the actual purchase price is for the stores that you're keeping, and then my question is, obviously, you've got a preference for a small format. What can we do, over time, to reduce the size of these stores? In other words, is relocation strategy going to be a big part of your real estate program going forward? I notice you only had about 12 this year. Is there an opportunity to have, let's say, 40 in a given year?

Rick Lepley - *Office Depot Inc. - EVP, NA Retail*

Yes, that tells you -- I'll let Charlie answer the KRU question when he comes up. You maybe could ask that later. But, we've got 321 stores right now that are larger than 33,000 square feet. We think that's probably, in many cases, too large. Some of those are delivery stores, so they need to be that big. But clearly, we look at every lease as it expires and try to make a determination as to whether or not we really need a building that big. And in many cases, it's less expensive to relocate than it is to remodel, effectively. So, if we can, in the next two or three years as we reposition this, if we can move to newer malls or better locations and get in the smaller buildings, even if we have to pay a couple of dollars more, it still might be a better consideration for us because we can run a smaller store with fewer people. We can run it with less inventory. And we think that our returns will be just as good or better as they've been in the big stores when they were really running good.

So -- if, for example, we took two 33,000 square foot buildings, effectively, we could relocate into two 20s and then put a third store in, so we could have three stores of 20,000 square feet. We would still have reduced by 10% the square footage we have at retail, but now we'd have three stores instead of two. I'd take that any day if I could, because we know stores are going to drive the delivery business. They're just like advertising monuments out there, in a sense, for the rest of our businesses.

Unidentified Participant

I've got two questions. The first relates to your Northeast opening. It seems like, as you talk about the opportunities in front of you, you've laid out one set of operating initiatives that should benefit the entire chain, and then you're laying out the geographic opportunity, and it sounds like it's compelling, longer term. But my -- to some degree, weigh on short-term financial returns. And correct me if I'm wrong on that. I guess the question is how much dilution, or how much of a wait , if you will, on the overall financial results of the retail business do you think the Northeast expansion will be?

Rick Lepley - *Office Depot Inc. - EVP, NA Retail*

Well, I can't give you an exact number, but I would tell you the way I look at it. Any time you open 100 stores, there's a high probability that a lot of them will still not be making money a year later. That's just the reality of it. So, I would hope that all the operational improvements and savings we can create would offset the amount of money we'd lose opening 100 new stores the first year they were open. So, as you can see, we were looking at 6.6%. If we could hold that line while we open 100 new stores for the next two years, that'd be pretty good, in my mind. Long-term, I think we can be up in the 7-8% range of contribution from stores.

Unidentified Participant

So, the implication is that it's more or less a wash?

Rick Lepley - *Office Depot Inc. - EVP, NA Retail*

If I could do that, I'd be happy, yes.

Unidentified Participant

Fair enough. The second question relates to multi-channel strategies. You've operated in multiple channels for a number of years, in a number of markets. This is something that we've heard about in the sector from time to time. It's unclear what kind of results have emerged from it, and I guess it's getting a bit of a higher profile as you move into the Northeast of incremental opportunity. Can you talk about your experiences in other markets, geographies where you've operated with multiple channels over a number of years, and talk to the results that's yielded?

Rick Lepley - *Office Depot Inc. - EVP, NA Retail*

Well, I can even talk to you about other countries, and the result's not going to be that much different. What you need first is retail to drive image. No matter what we'd like to think, retail forms the image people have of our whole company. And once you've put in stores, it gives you credibility to then build a Web site that people can access perhaps in the store but then, ultimately, from home, to have products delivered. It certainly helps your -- when you have feet on the street on those stores, because people know who they are and where they're from when they come in, and it gives credibility to your catalog business and your delivery business overall. So, I think that, in most cases, where it's possible, retail actually makes it easier to build a delivery business. In some places in Europe where they started with the Viking brand, for example, they started with a catalog business and, because the infrastructure was there, it was easier to add the contract business without the store business. But, in other parts of the world, we found that -- and I believe the United States, as well -- it's easier to do it conversely. I think it's a little easier to add stores first. In the Northeast, we already have a BSG business that's growing, and I think that can only help us as we put stores in, because there will be a familiarity. You also saw in the slides that there was a very high degree of unaided awareness of Office Depot that exists in the Northeast. So effectively that’s an investment we’ve been making over the last ten years, but we couldn’t reap anything from it because we had no storage there. So now hopefully, that will aid us when we are trying to launch new stores there.

Unidentified Participant

I think we have time for one more question, up front.

Unidentified Participant

(Inaudible), I had a question for Rick. Rick, you thought six regions if you looked across the regions. What's the variation and kind of metrics in terms of returns or performance across the regions? Or are they pretty uniform?

Rick Lepley - *Office Depot Inc. - EVP, NA Retail*

Well, the contribution doubles from our worst to our best. I can tell you that.

Unidentified Participant

And then ...

Rick Lepley - *Office Depot Inc. - EVP, NA Retail*

I want these guys to answer something before we leave.

Unidentified Participant

So then let him explain what he thinks accounts for the variation. [Laughter]

Rick Lepley - *Office Depot Inc. - EVP, NA Retail*

Why do we have the variation? Why are some regions twice as profitable as others?

George Hill - *Office Depot Inc. - SVP, NA Retail Operations*

I think some of it has to do with real estate, obviously, is a big lever that we pull there. I think also competition in the local market. I mean there are a lot of influences that will get you to different types of levels of profitability.

But I will tell you from certainly the operational standpoint for me, there's also a tremendous amount of efficiency that we can gain by using the best in class type mentality to get the same execution level, let's say, in the Southeast as we would in the Northwest or, as we would in Southern California as we would in Dallas.

Typically prior to you getting here, I think that we've worked in a silo mentality often, and haven't leveraged the 923 stores we currently have today. I think we can gain a significant amount of contribution and consistency just by leveraging these stores to its uses.

Rick Lepley - *Office Depot Inc. - EVP, NA Retail*

That's it?

Sean McHugh - *Office Depot Inc. - Director, IR*

Thank you, Rick. Thank you, Monica.

Unidentified Participant

Thank you.

Sean McHugh - *Office Depot Inc. - Director, IR*

We'll break for lunch for one hour. Please be back here at quarter past one. The room is right down the hall to your left. Thank you.

(BREAK)

PRESENTATION

Sean McHugh - *Office Depot Inc. - Director, IR*

Looks like most everyone's here back from lunch. Welcome back to the afternoon session. I'm very pleased to introduce Cindy Campbell, who's our Executive Vice President of Delivery Sales. Thank you.

Cindy Campbell - *Office Depot Inc. - EVP, NA Delivery Sales*

Thanks Sean.

Good afternoon. Delighted to be able to talk to you about Delivery Sales today. When I'm finished, I hope that I will have communicated a clear strategy for growth, that is profitable growth in delivery segment.

Before I get started, I would like to introduce some of the key members of my team that have joined me today. Brandon Choice, the Vice President of Marketing for the Business Services Group, John Russo (ph) runs our East Region of our Contract Group, and Tim McGrath is our Vice President of Customer Service and Call Centers. I'd like to start with a brief grounding of delivery sales to make sure that we are all on the same page. Delivery sales represent about $4 billion in sales. We deliver to small, medium, large and national customers. We have two brands in the process of doing that; the Office Depot brand and the Viking brand.

When I talk about small customers, I'm talking about customers in the 10 to 49 employee range. Medium customers are typically 50 to 249, large is 250 and above. And national are actually named accounts.

The complexity of the buying process increases as you move up that continuum. At the lower end, typically there are transactional relationships, decisions are made by administrative people, sometimes the CEO or CFO, of the smaller firms.

As you work the chain it becomes an increasingly a complex sale. A lot of relationship building is required and you compete on a wide variety of metrics.

We have about 1400 sales people in our Business Services Group. They are supported by 60 local sales offices. Domestic e-commerce sales in 2003 were 2.3 billion and over 60% of sales are done in the channel through e-commerce.

To give you a sense, domestic e-commerce sales total 2.3 billion of the 2.6 you see on the screen. E-commerce was 24% of our business in the year 2000, 60% in the 2003; dramatic growth among our contract customer group and our catalog group.

When we talk about our catalog business I'd like you to know Office Depot brand uses over 20 different versions of catalogs to reach its customer set. The Viking brand uses over 90 versions of catalogs. The Office Depot contract group uses ten different versions of catalogs. We have a circulation of about 100 million all told.

