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PRESENTATION

Colin McGranahan - *Sanford Bernstein - Analyst*

Good afternoon. I'm Colin McGranahan, the retail hardlines analyst here at Bernstein. Just a little housekeeping -- I think everyone knows the routine by now. Please fill out your cards during the presentation; Q&A will start immediately after the prepared remarks. And if I can remind you to turn your phones to vibrate or off as well.

It's my pleasure today to introduce Steve Odland who's the new CEO at Office Depot. He joined the Company in March as the CEO and Chairman after I believe about five years at AutoZone where he presided over a major improvement in the profitability of that company. We also have with us today Sean McHugh who I'm sure a lot of you know, who does a great job heading Investor Relations. It's a pleasure to welcome Office Depot back to the strategic decisions conference and to welcome Steve for the first time. Steve?

Steve Odland - *Office Depot - Chairman, CEO*

Thank you, Colin, it's good to be here. I see a lot of familiar faces in the crowd. If I start talking about carburetors you'll all forgive me won't you? Before we start we should probably just cover the forward-looking statement. Obviously the forward-looking statement probably ought to be amended to say that past experience with AutoZone is no predictor of future experience with Office Depot, but anyway.

Let me begin with some highlights on Office Depot. I think a lot of people are familiar with the Company. We are a leading global provider of office supplies, products and services. Last year we recorded nearly $14 million in sales. I'm struggling with this mic here. There it is. We conducted business in 23 countries including the U.S. and Canada and we operate across multiple distribution channels -- retail, catalog, via the Internet and contract sales. We have the Company organized in three divisions, first of all North American retail, second of all North American business services group and then finally international. Our Company was incorporated in 1986 and we've been a New York Stock Exchange stock since 1991 and a part of the S&P since 1999.

We provide a wide assortment of office products and services related to business customers. While office supplies comprise the majority of our sales we also have very wide assortments in technology, everything from computers to handheld PDAs to cellphones and so forth. And then we also have a very wide assortment of furniture. Our multi channel capabilities allow us to serve businesses from the very small home office kind of business to of course Fortune 500 accounts. Our North American retail stores primarily serve small business customers in the 49 states, District of Columbia and Canada and just yesterday we announced the opening our 1,000th store in a suburb of Chicago, so this store marks the Company's 45th store in Illinois.

Our North American business services division uses catalog, e-commerce sites and business-to-business contract sales force in order to serve customers of all different sizes and then internationally we employ catalog, contract, e-commerce again as well as retail assets to serve the customers. We have company-owned operations in 14 countries outside the U.S. and Canada and then we operate additionally in seven countries through licensing agreements and joint ventures. Finally, an interesting note, Office Depot is now the third largest Internet retailer in the world. In 2004 we recorded over $3 billion in sales via the Internet.

We have three growth priorities. First of all, North American retail where our focus is on improving store productivity while at the same time continuing our store buildout program. The second priority is North American business services where we seek to grow profitably by adding market share with new customer attraction as well as a whole variety of new service and product offerings. And then finally, in international we have a short-term focus on improving our profitability particularly in Europe, Western Europe and while at the same time profitably growing our contract business and increasing our geographic reach.

Now I'd like to share some perspective on the industry in total as well as our actions to profitably grow our business. Here in the U.S. the Office Depot operates in a market that is about $311 billion in size and it's broken out roughly two-thirds retail and one-third delivery. The overall market is growing on both sides with the delivery channel growing slightly faster than the retail channel. While the office supply space is very large it's important to note that the three office superstore players occupy a relatively small portion, small share of the total market, less than 10% of the office supply market is occupied by the three large office superstore suppliers.

Generally if you look at the macroenvironment, Office Depot's business does correlate with the macro economic trends both here in the U.S. as well as internationally and those economic trends lead to small business development and that is where the majority of job creation happens and that is where the sweet spot of our business is in the small-business formation. And you can see that the U.S. GDP has rebounded and we've seen some favorable sector expansion. U.S. employment counts also have increased over the past few years and that has boded well for our business.

