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ODP.OQ - Q1 2003 Office Depot Inc. Earnings Conference Call

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OVERVIEW:

ODP announced the adoption of EITF 02-16, though reported results are on a pro forma, non-GAAP basis. Reported EPS of $0.30 fell below consensus of $0.32. Worldwide sales were $3.1b. ODP is also excited about its new store format to open this quarter. Q&A focus: new stores, decline in North American sales, EITF adjustments.

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PRESENTATION

Operator

Good morning. We would like to welcome you to Office Depot's First Quarter, 2003 Earnings Conference Call. All lines will be in listen-only mode for today's presentation. Afterwards, instructions will be given in order to ask a question. As the request of Office Depot, today's conference is being recorded. I would like to introduce Ms. Eileen Dunn, Vice President of Investor Relations and Public Relations, who will make a few opening comments. Ms. Dunn, you may begin.

Eileen Dunn - *VP, Investor Relations and Public Relations - Office Depot*

Thank you. Before beginning today's conference call, I'd like to remind you that certain of the statements made on this call are forward-looking under the Privacy Security's Litigation Reformat. Except for historical financial and business performance information, comments made on this call should be considered forward-looking. Actual results may differ materially from those discussed on this call due to risks and uncertainties both foreseen and unforeseen.

Certain of those risks and uncertainties are described in detail in our report on Form 10-K filed with the SEC on March 13th, 2003 and in our other filings with the SEC from time to time.

In portions of this call, our CEO Bruce Nelson, will refer to results of our first quarter which do not reflect the adoption of EITF 02-16 and therefore are non-GAAP numbers. The reconciliation of these non-GAAP numbers to GAAP results is attached to our press release issued earlier today and on our Web site.

Now I'd like to introduce Office Depot's CEO and Chairman, Bruce Nelson.

Bruce Nelson - *Chairman and CEO - Office Depot*

Thanks, Eileen, and good morning to all of you who joined us on the call this morning.

Myself together with my key management team is here in Del Ray Beach, Florida. And we'll take you through the challenging first quarter.

First, as Eileen mentioned, with the adoption of this new accounting guidance called EITF 02-16, some of our results on GAAP make it very difficult for comparison to prior periods. So, I'll talk about our first quarter on a pro forma, non-GAAP basis so as to give you more insight in how the business performed in the first quarter irrespective of the required changes we had to make under 02-16.

As you all know, we're committed to reporting our results in conformity with GAAP, but at least for this quarter, it's important to understand how our results compare to prior periods. And the best way to do that, I think, is to present them in a basis that ignores for the moment the effects of EITF 02-16.

As Eileen said, you can find a reconciliation of the information to GAAP on our last two pages of our earnings release.

Some of you've heard me say many times there's a Chinese proverb -- some say blessing, some say curse -- I happen to thing it's a blessing: May you live in interesting times. And certainly, from a broad perspective, we certainly do.

From the geopolitical environment, which has its impact on business, to the economic issues we have here in North America and in Europe. And in some respects on a small scale to weather related issues that we all experienced in the first quarter of this year.

It was at best a challenging business environment for Office Depot. Added to that is the fact that Office Depot, as you know, is on a calendar year basis for reporting our results, when most other retailers are on a fiscal year.

That comes into play more than ever this quarter when we're one of the first retailers to have to report the mandatory adoption of EITF 02-16 in our results. It means it's difficult, at best, to understand and explain.

Only a few retailers so far have reported under this basis; so there needs to be a broader base of understanding of the impact of this accounting rule. We have attached supplemental schedules to our earnings release. And at the end of the call I'll ask Charlie to give you a summary of the impact at Office Depot.

And certainly it causes confusion when trying to compare operating results in this quarter versus last year's. Combined with that, on a non-GAAP basis, our 30 cents reported earnings per share fell below the consensus of 32 cents.

Our North American retail comps were negative 6.7 percent and came in at the very high end of expectations. And as you know from previous calls, a one percent change in our North American retail comps basically translates into a penny a share.

And on that basis, if you summarize the quarter before I get into some detail, you would conclude that missing North American comps in the range we thought we would be in, in the minus four minus five range, is the entire two cent variance in the quarter on EPS. It's much more complex than that and now what I'll do is to take a little bit of time to take you through the first quarter.

I'm going to spend a little less time on the first quarter than I normally do. First, if you got an earnings release, it's 14 pages long. It is loaded with insight, detail, information, and analysis that far exceeds most of what anybody provides investors and it's designed to give you clear insight into the business.

