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EDITED TRANSCRIPT

ODP.OQ - Office Depot Mid-Quarter Business Update

EVENT DATE/TIME: NOVEMBER 28, 2001 / 1:00PM GMT

OVERVIEW:

Retail sales trends improved since 3Q01 results, overall sales still negatively impacted by economic conditions, steadily improving performance across all segments, potential 4Q01 earnings upside $0.01-0.02, international businesses performance steady - high growth potential.

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CONFERENCE CALL PARTICIPANTS

EILEEN DUNN

BRUCE NELSON

TRANSCRIPT

Editor

Operator

Hello and welcome to the Office Depot mid-quarter update. I would like to introduce Miss Eileen Dunn, Vice President of Investor Relations and Public Relations, who will make a few opening comments. Miss Dunn, you may begin.

EILEEN DUNN

Good morning. Welcome to our mid-quarter update for the fourth quarter, 2001. Before Bruce makes his comments, let me remind you that except for historical information, the matters discussed in this taped message are forward-looking within the meanings of the Product Securities Litigation Reform Act. Forward-looking statements including projections and anticipated levels of future performance involve risks and/or uncertainties which may cause actual results to differ materially from those discussed herein. These risks and uncertainties are detailed from time to time by Office Depot and are filed with the US Securities and Exchange Commission, which include and without limitation our 10 K's and 10-Q's. You are strongly urged to review such files for a more detailed discussion of such risks and uncertainties. Now, let me transfer this call over to Bruce Nelson, Office Depot's CEO.

BRUCE NELSON

Thanks Eileen. Thanks to everyone who is dialed in to listen to our business outlook for the fourth quarter which ends December 29, 2001. In a brief summary since we reported our third quarter results on October 17th, North America retail sales trends have somewhat improved via [unintelligible] sales particularly to our large contract customers have softened, and international sales and local currencies have held steady. As we previously stated, overall sales trends continue to be negatively impacted by a week domestic economic environment. However I am pleased to say that our 48,000 worldwide employees are continuing to find new ways to drive sales, manage and control costs, and increase shareholder returns. I continue to be encouraged by our consistently improving operating performance across all business segments. I will now make some brief comments about fourth quarter trends in each of our three reported business segments. First North America retail. Comparable retail sales so far in this quarter has slightly improved over third quarter trends, and the forecast we gave when we reported our third quarter results. Comp sales in October were in line with our estimate of high single digit negative growth, but we saw a nominal improvement in our sales trends for most of November. However, sales trends on the Friday, Saturday and Sunday after Thanksgiving were somewhat disappointing and mirrored the trends we have experienced all year. Which is weaker sales trends on weekends compared to sales during the week when most of our core small to medium size business customers shop. We believe this reflects the same weakness in consumer spending that we have seen throughout 2001. Technology and furniture rated categories continue to underperform while our core office supply business remains steady. We now anticipate compareable North America retail sales for the fourth quarter will finish in the negative 6 to 7% comp range. Which would be a modest improvement over the range we gave on our third quarters earnings call last month. On the gross margin side we are projecting gross margin improvement on a year over year basis but below third quarter levels as a result of fourth quarter merchandise mix changes, nd somewhat lower annual volume rebates from suppliers as our overall 2001 sales growth. We continue to keep tight control over expenses while at the same time improving virtually all of our customer service measurements. Turning to business services group. In our contract business, we continue to see sales negatively impacted by the weakening economy and employee layoffs in our large customer segment. In fact, contract sales have shown a further softness from our forecast last month as large businesses, in particular, have accelerated layoffs and are controlling expenses even more aggressively. Our catalog and E-Commerce businesses have been less impacted and continue to show positive growth. As a result, if current trends continue in this segment, we think fourth quarter compareable sales growth could decline to the mid-single digit negative range for this group. BSG growth margins continue benefit from disciplined contract pricing but will also be negatively impacted by somewhat lower supplier rebates as a result of softer sales performance. We continue to see improvement in productivity and efficiency somewhat offset by a lack of leverage in warehouse and delivery fleet fixed costs. Total BSG operating costs as a percentage of sales are forecasted to be well below last year's level, continuing the improvement we have shown all year. Interestingly, the number of customers orders is rising, total lines are increasing but average ticket is declining. We are growing the number of new customers, increasing our retention of existing customers but they are buying fewer units. We see these as continued signs of a deteriorating and difficult short-term economic environment. On the international front, quarter to date sales and local currencies in our international division have continued to hold steady with strength returning to Germany one of our largest European revenue companies. At this stage in the quarter we still believe sales in U.S. dollars will be in the low double digit range for the fourth quarter. Currency while somewhat neutral in the early part of the quarter has now returned to its negative partern of earlier in the year with the Euro dropping to the mid to high 80s and the British pound hovering around the 140's range which will negatively impact the reported sales in dollars. Our highly profitable international division continues to grow faster than the European economies generally, and remains in full control over selling margins and operating costs. We are on target to begin operations in Switzerland in early 2002 and will soon announce our entry into another new European country later in 2002. International continues to be the highest growth potential of all of our businesses and we intend to continue to invest in this high return on investment segment. To summarize our retail business is showing sequential improvement in comps for the third consecutive quarter, and total company growth margins continue to improve on a year over year basis. Our international business, while still plagued by currency issues remains a constant, steady performer. Company-wide cost and quality