Our financial performance, we have a strong focus on lowering costs and driving operating profit. Our compound annual growth rate in sales was 3.1% from 2000 to 2003.

Our operating profit was almost ten times that. We experienced reduction in sales force beginning in 1999 and that reduction and the consistent use of sales payroll to improve operating profits really cut down our sales growth opportunities.

I would like to say that my supply chain friends contributed significantly to that operating profit improvement through DMO and CSC consolidation and the wonderful work they have done in lowering our costs in that whole the supply chain environment.

Well, it's important that I communicate that we have not been in the sales headcount growth mode since 1999.

We compete on several different elements and they are specific to the channel for each customer's segment. In contract, we must be responsive, have a responsive sales group, a responsive, an excellent sales support capabilities. The thought about lowest cost of total ownership not necessarily lowest cost of the individual SKU. I think that's a consistent message that you’ve heard in this space in the past.

Service must be excellent and you must have user friendly e-commerce solutions, a broad catalog assortment is important as is the competitive pricing and of course, free next-day delivery. Our OD commercial value proposition is every day low price. EDLP for our cross channel shopping synergies that exist between our catalog and our stores organization.

We have a market leading customer loyalty program in the form the Advantage program and of course we provide free next-day service delivery.

The Viking commercial brand is a bit different. It is run with appeals to non-office super store customers. It's highly promotional in nature and highly personalized. That's the 90 plus catalogs that reach that customer group.

There are 24/7 live customer service with no IVR and offer free and in some cases same-day delivery.

Computers4Sure is our technology group that allows us to have a broadly enhanced in our standard technology assortment. Highly trained help and account managers support this brand. The way we use this, our BSD sales force finds options and alternatives for Computers4Sure to hand out a friendly warm lead to Computers4Sure to close and thus we have an integrated approach with our BSD sales force.

It is a virtual inventory model in Computers4Sure.

I think the most important way that we compete in the contract business has to do with the responsiveness to the customer and customer requirements. You can compete on many dimensions and we do all day long. We just completed some surveys that said, let me show you so you can understand our customer insights with greater clarity. There many of them up here and I'm sure you can't see all of them. Some are by design. Of the top five that we compete on are price and value, sales representative, products selection, accurate deliveries and customer service.

Four out of five of those are truly easily replicable by our competition. What cannot be easily replicated is our sales force. In this study, the foundational research that we did, we learned that our customers believe Office Depot sales representatives are highly responsive and the most important aspect of quality of their capabilities is solving problems.

We need to be in a responsive position and able to solve customer problems. That is how we differentiate the Office Depot brand and our contract group moving forward.

I think it's important for you to understand that we have made important investments in our sales force this past year. I am delighted that those investments really support the message of responsive problem solving sales people.

We brought to the force a training program that's not been in place before. Many of you are aware or familiar with PSS, professional selling skills, it’s probably the gold standard of selling skills training. We outsourced the (inaudible) skills training as well as (inaudible) sales negotiations and winning account strategies to our sales teams this year.

Our goals are foundational training that will help develop our sales force in terms of being the type of responsive, problem solving field representatives our customers expect.

We also learned how some of our past business practices may have interfered with our ability to grow our market. In a sense we created some walls between our customers. (inaudible) Viking and Office Depot catalogs, for example, did not sharing prospecting files. The customers are different but now we are allowing them to have a choice between the brands or allowing them to self select. I'll show you that in just a moment.

I think an example in the past might have a small contract customer that would have been acquired by contract sales person. Those contract sales people have hundreds of accounts and as is human nature I think accounts that aren't growing and that are on the small end of the spectrum will tend to not receive as much attention from the account representatives as they might have wished.

Our practices in the past kept us to support that customer from being visible to our catalog channels. We didn't direct mail to that customer, relied on the sales representative to meet the needs of that customer moving forward.

The only person that was contacting those customers was our competition. Today we have a small accounts that are served by sales representatives. We trade those directly into the catalog stream, they participate in a package insert program. We have intelligent sampling available to those customers segments. We support them through telephone account management. We will support their purchase behaviors through other means as necessary.

Essentially, what we've done, is we've removed those walls. Management is now reporting on customer segment focus, not just channel performance. Instead of having a sub-optimal use of our assets we've maximized our assets through our actions to make sure that we penetrate and retain customers as appropriate to the channel in which the wish to be served.

There are some other elements that may have impacted our growth in the past. In the large national area, we have decreased headcount every year since 1999 as I said earlier. So obviously that would require an investment in sales headcount. I am proud to talk about that fact that we'll be adding significant headcount in the year 2005. In fact we're in a hiring mode right now. We intend to have people in place, hired and trained before the end of the year. They'll be hitting January ready to produce revenue.

We've also needed to shift our acquisition resources. Many of you are who have followed us know that we've redeployed the sales force for the year 2004. Instead of a generalist handling a territory we've deployed based on acquisition and maintenance and penetration. That proved to be a valuable alternative, a valuable strategy because we were able to generate new customers that were vigorous customers, a more solid revenue stream. And we're able to penetrate our existing base at a higher rate.

What we didn't get quite right was the focus or distribution of those assets. And I'll talk to you about that in just a moment.

In terms of our medium and the small customers and the Office Depot brand, we used some acquisition methods that were not particularly the most profitable. They attracted customers but they were not lifetime value customers. So we've changed that. And we are allocating our contact media a little bit differently in 2004 through 2005.

We also had little response to competitive pressure in that area. We've made some investments in higher touch vehicles including telephone account management. We've had pilots in telephone account management in operation virtually throughout the year.

We've realized (inaudible) of telephone account management resources under the direction of one individual. And we have a program that addresses the needs of customers in the contracts space as well as the catalog space moving forward.

In the Viking brand the existing customer base is healthy. Customers would buy from Viking and like Viking and are continuing to do so. We had an integration effort for Viking brand. It was really far reaching.

It went beyond just Viking to incorporate our best practices for the Office Depot brand. That was the benefit to the catalog space in general but it did put more pressure on the Viking brand throughout the year. The integration was completed about three weeks ago. We had done our first (inaudible) in the data warehouse using Viking this past week. Our issue on the Viking brand is growing new sales from new customer types and with our data warehouse now being visible to us, we can attach resources to that issue and get that solved with that.

Based on the indications I just talked about, here's what you're going to see in 2005. We're going to be seeing more sales resources, a bigger pie so to speak. And you'll see a re-slicing of that pie. You'll see more assets applied to acquisition side of our sales force while we maintain the penetration and maintenance group. More resources, focused a little bit differently.

In the catalog, or the small to medium customer side, instead of simply addressing those customers for catalog only, we're going to implement multiple touch to customers based again on size not channel. We will use sales people to acquire accounts. We will use our telephone account management to maintain and penetrate accounts and we'll use catalogs as another means of staying in touch with our customers and adding value.

You've seen the announcement on our call centers and some of you have asked are we going to cut our customer service in the interest of cost savings. The answer was an emphatic no. That is not the plan and that is not the reason why we made the decision that we've made. We all have fiduciary responsibilities to try to drive the best profits for our company. In the case of Office Depot, over the last four years we have taken cost out of our call centers.

In 2005 we are going to reduce our call centers from 13 today to three moving forward. We're not doing that lightly; we're not doing that without a lot of consideration. In fact something that's not well known is that over 25% of our call center volume has been virtually outsourced on a domestic basis in the year 2004.

We have an award-winning, Six Sigma-based Voice of the Customer approach. We're making sure that we understand what our customers think of our service. (inaudible) has been throughout the year and we have measured the service quality of our domestic outsourced providers. They provide at or better than the level of service provided by Office Depot.

We have reason to believe and metrics to support the fact that services remain consistent and possibly improved as we go toward outsourcing our call centers. Our strategy is going to be to maintain those things that are critical activities. Such things as supporting national accounts, special orders, government and school account that are specified as special purchases and requirements, attend to Internet technical support, for all the things we retain within the Office Depot call centers that we own and maintain and manage ourselves. Importantly that is a great big segment as it should be (inaudible) our prison orders will have to maintained by Office Depot because there's a certain aspect of assortment that we don't want to make available to the inmates. But we'll be retaining that in-house as well.

We are outsourcing demand fulfillment, not demand creation. I think that's a critical concept.

And of course we will be maintaining our voice of the customer service levels throughout the year.

So I guess I just want to leave you with some overall themes.

We're moving from channel centric to customer centric, using all of our resources to attach to customers that would benefit from different touch streams.

We are, for the first time in years, increasing our sales headcount and we're doing so by more than 10%.