Just to cover some initiatives, in the North American retail business we have launched our Taking Care of Business campaign. This is a strategic marketing campaign which re-energizes a strategy that we had back many years ago and so we have reintroduced the brand and the Taking Care of Business team to the marketplace. This has been our most successful marketing campaign ever in our Company's history. So the strategy returns Office Depot to a commitment to business and the small-business customer.

It's interesting to note -- it was interesting for me looking at the business I thought of it as retail and then direct to business. But in fact most of the retail business is actually sales to business customers. So another way to think about it rather than thinking about it as retail and direct to business, another way you can think about it is that it's primarily a business-to-business kind of supply, but it happens to be through boxes that are retail boxes, catalog, Internet and indirect delivery. We're very pleased with the relaunch of this program.

(Video in progress)

This is an example of the new creative that we've put out there and that we've seen very good response from our customers in it. We also announced just a few months ago our partnership with NASCAR and with the Roush Racing team. As many of you may know, NASCAR is now the second most watched sport in America and it is surprisingly popular among small-business people. We recently have partnered with Carl Edwards and others.

(Video in progress)

From this promotion we received over 100,000 entries from small businesses, more than 6 million small businesses consider themselves NASCAR fans and we're pleased to have announced the contest winner and their ability to use the car for sponsorship of their small-business. So we're going to continue to leverage our association with both local and national programs around NASCAR.

Another opportunity for Office Depot in retail as well as in business services is the development of our private brand. We currently have had our private brand penetration right around the midteens, 14% to 15% of our total sales. We've said that we want to move that to about 20% by the end of this year. We really believe that through the development of our brands as well as through sourcing predominantly from Asia, lower-cost sourcing we can continue to offer high-quality innovative products at a value for our customers and we're very pleased with the development of this program.

So expansion of course is very important to our overall objective. We have plans to open about 100 stores in this fiscal year and again about 100 in next fiscal year, so on a thousand store base it's a 20% increase in the number of stores. These stores are slightly smaller; our current prototype is slightly smaller than the average store out there so the square footage growth will be slightly below that.

The M2 format -- our Millennium 2 format some of you may have herd about is pictured here and is planned for all of our new stores. It represents our latest thinking in merchandising and store operations and if you've been in any of the stores that have been reset to the Millennium 2 set you'll notice that they are far more shoppable; we have shops within a shop and the signage is better and so forth and our customers have responded very well. We think that there's an opportunity to take that format more broadly across our chain.

Increased marketing effect, and this remains a priority for Office Depot, during the first quarter of this year we reduced our spending on the less effective kinds of media and we yielded a lower first-quarter spending rate; however, we actually improved our overall effectiveness. And so we are in the process of going through all of our marketing spending to make sure that our return on investment for all these vehicles makes sense.

One of the new programs we have is what's called the advantage program and it's an example of this effort to go directly to consumers and improve that effectiveness. We rolled this out about a year ago and now we have 2.2 million active users or active members and what we found is that advantage members actually demonstrate a higher purchase frequency compared to non-advantage members and we've also observed a strong double-digit sales lift among these members. So we have a considerable effort underway to deepen our relationship with those people as well as to increase the membership.

Another project that we have focused on is the Magellan project and this is something you won't see in the stores but it will certainly facilitate everything that we do in the stores. It was initiated to fill the key gaps in existing merchandising systems and it allows us to strengthen our sales and improve our margins with more effective space utilization, stronger assortment and better pricing decisions. So it felicitates category management in our stores. It's also allowed us to continue to improve our in-stock positions while reducing inventory and overall supply chain cost. We are currently continuing the rollout of Magellan and we'll continue to do so over the next six months or so. We have just rolled out our merchandising data warehouse system and that is facilitating decision-making so the benefits of most of the efforts here are yet to come.