I'll summarize the current quarter. I'll spend more time than I normally do talking about the actions, some of which we've taken others which we have plans, that we are confident will change our revenue growth line in retail in North America and will continue to allow us to accelerate our growth in our delivery businesses here in North America and our exciting international businesses.

So let's go to the first quarter results briefly and as I said my comments will be somewhat brief. At the end of the call, certainly, you're free to ask any questions that you might have.

On a consolidated sales basis, worldwide sales grew one percent. I might point out that all of our results now also exclude Australia in which the sale of that business was completed early in the first quarter.

First quarter sales went to three point one billion, our sales increase in BSG, e-commerce, and our international businesses, including some positive impact from European exchange rate translations, more than offset the six point seven decline in North American comps and negative sales growth in our domestic catalog businesses and in Japan. As a result, worldwide comparable sales were down two point six for the quarter. Worldwide e-commerce sales did grow 23 percent to almost $600 million and we are on track to achieve more than two point five billion continuing to lead both the industry and other industries in this category.

In the BSG, balances here in North America, our overall growth was three percent. The contract portion of that was better at five. It was influenced by negative growth in Office Depot's catalog business but partially helped by growth in Vikings catalog domestic business, the first growth we've seen there in some quarters.

International grew 23 percent in U.S. dollars, four percent of local currencies. We had strong performances in Ireland, U.K., Netherlands, Italy, and Belgium. We did have softness in Germany and France and significant declines in revenue in Japan.

On an operating basis, as I said before, we adopted the new accounting standard EITF and so I'm now going to comment before those changes. Before the net impacts of EITF, this means these are non-GAAP, Pro Forma basis; our consolidated gross margins were down 20 basis points from last year, essentially flat. There's mixes in those changes, but essentially flat at 20 basis points. Our consolidated operating selling expenses were up 20 percent over last year, again essentially in the flat range. And our consolidated operating profit was down 40 basis points over last year, but that did result on a non-GAAP basis of operating profit decreasing by 12 percent, predominantly as a result of the negative sales growth in North American retail stores.

Our operating profit was offset by our strong results in international, which I'll talk later about, was helped by favorable currency benefits. Our G&A costs in the quarter were negatively impacted by currency translation. A number of new MIS initiatives, increases beyond plan in our benefits and insurance costs, and about a penny of share related this quarter to our ongoing integration between our Viking and Office Depot Catalog businesses -- now names our Business Direct Division.

On an EPS basis, excluding the effects of EITF 02-16, pro forma, non-GAAP-diluted EPS would have been 30 cents per share in the quarter, compared to 32 cents, as reported in the first quarter of last year.

Some of the highlights of our first quarter -- and I'll talk much more specifically about retail, both when I discuss retail results and at the end of the call -- but we have rolled out Ink people to more than 500 stores by the end of this week. That's a roll-out that virtually all stores could be completed by early next month. This is not a small task. This Ink Depot roll-out takes between 250 to 350 hours per store to do. It's a major effort in our retail stores. Few retailers have been able to pull this off in a year, let alone in a couple of months from the time we started till the time we get done.

Our global e-commerce sales, as I said earlier, increased 23 percent, domestically, 21, and international, 65 percent.

We did launch a new Spanish-language Web site to a growing two million Hispanic-owned businesses in the United States. We are the first retailer in the U.S. to accomplish this. It will help drive revenues -- not only in e-commerce -- but we are confident, based on our sheer presence in a number of the very large Hispanic markets of the U.S. with stores, that it will also drive North American retail sales.

We announced the entry of retail into Spain. We have now two stores open. We'll open three more this quarter, on track to open six for the year. That comes in a country where we already have an existing infrastructure. We already have a Viking Catalog business. We're the first major retailer to have a superstore of office supplies in Madrid. While we've only been open a few weeks, the results we've seen to date are encouraging.

We did, as I said, complete the disposition of our Australian subsidiary, and our results now reflect those of discontinued operations.

And in Europe, we were ranked one of the best places to work in Germany, Austria and the U.K. We think that's a remarkable achievement and fits the culture we're trying to create, both in Europe and here in North America. And, of course, we did announce our intentions to acquire Gilbert . I'll spend more time on that towards the end of the call.

North American retail -- as I said earlier, first quarter sales were down six, while comps were down 6.7, impacted by continued weakness in both furniture and technology sales. Core office supplies were essentially flat for the quarter. Furniture was down five percent in comps, versus seven percent in the fourth quarter, so some small improvement. Technology got worse in the quarter; down 20 percent, versus 10 percent in quarter four. More than half of our negative comps in North American retail stores are directly attributable to technology and furniture declines. Both categories we will address later this year in significant new initiatives I'll talk some about later.