We'd like to fine-tune our deployment strategy by refocusing our pie on acquisition resources, heading with the larger percentage of the overall account manager base.

We have new contact strategies for our small and medium customers. We are optimizing our acquisition spend. And we have call center optimization, which started to see about $15 million in savings on an annual basis.

You won't see that in 2005 because of the reduction expense. But you will see that, part of that, in 2005 when we realize that on an annual basis moving forward in 2006 and beyond.

All of these things should lead us to profitable sales growth for delivery channel in 2005.

And with that, I'd be happy to answer any of your questions.

I was so articulate you have nothing to ask.

Oh, there's one.

QUESTIONS AND ANSWERS

Unidentified Participant

Cindy, we've been hearing a lot about the competitive environment heating up, particularly in contract. Can you talk a little bit about that from your perspective? Has it been getting more intense? Do you expect it to get even more intense than it has been as companies are all looking for growth now?

Cindy Campbell - *Office Depot Inc. - EVP, NA Delivery Sales*

Yes. Well, I've never done a type of contract where it wasn't pretty intense from a competitive standpoint.

I think it depends a lot on which segment you're talking about. So let me address this on a customer specific or a customer segment basis.

In a small to medium size it's all about touch. It's who's been billed last. These are not sophisticated decisions that are being made. There's a lot of turnover in the people who are making those decisions. We have the same special touch customers. I believe that that competition is relatively stable, we just haven't had a good answer to that and we're deploying a new answer for that this year.

The middle to large customer segment I have not seen a tremendous amount of new competition or a higher level of competition there.

I think on the very highest level it is extraordinarily competitive. There are pressures from a margin standpoint. There are pressures in terms of making sure that you have a global solution. And people are having to try to take market share at the high end and then balance that portfolio between medium and smaller customers.

So that is my take on it at this point.

OK?

Unidentified Participant

Can you discuss the different mixes, the different mix of business between contract and Viking and Office Depot in terms of how big each one is and which is the most profitable?

Cindy Campbell - *Office Depot Inc. - EVP, NA Delivery Sales*

Yes. We don't go there. I think we put on delivery sales on a public basis. And as to differently, I'm going to stick with that.

Unidentified Participant

I'll ask a different question. [Laughter]

Cindy Campbell - *Office Depot Inc. - EVP, NA Delivery Sales*

OK. I don't care.

Unidentified Participant

Could you go a little bit into Viking? That seems to have had some issues and you addressed some of it here.

But what caused the problems specifically at Viking?

Cindy Campbell - *Office Depot Inc. - EVP, NA Delivery Sales*

Well I think if we're being very forthright and I like to be that way. We started playing with the Viking value proposition when we integrated our warehouses.

Viking had separate warehouses and had maintained and operated a separate brand for a long time after we acquired them.

We tried to start realizing some cost savings by integrating with our warehouses. And frankly I think that may have caused a sort of trouble that those customers did not expect. It wasn't a positive experience for them.

Viking is going to require some very significant and some specific sectors. We'll be bringing somebody on to head that Viking brand here in 2005. You may not know, but it hasn't had a separate head since the beginning of this past year.

So the problems and the issues with Viking, that's a focus which will be changed; a dark warehouse to an improved integration, we're out of the darkness now. And the service issues, we'll have to find a way to compete on a little different basis than what we have in the past.

OK?

PRESENTATION

Cindy Campbell - *Office Depot Inc. - EVP, NA Delivery Sales*

Well, it gives me to pleasure to introduce my colleague from Europe, Mr. Rolf Van Kaldekerken.

Rolf van Kaldekerken - *Office Depot Inc. - President, European Operations*

Good afternoon and welcome to the European part of Office Depot's business. I would like to start with a comment related to one of newest priorities, which is our accountability. I think this is more of an issue in Europe as explained a little bit earlier.

Because since I was the President of Europe I have been fully accountable for the European business. But you know what? I have the pleasure to share this accountability and sometimes this pressure you have on your shoulders with a great team. And some of them are here, most of them, are doing the work at home. And actually they are creating the growth you're all expecting from the business.

Let me introduce you again to Graham Cundick, Rob Vale, Wim van Aalst, and Jamie Gould. They're all in the back. Jamie Gould is our International Vice President of Finance.

OK, just to start with review of the European International business, I have to say. But I think it's fair to say that about 95% of it is Europe.

We will finish the year with about $3.5 billion in sales, some operations in 21 countries and we are in the direct mail contract e-commerce, and retail business.

Primary business to business or if you're just getting our first experience to consumer web sites in Germany and U.K., which are very promising. We are the first company in Europe, which provide a web site to private consumer.

Business upgraded by local management team. I think this is important to point out. This was always the strength of Viking based on local management. They know the market. They know the specificities of the market. They know the competitor.

And they are most, or best situated, to really manage the local business. The country managers owns the P&L and they all report to Rob Vale or to me indirectly by report, or to me.

We are multi-channel, multi-brand provider. This is very important to understand. While in each part of the business we have to compete against the specialists or the retailer, against the retailer and the contractor against the contractor and then the mail order against the mail order company.

This is the last (inaudible) of the European countries. You see very clearly that mail order and contract are the two major drivers of our business. So retail would be only a selective part of our business in Europe. You see we are in two countries in France and in Spain and then we're adding Hungary. We are a little bit early and I'll come back to Eastern Europe in a couple of minutes.

So the clear focus is our mail order and contract.

This is the contribution to the market or to our business in Europe, 7% on retail, 44% on contract, 49% on mail order. Our mail order is still the biggest and obviously the most, is the highest profit margin. Contract will be the growth engine in the future in Europe and this is just based on the fact that 60% of the total market is left by contractors.

Market in view of is huge, 250 million plus, but it's fair to say that at this point in time, and if you look at the impact Germany has, over 60 million, that this is impacting European economy quite heavily.

Europe, or specifically Germany, is going through a tough time. And the economic impact in Germany on the status from the social perspective, from a political perspective, are - it's not the most promising in the world.

And just recently there was a statistic done by European union in the world of from the U.N., some organization. And they investigated the last 10, 15 years and the 18 most industrial nations in the world and the first three were Australia, U.S., and Denmark. And guess who was the last two? It was France and Germany. And those are, by accident, two of the big countries in Europe.

The good news about that is that Europe is still a very, very fragmented market, which means great potential.

This is something we just impacted by the good acquisition very clearly. We are the market leader in Europe. We are twice the size of our next competitors, which are Lyreco and Staples. And then there's a company called Buhrmann or you know them over here as Corporate Express, which is the number four in Germany.

It is important to notice that all those four companies together are not presenting more than probably 15 to maybe 18, 19% of the total market, which again underlines the fact that there is a great potential.

However, we have to see some local vendors in that, which are not on the map here. But for example in Germany there's a very strong mail order company called Printus . There is a very good company in the Netherlands, Ahrend, which is about a size of 350 million.

There are some local competitors, which are very, very strong.

What information on sales and operating profit in the last couple of years? I think it would be fair to say that there is an impact in the dollar figures on 2001, 2002 based on the negative impact on exchange rates while in 2003 and 2004 there's very clearly positive impact from exchange rates.

Operating profit 2001, 2002, exactly the same number in operation besides that. There's a very easy explanation for that. Because this was the time when we really started to reinvest into the growth of our business.

We started the Office Depot contract business in France, Netherlands, Italy, and Germany while we had started our first European country contract in U.K. in 2000.

We have started mail order in Switzerland, in Spain, and in Portugal. And we have started retail in Spain, all around the same time frame and then in 2003 and 2004 the acquisition of Guilbert.

2004 year- to-date performance; year to date catalog mail order is practically flat compared to last year. I think it would be fair to say here while the Guilbert acquisition has not directly impacted the mail order business, I think through due diligence and afterward through an integration process, we have lost focus of our core business at this point in time, the mail order. And we paid for that a little bit.

But we are addressing issues. And we see now very, very nice growth coming back.

Contract growth down mid-single digits on a comparative basis. And again I come back just a little on the next slide and give you some more information on that.

But here one information is extremely important to understand is we started with about 1,500 sales staff on the Guilbert side after the acquisition. But part of the integration trial was to let 240 people go. So you know the kind of 5% negative when you lose more than 10%. If you deliberately you lose more than 10% of your sales force, it paints you a little bit of the real picture of the situation.