We have other profitable growth opportunities within North American retail. First of all, we have begun a global bidding process for our product categories and this is beginning to result in lower product cost for both North America as well as our international businesses. We will continue to go through category by category a global bid process over the coming year or two so we will continue to see benefits of that going forward. The North American team has done a great job in delivering operational cost savings through the basic blocking and tackling kinds of notions which seem boring on the surface but it really does offer a lot of benefit to the business. Things like retrofitting energy efficient light fixtures in stores, upgrading energy monitoring systems, renegotiating leases and so forth have helped to save a lot of money in the chain and we'll go through it over the coming year.

Some other profitable growth initiatives come in our North American business services group and we have expanded the use of what we call telephone account management in order to effectively interact with our customers and drive sales while continuing to deepen the frequency of contact with those customers. We also are in the process of realigning our contract sales force. We did the first part of that in 2004 and we have now just increased our salespeople on the street by about 140 professionals so that's about a 10% increase in our total sales force on the street. This is the first increase -- significant increase in the number of our salespeople since 1999 and it's beginning to bear fruit right now. Additional support for our contract sales with tools and so forth are expected to increase their effectiveness going forward.

Now turning to international, our international office products market is we think a great opportunity for Office Depot. We operate in 21 countries outside the U.S. and Canada today and most of that is in Western Europe, as I said earlier. The overall market for Western Europe is about US$258 billion and you can see that the largest markets are Germany, the UK and France. We are roughly twice the size of our next nearest competitor in the overall market and our share is very strong in most of the geographic areas. We compete in both the retail and the direct channels, although our focus in international continues to be primarily on the direct channel through mail-order and through the contract business.

Recently the European economic situation, however, has not been as strong as North America and our business growth has also experienced that correlation that I talked about earlier. In certain countries the contract market has actually contracted over the past couple of years and in 2005 it's forecast to decline as well. The GDP in Europe has improved versus 2004 but the associated employment trends really have not kept pace and you see very high unemployment in Europe. This is putting a damper on the market. But having said that, we have taken steps to improve our international business and we're pleased by some of the efforts to date.

First of all, just recently we have created the new position of President of our international business. We did not have a president running all of our international business prior to this and we have promoted our Chief Financial Officer, Charlie Brown, who many of you know to this new important role. Charlie is doing double duty right now as both the CFO and the President of International while we search for a new CFO. We will continue to optimize our existing business process and structure as we look at more of a pan-European approach. Right now we have a country by country operation with the full set of responsibilities assigned in each country and there's a real opportunity here to think about it as a pan-European business and a lot of cost I think that can come out as a result that would allow us to align our supply chain, our call centers, our corporate facilities in the organization while actually doing a better job I think of meeting customer needs.

Also similar to North America we have the ability to expand the use of our telephone account management to deliver a more cost-effective way of approaching our customers in Europe. We've had some tests in the past quarter that we've conducted in the UK, Germany and Benelux countries and we were very pleased with the results of that.

We see great potential outside of North America. If you think about what drives our business at its core from a macro standpoint, again it's economic development and there are many developing nations and economies around the world where you see capitalism and small businesses at its core. Those are markets that you can see certainly in Latin America and also in Asia that we don't currently participate in but we think that offer great opportunity for us longer term.

Let me just comment on our outlook for 2005 and beyond. First of all, it does start with our three priorities and you'll hear me talk about these priorities over time because it helps to focus on all three. I think we are unique in that we have opportunities for profitable growth in all three areas. I just don't think that we're saturated in any of the three and certainly from a marketshare standpoint we are nowhere near saturation. We think that we've got many initiatives that will help us to grow sales, but we will operate conservatively to ensure that we maintain our expense and capital disciplines and deliver solid returns over the coming years.

We continue to have opportunities we believe to expand gross margin driven by mix of business, development of our private-label business, improved pricing and supply chain leverage. Additionally it's very apparent that we have opportunities to lower our operational cost, our SG&A is higher than we want it to be and we have the opportunity to lower that going forward.