Retail, we're enjoying very nice comp sales growth in France and in Spain. France, by the way, is a very, very nice turn around. About a year and a half ago we started the turn around plan. France is losing, retail is losing quite a bit of money and now we have recreated growth, we have recreated vitality of driving this part of the business in profitability. Last quarter of this year we will be breakeven operating profit and 2005 the full year.

Just one side information on that as well. And it isn't the whole business in Europe. On June 3 when we concluded the acquisition of Guilbert, we had the key in our hands. We had 10,400 people in Europe working for us. Today we have 9,300. And we achieved that by just, if you look at the sales, just a couple of percentage below last year.

Go to market strategy, this is by like a very, very clear strategy, how we want to grow to the market. And while this is sort of explanatory, I would like to go a little bit more into detail into the brown part of it where you see TAM contract, TAM mail order.

What we did today and I believe that we are one of the or maybe the only company in Europe which has that, but we attack the market from two sides. From the top with the combination of field sales, of office sales with people together with telephone account management. And we do the same from the bottom with the mail order value proposition and with telephone account management.

And this will be one of the major revenue drivers for the next couple of years.

So, let's look a little bit at some of the specifics about Guilbert. I just mentioned the minus 240 sales staff. For sure what we tried to do is to lose only not so good performance people. Unfortunately, this was not always possible.

So we lost quite a few guys. But then we're speaking with 80, 90% of those 240 were the under performing people.

We achieved and exceeded positive synergies we projected in the plan to the Board. We disposed of about 66 million of the business of Guilbert. In Italy, in the Netherlands, in Germany, retail stores, furniture business, which we consider not part of our core business.

We integrated already three warehouses. We integrated already two country headquarters. We already achieved 225 and as we speak probably 10, 15 more, savings on the G&A side.

And the business continues to deliver 10% segment operating profit. Is this a bad business to be in? I don't believe so. And the question is, do I want, or would I do Guilbert again? And this goes back when before we took the final decision, Bruce Nelson said to me, Rolf, you are the last person. You have to say yes or no.

Do you want to do that? If you would ask me this question or year to date would ask me this question I would say very clearly, yes.

What I fully agree and accept to is the fact that we have not achieved the sales growth we projected in plan to the board. Are we being too optimistic? Yes, probably.

If we knew enough from the due diligence process, have we seen enough of the company to judge all these kinds of assets very, very carefully, maybe not?

So this part I feel, guilty maybe is not the right word, I assume a responsibility that this was too optimistic and we are probably over, how do you say that, estimated our capabilities in changing a few things, which I will talk right now.

Remaining integration task we quantified into the growth, implementation of a common IT system that is IT system. Hindsight is always good.

This decision we have taken about four or five months ago. If I would do software integration again, this decision, I would do that day one. This was a mistake, very clearly. But we rectified it and we're now going in one direction.

Based on the decision, we are now able to integrate and consolidate service warehouses. We started with 32 last year and the goal is to go to 22 by the end of 2006.

We continue to streamline the process and rationalize costs. To give you an idea, just mentioned, we have eliminated 225 G&A positions. We believe in the next one or two years we will create further synergies for at least 100, maybe up to 150 positions.

And, by the end of next year, 2005, we will have consolidated all the country headquarters.

Just a second, excuse me.

While I'm extremely proud that we have taken all the important decisions, country management teams, European management teams, within the first 30 to 90 days, the physical combination of the headquarters just needed a little bit of time. And we have started in two countries and we will do the rest before the end of next year.

Reinvigorate Guilbert growth. Change will be a constant part of our process until we have the right team in place, very, very clearly. This is not yet the situation. We still have to do a little bit to make sure that all the key managers in the contract business understand that keeping the business is not enough. That growing business is to be part of a winning team is much more fun and important.

How are the changes on the way with real great progress? We see enormous increase in new customer acquisition to create a part of the team the winning culture and not accepting anymore to be the second. We will beat the market.

Key account growth in field sales is something which is very important. If you look at the U.K. and the French business, U.K. is dominated in the contract part by key accounts , by the bigger accounts. And the field sales, which is the smaller part of it, is under served at this point in time. France is the other way around, 50, 60% or even more is field sales, small or medium-sized customer and key account is under represented . So this is where we will invest. And by the way, we are actually in the process to hire around 150-200 new sales people. Not just here on the street, on the telephone account side as well as on the field sales itself.

Cindy mentioned a little bit the worldwide potential we have. We have seen some nice wins recently on worldwide accounts. And we will see much more. This will be, by the way, one of the other drivers for growth. We will be the most aggressive player on the market. I'm proud to say that we did not lose any big account in the last six to 12 months. The lesson I learned was in Germany about nine or 10 months ago. And we tendered German Telecom.

And at this point in time, it was not yet so clear what the direction and the instruction was. So, we lost it to somebody else. I can tell you, we will not lose again such a big account. We have some recent examples in France which is the electricity company, a 22 million account for us, we retained. In UK, Lloyds is a 20 million pound account, we retained. And again, will not lose any big customers. And will win much more.

Mail order and retail – while it says customer retention is top priority, it is absolutely true. Because if you lose more customers than you win, you will never create a good business. So, retention – we give you an idea on the Viking side, retention rates are anywhere between 65 and up to 75, 78%. So this is a nice business.

But retention and reactivation is as important. We lose customers if you like it or not. But we have now found ways to reactivate those customers and make it to lifetime customers. Enhanced customer loyalty programs. It's more and more important. I mentioned the TAM model, which may be the growth engine for the company. One area where we have to become better or even better is in our advertising model for the mail order business. It's the biggest cost we have and we need to become even better. And based on what I would call already world class direct marketing capabilities. And I think Viking is well known for its fantastic value proposition and the direct marketing capabilities.

I mentioned retail France is a very nice story. Last year, September, the first month is positive comp sales and since then, we have enjoyed two-digit comp sales. Actually, the business is growing by about 20%. We projected losses at the beginning of the year. Actually, we're doing only 40% of the losses. And as I said a little bit earlier, quarter four will be operating profitably.

But there is other (inaudible) related to France and it's Viking. Viking is losing market share for about one and a half, two years. We put a turnaround plan in place. So, the team in force from France, European and September – August was a crazy month this year in Europe. But September, we could see the first results and it was about flat compared to last year. October was already 4%. November, after three weeks, is over 10% growth. If you put all your efforts together, make sure everybody goes in the same direction, then you create a success story, independent on the market.

Eastern Europe – the potential of Eastern Europe is about 500 billion. It's a huge market. We did the first step in acquiring the license back from the license partner we had given. And based on the Hungarian team, which is lead by guy called Estvon Mulich (ph), just a wonderful guy. He's the entrepreneur, but he's, as well, a fighter, I believe, is the right impression. He won the silver medal at wrestling as the world champion in 1983 or 84. I'm not small, as you can see, but he is like – and he is very, very competitive.

Three stores in Hungary and their contract business is making money. And this is remarkable. And with the start expansion from – with the Hungarian team next year and you can see the countries which we will probably go first – Czech Republic, Slovenia. Poland is different – they're in Chapter 11 and we will just wait until this is over and maybe start then from scratch.

There's some – one part missing. You see that the countries on the – which I mentioned a little bit earlier – they're still kind of white or black part, which is Scandinavia. As Irwin Helford always used to say, with the name of Viking – we have to be in Scandinavia one day. And I give you my word. We will be one day.

OK. Let me just summarize. First and most important, what is on top of my mind. I can tell you what it is since, about, the last six, nine, 12 months is to create growth. I'm more than comfortable that we are able to create growth. Focus on accountability, clear P&L ownership, we have that in place by country and by channel.

Operational excellence and execution, this is the basis, what we have to deliver to our customer. Now a disappointed customer, all this convince them by your fanatical customer services. (inaudible) some of you know Irwin Helford. And he was famous for that.

If you impress your customers, they not look at any other sources. But the key of it is, you have to deliver what you promise to the customer. We have to be best in class, second is not good enough. We have to be the number one. And we will create a long lasting profitable growth, which automatically will result in increasing shareholder value.

Focus on team, I said a little bit earlier, (ph) three of my colleagues or four of my colleagues here, many more at home. I would like to give you an example of what this means from a European perspective. You all know the contest, 'great places to work'. And I know that there's always and (inaudible).

One is to be at Office Depot is one of the hundred best companies to work for in the United States. Two years ago we have participated a first time in five European countries. And in the first year, we had number two in the Netherlands, number four in Germany, number five in Austria, number nine in Belgium. In U.K. it was amongst the best 50.