We have a business that generates an incredible amount of cash flow for its size; it's been pretty stable year-in and year-out and we have said that we want to use that cash flow primarily first of all, first priority is to open new stores and new geographic markets. Secondly, to make necessary investments in new businesses. Third, we're interested in acquiring assets or businesses in our key growth areas. And then finally, using our cash flow to repurchase stock as long as we believe it's accretive.

We are not giving specific earnings guidance and that is because we don't manage the business to a specific target. We in fact think that that could inhibit our performance. It's something that I believe very strongly and so our commitment is to do our best day in and day out.

Just to review a little bit of some of our financial performance, I'm sure you're all familiar with this. This is our past quarter that ended in March, we did show some top line improvement, 3%, but we were flat at profitability as we suffered from the decline in European profitability in the first quarter driven by the contraction in the economies there. But if you looking at a 12 basis what we see is stronger top-line growth of 6%, solid bottom line growth EBIT at 8% and net earnings in 8% and then earnings per share of a 7% growth.

If you look at the balance sheet, what you see is a considerable cash position still on the balance sheet. We have a very strong situation, a very strong balance sheet. We have improved that balance sheet over the course of time. We've not set specific targets as of this point because we're going through our strategic plan and trying to identify our strategic growth possibilities with that. Our return on invested capital is that at 10.5% and it's our belief that we should continue to focus on improving that over time. In the first quarter we did use some cash as we improved our inventory situation short-term and we did have some share repurchases during the quarter.

So just to wrap up, I think that it's important to know that we are one of the leading office products supply and service and supply companies in the world. We are operating in a very large fragmented and growing market. We have the means to expand our sales in three of the growth areas, expand our margins and reduce our costs. We think we have a great business model that can expand its generation of cash flow, a strong balance sheet in I'm really confident that our Company is moving in the right strategic direction. We are clearly focused now on generating profitable growth and taking cost out of the business in order to drive shareholder value creation and we're very excited about the future.

So with that I'd like to open up the floor for questions.

QUESTIONS AND ANSWERS

Colin McGranahan - *Sanford Bernstein - Analyst*

(OPERATOR INSTRUCTIONS). I see the first question is if the cost saves are so significant is there any reason the share repurchase wouldn't be very aggressive here at the $20 level? I think implied in that question is the statement that cost saves are significant so maybe you could comment on that first and then comment on your outlook for repurchasing shares at this level?

Steve Odland - *Office Depot - Chairman, CEO*

I do believe that the cost-saving possibilities are significant. We have considerably higher SG&A than some of our nearest competitors and we have focused our team to go through the Company and make sure that we're identifying programs in order to take costs out of the business that don't diminish our growth potential. So you're going to see a period of time here where we're focused on both growing the business as well as taking cost out of the business.

As we do that we hope to expand our cash flow in which case we will have further cash to invest, first of all, in profitable growth, but second of all, to buyback shares. So we had -- I think everybody knows or maybe everybody doesn't know -- but last fall we announced a $500,000 share repurchase authorization to be conducted over a two-year period and we started that during this past winter. During the first quarter we repurchased $28 million worth of stock and cumulatively $44 million on that $500 million authorization. So we believe in share repurchases as one use of the cash.

Colin McGranahan - *Sanford Bernstein - Analyst*

Okay. A couple questions here on margin structure relative to your main competitor. Is there a special reason why Office Depot cannot get to Staple's operating margin level? How much of the 400 basis point margin gap versus Staple's can be closed and when? How much of the cost is in Europe? And how close can Office Depot get to Staple's margins and store productivity or sales per square foot?

Steve Odland - *Office Depot - Chairman, CEO*

Is that all you want to know?

Colin McGranahan - *Sanford Bernstein - Analyst*

And when down to the day and if you could get it with a couple of hours that would be great.

Steve Odland - *Office Depot - Chairman, CEO*

It hasn't been lost on us that there is a gap in our earnings, but the good news is it's in cost and it's identified. I don't think it is a structural issue. As I look at the real estate for example I don't see a disadvantaged set of stores. I think that we've got some very good real estate. I don't think we have a disadvantaged supply chain and so forth. I just think that there wasn't a focus on the cost side as we have now.

So therefore I think as we bring more focus to it and we do it in a way that doesn't damage our ability to grow and I think that that's really important because the question that of course is speed and I think it's a good question, but speed can lead to some damage of the business. We do have a direct to business relationship and service is critically important. So as we go through the Company and we focus on the cost side we've got to do so in a way that doesn't damage our relationship with our customers. So we've got to do this in an orderly fashion. So I think it's a multi-year program that we'll embark on here.

Colin McGranahan - *Sanford Bernstein - Analyst*

Kind of a related question. Having only been at the Company a short time have you completed a business plan? If so, can you elaborate on it at this point?

Steve Odland - *Office Depot - Chairman, CEO*

I really haven't. I'm in my second month so I'm in that period where I'm just dangerous. We are in the process of developing a strategic plan for growth and some of the elements I talked about today come out of our initial thinking which is that we do believe that we've got profitable growth opportunities in the North American business BSG as well as internationally. We also have identified the areas where we believe that there is a potential cost savings.

Just to build on that earlier question, I didn't complete my answer. Europe, we do believe that there is considerable cost savings available to us an Europe. We made an acquisition in 1998 of the Viking business which was the large basis for our European business, and then a couple of years ago we added the acquisition of Guilbert business in France. Now that business has not been largely integrated and hence the country-by-country structure. So I do believe that there is an opportunity as we think about the business more in a pan-European way to take a considerable amount of cost out of Europe.

Colin McGranahan - *Sanford Bernstein - Analyst*

Actually a follow-up question to that. Have you had in your tenure an opportunity to thoroughly review the balance sheet and how do you look at the quality of the assets?

Steve Odland - *Office Depot - Chairman, CEO*

We're in the process right now of doing a thorough look at the balance sheet again our strategic priority. So as we develop our strategic plan we are also going to go through and look at every corner of the Company and make sure that the balance sheet and our asset base lines up with that. We anticipate probably completing that analysis during our third fiscal quarter and being able to take action, any action that's required sometime in that quarter.

Colin McGranahan - *Sanford Bernstein - Analyst*

Okay. Two questions on stock sales here. Please comment on the recent share sales by Office Depot Board members and executives? And then why did the CFO sell all of his free stock?

Steve Odland - *Office Depot - Chairman, CEO*

I don't know if he sold it all. I think that there were some options that were expiring and I know several executives exercised those options before they expired, that's only a good thing. And I know one person actually built a new house and took some money off the table for that, but these are not comments on the future of the business and shouldn't be interpreted as such.

Colin McGranahan - *Sanford Bernstein - Analyst*

A personal question for you, Steve. Can you describe the aspects of your experience that are relevant to your new job and in what way?

Steve Odland - *Office Depot - Chairman, CEO*

It's interesting, I've been fortunate in my career to work through consumer packaged goods where I had a lot of marketing and sales experience and then, of course, direct to business experience in the foodservice industry which is interesting in the correlation with our direct business here. And then finally, I've been a retailer for the last half-dozen years or so. And what I see is the ability to bring all that together.

We have a business in Office Depot that has considerable marketing and merchandising upside, considerable store productivity upside and is somewhat of a retail business. But as I said earlier, it is a direct to business supply. And so my experience is almost a hand in glove fit here. My last experience didn't have a lot of international content to it but the previous two did certainly with Ahold and with Quaker Oats I was the head of international strategic planning for Quaker Oats. I've been on boards of joint ventures throughout Southeast Asia and so forth. So I'm very pleased to be back in the international side as well and have a lot of ideas on how we can grow our business internationally.

So it is a uniquely tight fit with my experience and the opportunities here at Office Depot in my opinion.

Colin McGranahan - *Sanford Bernstein - Analyst*

Another kind of personal question for you. What has surprised you the most upside, downside since joining Office Depot?