We did it again this year and for the first time, one of the Office Depot countries is the best working place in the country. We have been elected number one in Austria and again number four in the Netherlands, number six in, I think it was in Belgium, number 14 in Germany. And this is impacted a little bit by the Guilbert acquisition.

This is a great place to work. Focus on results. We will create next year, low to mid single digit growth. We establish here that the fastest growing and most profitable division in Office Depot has become the dominant player in our industry in Europe with the highest returns.

Stay on top of the competition and beat the market, not follow the market. This is a clear message. I can assure you that you can count on Europe in creating the most compelling place to work, to shop and to invest. It was a pleasure to give you a little overview of Europe, if you have any questions, please do so.

QUESTIONS AND ANSWERS

Unidentified Participant

Hi. Could you please take the four markets in Europe, the largest ones, Germany, France, the U.K. and Italy and kind of rank them for us, which is the best, which is the not so good. And maybe talk about the key opportunities for improvement in each of them to the extent that there might be differences in the country.

Rolf van Kaldekerken - *Office Depot Inc. - President, European Operations*

OK, the biggest European country by far is the U.K. where we have two channels which are very big; Viking and the contract business. But there are still huge opportunities in the U.K. So we still, by the way, the U.K. Viking business is growing even after 14 years. We did it again this year

The number two country is very clearly France. This is where I see the biggest opportunities in terms of sales growth but much more profitable growth. France is not today performing to the extent we would like to see. This is where we will see great improvements and really the big piece of it coming. And this is contract partly, but it's much more Viking and the retail business.

Number three is Germany, what we have to accept is Germany is probably 80% Viking, probably 85 and 15% contract. If you look at a potential, Germany from a contract perspective has the biggest potential in Europe. And this is by the way where we invest very heavily at this peak.

Italy is a very specific example. Mail is not such an important vehicle of doing the purchase in southern Europe, Spain, Italy and so. This is kind of a nice and important, a profitable business. The growth is in Italy in contract. I mentioned a little bit early we disposed. We sold our Italian business from Guilbert and we started really at zero.

We kept 20, 27 people from the former Guilbert business out of 280. And we really started at zero. The growth rate, as we speak in Italy are tremendous but on a (inaudible) level. So this was the potential for the next couple of years. But you should not underestimate countries like Benelux. This is a very highly profitable business. And where you are gaining, the competition is very strong but you still have a potential and specifically in the contract area.

Unidentified Participant

On one of the slides, you mentioned that growth is impacted a lot by significant price decreases in ink and toner and paper. What caused that because we haven't seen that in the U.S.

Rolf van Kaldekerken - *Office Depot Inc. - President, European Operations*

OK, HP is a worldwide strategy in pricing. In the year, starting at the end of 2002, Graham, this slide in 2003, HP decreased prices three times in Europe. So up to eight, 10, sometimes even 12%. So, as HP as the major driver and the market leader, everybody else has to follow, first one.

Paper is the second one. Paper has increased in total up to 15%. In the United States, as far as I know, we have already seen paper increases in the last couple of months. We have not seen that in Europe yet. We know it will come and probably Germany first will be the first time we see slight increases.

Just look at the dollar at this point in time and this is why HP decreased the prices to avoid the kind of shipping products from one side of the ocean to the other. If this continues, the strength of the dollar, they will further decrease prices in Europe, which would not be good, just from this perspective.

Paper, I believe we will see some increases which certainly will help, but I can tell you we're not counting on the price issue. We will create growth without the price impacting. OK, thank you very much.

PRESENTATION

Charlie Brown - *Office Depot Inc. - EVP & CFO*

Good afternoon, I would like to correct something that my good friend Rolf said. I do that frequently. The country of Poland is not in Chapter 11, just to point that out, I don't want to have an incident. Our franchisee there is in Chapter 11. At any rate, if you're talking to me, you must be close to the end of our meeting.

What I would like to do is first of all, thank you for your time, your insightful questions have been terrific. Sometimes I wish I had better answers for some of those questions. I would like to start also by introducing my team, I brought along some folks and hopefully you got a chance to meet them last evening.

I'll start with Jim Walker. Jim is our Senior Vice President of Finance and Controller. Jim is, I've known Jim for over 20 years, and he's been our Controller and been with Office Depot now for almost six years. And we have Carolyn Clark. Carolyn is our Vice President and Treasurer. So those folks here who would be the commercial banks will know Carolyn very well.

And Carolyn came to us through the Viking merger and was treasurer there and has been treasurer and we've merged treasurer for Office Depot so it's terrific. In the back is Jamie Gould, he's already been introduced once, he gets the pleasure of being introduced twice. He supports Rolf but I claim him as well as our CFO for the international business.

And then last but not least we have Sean McHugh who arranged this meeting and I think has done an absolutely terrific job. I think I only need one of these. Most of my colleagues have started their presentations with a summary of ‘so what’s different’. And for me, I’ll do the same.

And actually I’ll refer to a quote by one of our colleagues who hasn’t spoken today and that’s Frank Scruggs. Frank is our EVP of Human Resources who very insightfully at a board meeting last summer, to our board said, ‘if you can’t see it in the numbers, it didn’t happen.’ So pretty good for an HR guy.

So anyway, let me take you through, first of all, our performance this year and a little guidance for next year. This year we’re going to be north of $13 million, probably $13 billion, $13.5 probably. The big drivers in that ramp up obviously, you have the Guilbert, we had five months of Guilbert this year that we didn’t have last year.

You have the ramp up in stores. Last year we opened 33 stores, this year we’re going to open 80. So the (inaudible) reflected that, has pushed us up, so we’re going to be up over $1 billion. In terms of operating profit, we’re going to be essentially flat with ’02 but an improvement over ’03. Really, you’ve heard some of the reasons for that change.

Our retail business will probably end up, even though they’ve mixed down on a percentage basis because of the mix in the technology traffic, we talked about that today. So operating profit is going to end up the year, probably 25 to 30 basis points. So a nice turnaround in the retail business.

We have had some erosion in Cindy’s business, largely as a result of going after some of the larger accounts. And international has had a positive contribution through the addition of Guilbert as well, so that’s kind of the sources. So it’s kind of a mixed bag in terms of the profitability performance.

EPS this year, I’ll do a little quick math here, last year, ’03 was impacted to the tune of about $0.08 by the adoption of EITF 02-16. Hopefully this will be the last time I’ll ever have to use that phrase. But if you dump that $0.08 into ’03, takes it to $0.96. So we’re going to be up about 10% year over year in a somewhat challenging sales environment.

By the way, this range, $1.08 to $1.14, that’s the range that we came out with in September, September 14th, and we’ll be probably at the lower end of that range, rather than the higher end. And this does exclude all the various announcements that you’ve heard us make over the past six weeks regarding call centers, work force reductions, et cetera. Those are not included in that number.

This is our CapEx for this year. You can see that it’s a significant increase in our investment in North American retail. That has essentially Kids R’Us in it. It has 80 new stores, 12 re-los and 23 remodels. So that’s a significant, just to our comparison, in ’03, we had 33 new stores.

The other couple of call outs would be the headquarters spending. Headquarters spending is up a little bit this year, that’s mainly driven by the Magellan project, which Mark talked to you about earlier. And finally, the kind of light blue, which is BSG, you’ll notice has been a significant decrease in our investment as we continue to harvest some of the investments we made back in ’00 and ’01 which has allowed Dennis, Mark and the team to drive the kind of performance that Mark had talked about earlier today.

And despite that increase in investment you can see their free cash flow. We define free cash flow as cash flow from operations minus CapEx. It’s still fairly strong, fairly healthy and we expect this trend to continue into next year. Strong balance sheet, a number of you, number of my close friends out there who reminded me about how strong our balance sheet is, particularly when it comes to cash.

Our balance sheet has a very strong current ratio. It’s about the same as Staples. And debt is relatively low. You’ll also note that we issued a press release on Friday, we’re taking that debt number down. We’re calling a 10% high yield offering that we did back in 2001. So we’ll call that.

A couple reasons we’re doing that, one is that it’s a high yield offering so we had normal high yield covenants. This placed a number of restrictions on things we could do including share buy backs. The other reason for calling it is it improves our credit metrics. We really would like for the debtholders out there, we would like to see ourselves notched up to a higher grade from a rating agency perspective.

So again, overall, pretty strong balance sheet. This is probably the biggest, I think it's because of my passion for RONA which hasn't yet, I think, come to its fruition; this is the biggest opportunity for us, is to drive RONA, RONA is an important metric to us.