Steve Odland - *Office Depot - Chairman, CEO*

It's interesting, there was the legendary case of the Staple's/Office Depot merger in the late '90s that was blocked by the government and it's interesting how much of Office Depot's business was shut down during that period of time. I didn't realize it but all the real estate portfolio was shut down, the real estate department was eliminated, all the corporate offices and departments were eliminated.

So this was a company that was virtually shut down and then a year later when the merger was blocked it literally had to reignite itself and start all over again. And during this period of time the business retained its strength and here we have a nearly $14 billion business here that -- with a great brand name and great people that has survived and thrived through that whole thing.

So my biggest surprise in all this is how this business has -- the strength of this business and how this business has thrived through what you could consider could have killed a business. And I think it just goes to show the power of the possibility of this business if focused on developing profitable growth and shareholder value.

Colin McGranahan - *Sanford Bernstein - Analyst*

Without guidance how would you suggest that we monitor whether you're meeting, exceeding or trailing your goals?

Steve Odland - *Office Depot - Chairman, CEO*

There's a quarterly conference call and press release. The point on guidance is that I think that guidance is a funny thing. It's a forecast -- nobody knows for sure including management what the future is going to hold. And oftentimes I think in the past you've seen companies managed to a certain number and I'm not sure that that's always in the best interest of shareholders. There's time value to money and performance.

My focus for Office Depot will be on helping over time to make sure that everybody understands the business model, understands our strategic plan that we share all that with you and we will, just as I have historically, those people who have worked with me historically, we'll work very carefully to explain the state of the business going forward. But there are tremendous opportunities here and they will unfold as we begin to develop and then implement our strategic plan.

Colin McGranahan - *Sanford Bernstein - Analyst*

A couple of related questions here. What was it you used at AutoZone that can be brought to Office Depot and can the financial model of growth plus debt plus some share repurchases that worked at AutoZone work at Office Depot? And then related, what are the key ways the challenges at Office Depot differ from the at AutoZone?

Steve Odland - *Office Depot - Chairman, CEO*

Actually there are some interesting similarities to the businesses. They are both have great brand names, they both have very strong franchises, they were both businesses that had the opportunity for cost focus but also for profitable growth. And I think that the kinds of things that I saw at AutoZone when I joined AutoZone are the kinds of things I see at Office Depot. And so I think that there's a lot of relevant things.

This is a business that is a Fortune 150 business, a $14 billion business. It has a tremendous amount of growth opportunity in every one of our key segments. It has costs that are ripe for a little reengineering and so forth. So I think that there has got to be a balance between the top line and the cost savings and a focus on the ROIC on this business. You can see by the returns on this business that are closer to 10.5% that we have an opportunity to widen the gap versus our cost of capital and that's something that we have already begun to focus the organization on.

So a cash flow focus in the sense that capital is not free and these are things that management teams can sometimes intellectually know but not operationalize and that's something that you will see us do here. But I think that there's no two businesses that are alike and I don't think anyone should take any actions that have happened elsewhere perfectly and say well, there's a cookie cutter approach to this thing. And I'm certainly not approaching it that way.

Colin McGranahan - *Sanford Bernstein - Analyst*

Okay. Two related questions here on the sector. Do you think you're in a position to pursue a major acquisition if an opportunity were to present itself in the next 12 months? And could you please comment on the potential for future consolidation in the industry both from a business regulatory perspective?

Steve Odland - *Office Depot - Chairman, CEO*

I was surprised at the lack of consolidation. Everybody thinks about the three office superstore players, but if you think about office products in general -- I mentioned that the three players have less than a 10% market share. I think there is a lot of room, there's a lot of fragmentation and there's a lot of room for consolidation in the industry. The question is how do you do that and where is that consolidation going to be allowed because if the SEC continues to take a very narrow focus to it it suggests a different kind of consolidation than if not.