You've heard us since, since I've been the CFO of the company, is how important RONA is and how we drive that down to the lowest level of our business unit. Being able to take RONA, break it down into a metric that people, whether sitting in accounts payable or whether they are running a retail store can understand how they contribute to RONA.

And that was what really led the increase from '00 to '02. The flattening out was really a function of two things. One, as you know in '03, stores made $100 million less in operating profit. We understand why that is and turning that around has been one of the sources of increased profitability by Rick and his team.

But we also then have the Guilbert investment in there and as Rolf talked about earlier, it's a nice performing business, but not performing at the level that we need to perform to drive return on net assets. So those were a couple reasons it's flattened out. We look for that number to start to improve in '05.

Returning to capital discipline. I think if you look at the chart and go back to '00 to '02, you can see that there's a lot of capital discipline, you could see the fact that we are starting to ramp up nicely and then it flattened out. And we've taken some pretty important decisions recently that we think will help that.

One is the cancellation of the use of the new support center in South Florida. When someone asked me last night how are we determining what we invest in, I said it's real easy, we're going to put our money in things that actually give us a return. And a headquarters building, arguably, is not one of those things.

We announced a $500 million share repurchase. A number of you also asked me privately about dividends. And that's under consideration. Again, we've had a very active dialog with our finance committee and Neil sits on our finance committee. He was the Chairman of our finance committee before this interim vacation that he's taking in South Florida.

And so it's been on the agenda for the better part of this year. And so we'll see. But the $500 million share repurchase we announced and we're now actually executing against it. Probably not to the rate that makes everybody in this room happy, but we are committed to that program.

Carefully evaluating the M2 remodel - this should not be construed as being negative on M2, quite frankly, even as a finance guy, I'm quite bullish on M2. But I think we need to understand how it performs before we extend it to the change just for the sake of creating a consistent look and make sure that we understand its impact on operations, we can quantify that and test it.

We've announced the repurchase of the 10% senior subordinated notes. The other big opportunity in addition to RONA for us is our overall cost structure. And you're starting to see us get after that. We have a commitment to take those numbers down. Our plans, I can tell you right now, are being developed, specifically, say in the area of G&A, where each and every executive is being tasked with coming in to next year with a lower number than they'll exit this year, as opposed to in the past where there would typically be an increase because the business got bigger, the business got more complex.

This focus on getting back to the few things that are going to drive shareholder value are going to allow us to take that down. And this is just a summation of some of those initiatives where, again, most of these, with the exception of the corporate support center, you will have seen in an 8K.

The workforce rationalization that was announced on Friday, a $14 million charge in the fourth quarter, or $11 million in the fourth quarter, $3 million in '05, but with $26 million annual savings. Cindy talked about the call center consolidation which has at least a $15 million upside.

Support center, the $5 to $7 million annual savings going forward would be through staying at our existing campus and not having depreciation, some of the other costs associated with that new facility. And the notes will be a $40 million impact, again, you can look through that because the positive impact from forgoing that negative carry is about $14 million a year.

So again, these are things that have all been announced. OK, there we go, thanks. OK, what this slide is and what this slide isn't. What this slide is not, is EPS guidance for next year that we're going to commit to at this time. I think some of you understand the rationale, I think others will probably like for us to do the math for you. But we're going to give you something to go on.

But the reason for not committing at this point in time is Neil has only been here six weeks. And while he's done a lot in six weeks and he knows the business amazingly well for someone that hasn't been immersed in the business, he's not willing at this point in time to commit to a number. I think that's wise. I think it's also wise not to commit because we'll have a new CEO coming in at some point in time and he may choose – he or she – may choose to run the business differently that we're running it currently.

So, at any rate, here's what we're seeing in terms of plans for next year. We're expecting to open in North America 100 new stores. I think that's – has been previously communicated, so it's entirely consistent. We expect low to mid single digit positive comps. BSG – mid single digit growth. I think if Cindy does a better job – a faster job. Sorry, Cindy, finance guys tend to be so black and white, I know. If she produces things more quickly, shall we say, in getting the sales force up and running, then there may be some upside there. But right now, it's mid singles.

In international, low to mid single. Again, part of it's economic, part of it's turning Guilbert around on the gross side. Operating margins, overall, are going to essentially be flat. We've got some upside in North American Retail, offset by downsides in BSG and international. And then, of course, our commitment to start to get G&A leverage. Flat tax rate, 30% next year. That's what it's been this year. And CapEx in the 325-375 range. That's down about $50 million. That also still has the 80 remodeled stores in that, which I'm not sure we'll get to 80 remodeled stores, so that number may actually improve a little bit, be a little bit lower, which would then pump up the free cash flow.

So, this is a slide that – very similar to ones that you've seen before with solid cash flow, solid balance sheet. Tend to be fairly good at our working capital management, thanks to guys like Mark and his team. We're committed to improving RONA through a combination of improved margins as well as continued discipline in how we spend our capital. We are confident in our future growth prospects. I think, hopefully, you take away from all the presentations today. I mean, it's really kind of easy for me to step up – these guys have to earn the business every day. And I think you should take away a sense of confidence that they actually understand the levers in the business that they need to pull and are committed to pulling.

So, with that, I'll take questions. Yes, Robert?

QUESTIONS AND ANSWERS

Unidentified Participant

(inaudible)

Charlie Brown - *Office Depot Inc. - EVP & CFO*

OK. Some things just never go away. Probably the – let me try it different. Rather than taking you to a number, in terms of ins and outs, let me talk to you about the process and what's left over, which is really what you ought to be concerned about. When we made the offer for the 124 Kids R Us units, we obviously had the locations – we took those and ran those through our side-by-side real estate process. That came up with sales estimates and, of course, we already had our margin operating assumptions that we applied against that.

And that determined how much we could pay for these units. We then said, well, some of these units we don't want and we could go off and sell them and we did, like we announced the Kids R Us transaction. The units that were left that we were going to operate, what we said is what is the

– what is the excess purchase price that would be in those units that would take your return below our threshold. And when we're looking at units, just as a guideline, we use a low-mid-teen threshold per unit. That's the – it's got to clear that hurdle rate.

And so, when we took those units collectively and ran them against that hurdle rate, the excess purchase price, if you will, or the premium to get the entire portfolio of Kids R Us units to take these to the Northeast was $15-20 million. And so, what you have to believe then, in the analytics, is that through opening stores next year and the year after that, that you will spread that premium over those – and that's where you get the return. If you just did Kids R Us by itself, it's not a good deal. But that excess premium, which I think is – if I were in your situation, I'd be interested in how much did you pay that you can't recover through your normal operating model. It's about $15-20 million.

Unidentified Participant

Charlie – thank you.

Charlie Brown - *Office Depot Inc. - EVP & CFO*

Hey, Matt.

Unidentified Participant

Two questions – first, if you could just talk about the buyback. Any constraints to your ability to buy back stock, perhaps related to the high yield note and what do you think the change of the -- the pace of the buyback, rather, will change once that goes away. And then, secondly, if you could kind of connect the dots between some of the comments that we got on the different divisions and the operating margin forecast, specifically for BSG and international, where you're looking for operating margin declines in 2005. Just talk to the factors that are most decisive in driving that projection.

Charlie Brown - *Office Depot Inc. - EVP & CFO*

OK. In terms of the share buyback, the high yield covenants are not having an impact. They would have two years ago, three years ago. The way the negatives that make these covenants work is you started out with a small base and then you added to that as a percentage of your operating profit each quarter. And so, the 500 million is within that formula. So, we're OK on that. The issue, in terms of the pace, is really a dialogue between Neil and myself and the finance committee.

There is a reluctance on the part of the finance committee. They do believe that we need to return money, if we're not using it, to the shareholders. They want to wait, so some extent, to see how the next quarter or two look in terms of the choppiness with some of the things that are going on, some decisions that we're making. And I think, again, we're in, we're buying at a faster rate than we did under the old program. But I think we need to

get a little more visibility before we commit to accelerating. But I think that there is a willingness to accelerate once we're through that period.

The other question was around margins. I think that these numbers I showed you prove they're preliminary. I think the thing that's really driven Cindy's margins has to do with the segment that they're going after which is the large national accounts which continue to have, it's a focus but they have lower margins.

And then there's some cost increases. And the contract business as you receive cost increases your ability to rapidly pass those along is sometimes difficult. Having said that I know that Chuck and his team are working to help Cindy in that regard.