Certainly our focus will be on profitable growth and deploying our cash flow in areas where we believe that there can be profitable growth and we're certainly open to acquisitions. We want to make sure that those acquisitions, however, are not approached for a growth stake; it's not something that I believe in. I believe that there's got to be a profitable growth in shareholder value ad. So there's got to be clear development of ROIC in the businesses. So historically I've not been a big fan of acquisitions and I'm not even though you look at everything that moves, it's something that is very hard to integrate and so forth. So we will be cautious about it but we are very open to it.

Colin McGranahan - *Sanford Bernstein - Analyst*

A couple questions here on capital structure. What in your view is an optimal capital structure? Do you feel the business is capable of taking at a higher percentage of debt? Related, what is the target debt level and is it based on a certain adjusted debt to EBITDA ratio as was the case of Auto Zone?

Steve Odland - *Office Depot - Chairman, CEO*

In prior situations, we found it constructive to set out a debt to EBITDA kind of a ratio, and we did that with the rating agencies. And we have not yet done that and set a target for ourselves, and so I can't share that with you at this point, but it is -- we are in a situation where we have a very strong balance sheet. We obviously have a lot of cash on the balance sheet, which isn't the most efficient use necessarily of that cash, but we have a lot of growth prospects as well. So as we go forward, we will be evaluating our balance sheet situation and making sure that we have the right capital structure. Certainly debt is cheaper than equity. It is my belief that there has to be a balance here in order to lower the cost of capital where appropriate, and we will be going through that and we will share specific metrics with everyone as we develop them.

Colin McGranahan - *Sanford Bernstein - Analyst*

I think you've probably answered this, but I'll read it just in case. Free cash flow is roughly 400 million a year. You have 800 million in cash on the balance sheet. What do you plan to do with all that, and doesn't a buyback make the most sense?

Steve Odland - *Office Depot - Chairman, CEO*

Certainly it is a lot of money and there is debt capacity. We have a very strong situation. Share buybacks do make sense. We have a $0.5 billion authorized right now, but they're also for profitable growth. I want to make sure that our priorities are to profitably grow the business and use the cash to profitably grow the business first. Not growth for growth's sake, so we are very cautious. I want to be careful that everybody understands that our view is not to chase growth for its sake, but profitable growth, and then share buybacks for the excess.

Colin McGranahan - *Sanford Bernstein - Analyst*

Okay. Another personal question here. What are some of the most important decisions or actions that you have made so far?

Steve Odland - *Office Depot - Chairman, CEO*

The first thing that I think any leader should do when joining an organization is understand the organization. And first of all that starts with the people and I spent a considerable amount of time in the first couple of months here really trying to understand the people and I've been very impressed by the quality of our officer team and people. I have made some organizational changes and announced the creation of three divisions which were not created before and that is -- those are divisions to operationalize around our three growth priorities -- U.S. retail or North American retail, North American BSG and then international.

So those businesses did not have leaders and they did not have people who were focused on those businesses as separate businesses. People were focused across the Company. And so I believe we're at the scale that we need that focus and so my priority has been developing that organization and now we've launched a search, as I mentioned before, for the CFO position as well as for a North American retail president. So I think that that's first. Secondly is the development of a strategic plan with the officer team and that process is underway as we speak.

Colin McGranahan - *Sanford Bernstein - Analyst*

A specific question here on the M2 format. Has it begun comping better than average and what are the other metrics worth watching for the M2?

Steve Odland - *Office Depot - Chairman, CEO*

The M2 prototype -- in a retail business these things kind of evolve over time and we talk about them as discrete things. The M2, which is short for Millennium 2 grew out of the Millennium 1 prototype at Office Depot and so it's something that's been a work in progress for us over time. We are very pleased with the results of the M2 prototype and so now we are remodeling stores with that as the remodels are required. And secondly, all-new stores -- again it's 100 this year, 100 next year -- are being built in the M2 format.

We find through consumer research that our customers believe they're more shoppable, they're finding more things in the stores. We are able to do a better job of attaching related purchases and so forth. So while we haven't given specific numbers or metrics on them, clearly we believe that the most important thing is how they're comping incrementally and are they paying out the investment in them? And we believe they are and we wouldn't do it unless we believed that there was a positive return.

Colin McGranahan - *Sanford Bernstein - Analyst*

Okay. Given the need to centralize in Europe and the high-cost structure there and the difficulty in removing costs will a major restructuring be required in Europe and do you anticipate that happening this year?

Steve Odland - *Office Depot - Chairman, CEO*

Again, we're going through our strategic plan development not only in the North American business but globally and we're looking at all of our asset base. And so we will go through that as part of the strategic plan. We hope to wrap that up within the third quarter. But I do believe that with a country-by-country structure and the opportunity to think about it from a more pan-European standpoint as well as to complete the integration of the Guilbert acquisition I think there are opportunities an Europe.

Colin McGranahan - *Sanford Bernstein - Analyst*

Okay. Given the challenges in consumer tech, and referencing specifically Lexmark, what are your plans here especially in light of your relatively size in this category?

Steve Odland - *Office Depot - Chairman, CEO*

The consumer tech area is a dynamic area; it's a double-edged sword in that it requires a lot of innovation, quick turnover, different product base continually. Computers have evolved, as everybody in this room knows, and things change very rapidly. The margins are also under stress in that business as well, but we have done a great job of developing some partnerships with our vendors as well as beginning to launch some private brand there which we are testing currently and are seeing some fruit in our private branding and technology.

The configure to order business is an interesting business where we're able to customize and I do believe that the old-fashioned model of you carry a few of these models and the look like this is going to become less relevant because more and more people are savvy in terms of what they wanted in terms of if you think about a computer or think about the monitor, the hard drive, the storage, the memory and so forth. And so I think we're develop a great potential business here in our configure to order business. So it is growing and robust and our challenge is to manage it and drive it in such a way that we also drive margin in that business.

Colin McGranahan - *Sanford Bernstein - Analyst*

A question here on the catalog business. The annual report states that you mailed out something around 300 million catalogs last year. On the face that seems excessive; can you explain your return analysis and if it makes sense?

Steve Odland - *Office Depot - Chairman, CEO*

It does seem excessive; 300 million catalogs, that's one for every individual in the United States at least. But it is a business that is evolving over time and our views of it are that over time that that business will evolve to become a more Web-based business and we believe that we have -- and we've done a lot of work on the Internet. We are already, as I said before, the third-largest e-commerce retailer in the world. And so we do think that there's going to be an evolution of that and that the cost difference will move in that direction. But there still is an incredible market for people who want to sit and thumb through a physical paper catalog, it's also a quick reference for the administrators and companies and so forth. So it's a balance and we will continue to evolve that business over time.

Colin McGranahan - *Sanford Bernstein - Analyst*

I think we have time for one final question -- probably the one we all want to know here. How much improvement can you identify as a percentage of sales in the current North American retail business and can you list some of the potential levers?

Steve Odland - *Office Depot - Chairman, CEO*

Again, it's a little early to quote specific numbers, but I do believe that -- we've shown five consecutive quarters of comparable store sales improvement, we're pleased with all of our categories and the development in those businesses. I think that from a cost standpoint there are improvements possible in global sourcing and category management which will accrue to the stores. Also I think that there's cost savings potential in the supply chain. None of that effects the customer and I think that that's an important thing.

We don't want to do anything in our stores that negatively impacts our customer. A lot of people look to labor and say well, there's a big -- an expense and you could cut that, but that's our service and our brand and we don't want to tamper too much with that. So I think there are a lot of levers. I think mostly on the cost side and most of which will help -- that we can deliver to the bottom line and help us grow the business as well.

Colin McGranahan - *Sanford Bernstein - Analyst*

I want to thank everyone for coming and, Steve, thank you for your time today.

Steve Odland - *Office Depot - Chairman, CEO*

Thanks very much.