International, I think it's really more a function Rolf actually had the answer with some of the clients that we've seen. Paper, ink and toner in our international business is very very big part of that business. And therefore when HP takes average selling prices down it has a meaningful impact on our business.

I don't know if Cindy, you or Rolf want to add to that.

Charlie Brown - *Office Depot Inc. - EVP & CFO*

Mr. Binder.

Unidentified Participant

Currency has played favorably for you the last couple years. How does that play into your projections for 05? Are you assuming mutual, or negative?

Charlie Brown - *Office Depot Inc. - EVP & CFO*

We'd assume the exchange rates that are below where the year's currently trading.

Unidentified Participant

You've assumed below this year.

Charlie Brown - *Office Depot Inc. - EVP & CFO*

Below, yes.

Unidentified Participant

(inaudible)

Unidentified Participant

A little bit?

Unidentified Participant

OK.

Charlie Brown - *Office Depot Inc. - EVP & CFO*

It's below the full year average.

Yes sir.

Unidentified Participant

I think that on the last conference call you might have said that the October retail business had actually strengthened. Is that still the case? You can just let us know what things are looking like for the holidays.

Charlie Brown - *Office Depot Inc. - EVP & CFO*

The only impact risk that we see in the holiday season currently is the one Chuck talked to earlier today, Chuck and Mark about the ports total merchandises arriving a little bit slower than what we would have liked.

In terms of how comps are trending, comps are actually right in line with the guidance so these are the forecasts that I worry the least about. That frankly is the retail forecast.

Yes.

Unidentified Participant

A point in your presentation you mentioned that you'd like to see your credit rating higher that where they are today. My first question is why would you like to see them higher? Second, would be over what period of time? And third, what ratios are you looking at, debt to CAP, leverage, free cash to debt. What are the next things that you're looking internally for and improving your credits ratings?

Charlie Brown - *Office Depot Inc. - EVP & CFO*

Well when I said I'd like to see our rating higher I didn't talk about how likely I think the court will be which I actually don't think it's going to be very likely. Until we have a new CEO in place and we have a better track record in terms of some of our, the sustainability of our performance.

But I think, I'll look to Bill, I think it's in terms of coverage which is that it improves the particularly the interest coverage, it's a lot better.

Yes.

Unidentified Participant

Regarding supplies, furniture and technology, the GMROI on those three areas, what is the difference in that and is that a criteria in terms of product areas that you've group with emphasize more emphasize less?

Charlie Brown - *Office Depot Inc. - EVP & CFO*

That's a negative that we don't disclose, however I think you've got the essence of it in terms of Chuck and his dialog around the earned space model.

Earned space model applies to more than just the catalog insert. It has to do with also space in the warehouse etcetera so we are very very focused on that as a metric but we don't release that number.

Unidentified Participant

I assume the technology turns faster. What's the fastest turn here if you know the story?

Charlie Brown - *Office Depot Inc. - EVP & CFO*

Mark, do you want to talk to that?

Mark Holifield - *Office Depot Inc. - EVP, Supply Chain*

(inaudible)

Charlie Brown - *Office Depot Inc. - EVP & CFO*

Paper or some of the supply categories are actually the fastest in terms of SKUs.

It's those consumables that flow through. I mean when we buy paper, we buy it by the boxcar, trainloads of paper. I don't know where we stand on the scale, are we the largest seller of paper?

Unidentified Participant

(inaudible-away from mic)

Chuck Rubin - *Office Depot Inc. - EVP, Marketing & Merchandizing*

There are differences between the segments within each of those three, so everything that Charlie said is accurate but at the same time our PC turnover is also very quick. And as I mentioned earlier in my comments that the inventory management team has done a really good job of controlling that exposure on end of life inventory (inaudible-two voices)

Charlie Brown - *Office Depot Inc. - EVP & CFO*

In terms of the technology on store we hold very little at the store or we use a replenishment model to give us the supplies so that we can turn. I mean you're turning, if you have three units obviously I mean you're turning very very quickly.

Unidentified Participant

Is return on inventory investment, is there minimum standard required to carry a particular product or categories the products?

Charlie Brown - *Office Depot Inc. - EVP & CFO*

I'll let Chuck who makes those decisions. The question was Chuck, is there a minimum threshold that a product has to meet in GMROI to meet the assortment (ph) ?

(inaudible-away from mic)

What Chuck said was that GMROI is only one metric. There are others but it is one of the things that we look at. Sometimes just logically you have to have certain things to go with to have a complete assortment that basically may not have the GMROI that the principal product would have. (inaudible)

Unidentified Participant

You mentioned early on that you're more on the lower end of the 108 to 114 range but you also mentioned that retail's doing quite fine, it's in (inaudible) of the range. So what is causing(inaudible, coughing) the lower end?

Charlie Brown - *Office Depot Inc. - EVP & CFO*

It will be the other two pieces of our business. Don't ask me those kind of hard questions Gary.

Europe has been soft, surprisingly soft in the last couple months especially August and September. We are seeing nice (inaudible) improvement and Europe in October. But as I'm fond of telling Rolf, one swallow doesn't a spring make.

Unidentified Participant

I'm just trying to understand the disconnect between your projection, I know, it's kind of early on for next year but you were saying that North America to become marginally (ph) to be up 20 basis point but Rick says he's hoping that will be flat. I'm just wondering what the disconnect is between what you're saying and what he's saying? Maybe he's being more conservative than you are?

Charlie Brown - *Office Depot Inc. - EVP & CFO*

Rick's actually, it's a difference in the quantitative methods used. I use models, Rick used the back of the envelope. I knew he'd get me in trouble on that. I think what Rick is really saying in all fairness, is that going into the northeast is new territory for us, we think we've got the supply chain. We think we've got the real-estate team. We have the sites. But we're just now, we've opened three stores, that have been open for three weeks. And the balance of this year we're going to open a whole lot more stores.

I think what Rick is really saying, practically speaking without getting too fine an edge on it, it's likely that the competitive response will be intense. And so therefore the losses may be larger on those stores than what we normally see.

What he wants to do is as an operator and I applaud this is say look, I'm not going to basically use that as an excuse, not to get my number. So his number, I would take it as a commitment, I take it as directional. So that's really the difference.

Unidentified Participant

Charlie. The way I understand it, I think you actually now own G & A. So I wondered about, you might want to take the opportunity here to talk maybe not about next year where I guess you're now softly committing to 30 basis points. But in terms of maybe a longer term commitment, how much are you willing to step up to the plate here in terms of what's possible on a G & A line? And what opportunities to do see in terms of G& A other than head count reduction which you've already taken a first step at?

Charlie Brown - *Office Depot Inc. - EVP & CFO*

Well I think that if you want to look long term, I think that our G&A currently is bumping up against 5% of sales totally. The biggest piece of that and where it's grown most rapidly has been in Europe.

And part of the Guilbert acquisition. So I think the off the first tee, one of the years where we have the biggest opportunity. And it's going to be lead by systems integration, warehouse integration, those kind of things will be in Europe, OK, to take the number down because rate of growth in the U.S. has been considerably lower although not necessarily acceptable. But certainly lower than the rate of growth in Europe and we knew this.

And so part of the synergies and Guilbert valuation model was saying, Viking has always had an approach of building the capacity before they built sales. Now that we’re folding in Guilbert, we were able to get better volume, now we need to integrate Guilbert to get global G&A down.

I think investors also look at a lot of the various infrastructure projects that we spend money on. So for example I didn't make very much a great big deal about it. Cindy talked about outsourcing her individual reps for her call center.

I at the same time launched a pilot of going to outsource the credit collection team, in Wichita. Again retaining inside the company the decision about to whom we grant credit and how we manage credit.

But the follow-up calls that go to customers which is where most of the head count is, I'm running a test to outsource that. So I think you're going to see us get much smarter and the things that we choose to own versus the things that we outsource.

And if this test is a success in Wichita it'll save me a million dollars in my budget next year. A million dollars is not a lot but taking G & A is a lot of singles. So I think it's going to be a variety of things of that nature Colin.

But the first place we're going to focus I think in terms of the highest invest return is working with my friend Rolf in Europe.

Unidentified Participant

Can you talk a little bit about targeting capital structure over time, once there is a new CEO in place? How much cash do you then think you'll need to have on the balance sheet? And will it be fair to say a year from now with the initiatives in place for awhile depending on priorities, which there's no need for the cash for the balance sheet.

Charlie Brown - *Office Depot Inc. - EVP & CFO*

And I think I actually misspoke when I was talking to you earlier today and I said that our cash would grow a little bit next year. That's incorrect. I went back and checked the model.

Between our CAPEX plans currently, share repurchase, the debt repurchase, we will be seeing that cash balance start to come down. Ultimately Neil and I haven't invested very much time in talking about where it should be ultimately, it needs to be lower than where it's at.

And the actions that we've already announced, we'll take it down. If we were to announce a dividend, I'm not saying that we're going to, again that will be another lever to return value to our shareholders.

So that's about a specific as I can be at this time.

Unidentified Participant

I'm just following up, do you think you're going to get away that easy.

Charlie Brown - *Office Depot Inc. - EVP & CFO*

Oh, no.

Unidentified Participant

Can you quantify how much of the Magellan expenses have flowed through to G % A line to date as that project will be coming to a close in the end of 2005? How much of a positive impact will that have in 2006 and beyond?

Charlie Brown - *Office Depot Inc. - EVP & CFO*

I think that the Magellan spending the majority of it has been capitalized. OK, 75% capitalized and so that's why you saw it in the CAPEX number, not in the P & L. And it will flow through the P& L. We tend to depreciate our major IT investments over five years. And so it's going to have a meaningful impact of a couple of pennies, for depreciation perspective. (inaudible-two voices).

Unidentified Participant

Is it in the corporate, is in the G&A line?

Charlie Brown - *Office Depot Inc. - EVP & CFO*

We didn't start depreciating, at least we didn't some of the modules and that's going to be in the G & A line.

OK, if there are no more questions Ryan, I'll just turn it back over to Neil who will answer the really hard questions.

Neil Austrian - *Office Depot Inc. - Chairman, CEO*

Let me try and if I can just summarize a few things that you've heard today. And maybe a way to try and do it that's helpful to me, maybe to use (inaudible) What's going to be different next year than this year or next year than the past years. Maybe break it down organizationally first and then look at some other tactic or focus issues. The first is accountability, we've beaten that, it's a dead horse.

I hope at lunch or at the break you had a chance to talk to the people who are accountable. It's clearly thought that ownership at this point, and that's been our name in effect I think for quite some time.

With the fact that the marketing and merchandising organizations report that Chuck is a real plus. It'll start to see I think some real synergies next year.

We have I think from my perspective as a board member major problems with those businesses being separated. In the last five years we have four different heads of merchandizing, four different heads of marketing, obviously that does not lead to really terrific results for decision making.

Frank Scruggs is working with all of our key executives to come up with a new compensation system that we can put in next year throughout the company that literals (ph) link to the drivers of profitability in the units so that everybody in the company is focused on exactly the same thing.

A real big change I thinks that a difference with the exception of Chuck, when the company knew it since he was here basically working on a consulting project. This is the same management team rolling into next year for the first time in five years. And to me that's a huge plus.

This is an organization that was ready for change. They've embraced change, they wanted change. I haven't had to ram anything down anybody's throat. When you look at the focus for next year, Chuck started it off, it's going to be customer centric not channel centric. That's a big difference.

We're also not schizophrenic any more in terms of who our customer is. It's pretty clear who our customer is. It's a business customer.

Focus on attachments and supplies. You've heard a lot about the cost reductions. We're going to begin to see for the first time some Magellan results.

Other big difference after a 15, 16, 18 quarters. It's the first time we're entering the next year with positive retail counts.

We've got lower cost structure going into next year.

It's going to be the first time in a long time that we've really added to our score count.

It's going to be the first time since 99 as Cindy said that we added to the sales force in BSG.

All of these things to me say that next year has to be better than this year. There's no way it can't and there's no way it won't. At the same time I'm very very reluctant to give guidance because I don't have a good enough grasp, I have to tell you want happens quarter to quarter.

I think Charlie has given you enough indications, certainly I have, I'd be happy to answer questions.

When the board asked me to do this, part of the difficulty I had in accepting it was my own genetic make up. I'm not a caretaker. In talking with the board I asked, what do you idiots expect me to do? It's a short period of time, maybe a long period of time.

I'm not going to be a caretaker and they said do what you think is the right thing to do. Run it like you'd run the business on a permanent basis. The interesting (ph) one is part of the question that one of you asked me is, are you sure what you're doing is what a new CEO would want you to do because somebody new is going to be coming in here in several months. In thinking about it I said do what am I doing it, I mean might not want me to do it.

Let's look at the Northeast deal. You made a decision just eight months ago to acquire the KRU package real estate portfolio that would get us in the northeast.

Even if I didn't want to do it, which I do, it would have been lunacy after having paid that money not to open the store where I had those leases. So a new CEO coming in (inaudible) is going to have to continue that program and probably should. He can slow it down but you better open all the KRU stores.

New stores, why wouldn't a person want to open new store. Why wouldn't that person if the financial models suggest you can earn an attractive return on invested capital. And we've got a program in place now where retail and finance talk all the time.

It's pretty clear the only places we're going to open stores is where we get a return on invested capital. And in looking at it that way when you defend a market you look at what the decision might be if you didn't defend versus defending.

Sell off Guilbert. It drives me crazy. You wouldn't hire that guy as a CEO. And it goes absolutely to the wrong decision given the dominance we're going to have in Europe and the kind of cash flow and earnings we can expect out of Europe.

You look at the organizational pieces that we've changed. There's an awful lot of organizations in the retailing business where marketing and merchandising are together.

I got serious doubts that that decision which actually was made before I got here, will be one that anybody would undertake at this point. There are far too many issues, other issues you have to deal with.

Accountability, the new person ought to be thankful that he or she is not the last person that has to deal with that issue.

Cost reductions, we're doing somebody a favor. The call center decisions, it's not irrevocable. You hear Cindy talk about the fact that the voice of the customers we have right now is telling us we've used these same people to outsource in the past. I can't see a problem. It's also not a irreversible decision. It's being done here domestically. Canceling the corporate headquarters building, I'll let somebody else try to convince the board we ought to spend 140 million dollars. I'm sure not going to do that.

They're looking at where the business is today, but from my perspective yes it's six weeks. I spent six years on the board. It's probably in the best position it's been in going into the next year in terms of what the platform is.

Where we stand in the search process. The day that I agreed to undertake this job I told the board I'd like to hire Heidrick and Struggles as the search firm. And the reason why is that I've know Jerry Roach (ph) for over 40 years. Jerry's the rainmaker in that organization. He's the person that was the former CEO. And they put a team together of Roach, Tim Jadic (ph) who's the Vice Chairman, Melanie Pierson (ph) who's their retail expert, John Thompson who runs their west coast office. From the four of them is a team.

I asked the board to put a committee together of board members who were committed, who had the time, who understood our business to be part of the search committee. Team chaired by Brenda Gaines who is best chairman and CEO of Dinners Club, Lee Ault who ran Telecredit for 25, 30 years sits on the board of Equifax , Scott Hedrick who's a venture capitalist to really he's a majority owner of Office Club before Office Depot deal and myself.

I think between the four of us, we've interviewed an awful lot of people throughout our careers. The process would be at some point in the next week to two weeks we'll receive some thoughts from Heidrick and Struggles in terms of people that they think we ought to be seriously interest in.

We will then meet, either reach us prior or after Thanksgiving with piece that Heidrick and Struggles so to that list Ron (ph) and I will sit down as best we can just from looking at paper an begin interviewing people.

David Bernauer has agreed that he'll be my consultant, since he certainly knows the retail business. And at point when we get to having reduced the applicant pool of potential pool down I will get David and Bob to help with one or two other board members.

It's really my expectation that by the end of the first quarter of 2005 we would have hopefully a new Chief Executive in place here at the company.

I want to thank you as Charlie said for coming today. I hope it's been useful. We appreciate you taking the time. Hopefully it's given you a chance to see that this is a company that truly is committed, has an awful lot of management depth. It's a management team that's absolutely committed to making this work. And from my perspective I'm committed to staying here until we find the right person to turn the company over to. So with that I'm happy to answer any other questions that we haven't been able to answer today.

Unidentified Participant

Thank you for today. During this period of transition have you and the board pursued other alternatives i.e. the sale of Office Depot?

Neil Austrian - *Office Depot Inc. - Chairman, CEO*

Absolutely not, and I say that very quickly because I think there's a clear sense that the board have, certainly that I have in the last six weeks. At this point in time where there's so much up side to this company that to sell the company today would really be, I think a sin for the current shareholders and those that have been in the company for a period of time.

Unidentified Participant

Thanks again and we appreciate it and if there's any further question give us a shout.