We've had some significant issues with our CTO's that's computer Configure To Order, caused by a supplier in not meeting shipment dates. Software was slightly down. Our average ticket was down about 3 percent, comparable transactions were down somewhat less than that. Conversion was up, we've been measuring conversion in our stores, so when we get a customer, are they buying something, we've made a major effort in that regard and conversion is up in our retail stores, trending up, and we believe this is an opportunity to even grow our revenue faster and better than the past. Our customer service indexes were all up. Complaints were down 45 percent.

We did open 4 new stores, and one relocated. At the end of the quarter, there's 871 stores here in the U.S. and Canada. On the North American operating profit side, our operating profit margin declined 50 basis points. Gross margins were down 40. This is a little bit of a mix change as ink and toner starts to grow more rapidly, and it is. It has a slightly lower margin mix than Co-office supplies. There's some other products mix changes, and there is also, we've undertaken some increased promotional activity, highly targeted and focused to predominantly existing and high profile target customers, and that had some negative impact on margins, but the signs that it drives revenue are encouraging. Our total North American retail operating expenses declined 14 million dollars in absolute dollars, as a result of tight and controls in a very difficult sales environment.

Operating costs increased 10 basis points, as a result of the loss fixed cost leverage in the declining sales. Included in our store operating costs this quarter, are about 250-300 hours per store for the rollout of Ink people. We had 220 stores at the end of the first quarter with this new format. We have 500 plus at the end of this week. And by May, we'll have all 870. By the time we complete that rollout, it will have cost us in labor costs, something a little more than a penny a share, but the net result on our revenue, on our traffic, on our transactions, and our baskets, are all very positive.

As a result of all those activities, our net result in the operating income in our North American retail business declined 12 percent quarter over quarter. Our business services group, total sales for this group, increased 3 percent for the first quarter to 1 billion. The contract portion of this business, that's where we have sales reps assigned to accounts, had mid-single digit growth, 5 percent, reflecting some share gain on national accounts.

Most of our markets in the western region have and are recovering from negative growth a year ago. Parts of our business in the east and in the southwest, suffered from severe weather during the first part of the quarter, but did recover. Our contract average order size continues to improve, that's an emphases we've had. We think that's a sign of growing health in that segment. Our business direct division, that's our North American [Inaudible] in businesses, continues in total to have negative sales trends, but Viking's Catalogue sales grew this quarter for the first time in some time, as we focused new initiatives in Viking to grow our business. And, as I said earlier, our domestic e-commerce business to be 21 percent. On the operating profit side, our gross profits declined 180 basis points from last year. This is the result of 2 primary things. One, there's a higher mix of lower gross margin large accounts. Large accounts have lower gross margin percentages.

There have been some small pressure on paper margins in the first quarter. And the slower growth of our high margin catalogue businesses means this business when you aggregate it reports gross profit down 180 basis points.

Our operating and selling expenses were essentially flat compared to last year in dollars, but that was an 80 basis point decline in costs. That's virtually all attributable to a continuing decline in our warehouse operating costs.

This has been a remarkable two and a half year consistent story. Our costs get better. Our quality continues to go up. Our quality metrics continue to exceed expectations.

And that cost allows us in the long-term to be more competitive and be more aggressive because we've taken enormous costs out of our North American warehouses in the last two and a half years. And as I said, virtually all of the quality measurements in this business remain above expectations.

On the international side, sales grew four percent in local currencies, 23 percent in U.S. dollars. Foreign currency translation benefited sales in the quarter by $76.8 million. Our contract sales -- our startup contract operations in Europe grew 118 percent. Our e-commerce grew 45.

Retail comps in France were negative seven in local currency. We opened one new store in Europe and that was in Spain. Our France office -- Depot Retail and Catalogue -- grew 13 in local currency, but our France catalogue business as well as our German catalogue business were soft in the quarter.

Japan's end sales growth was down 18 percent in local currencies. And the net result is in local we grew four, in U.S. dollars 23.

On an operating profits side our gross profit was down slightly 20 basis points, virtually all mix related. Operating and selling expenses were down 30 basis points in spite of our continued investments in these countries and channels all in Europe.

Operating income was up 10 basis points. And Japan achieved a breakeven for the first time ever in spite of a double-digit negative sales growth in local currency. We are making and have made substantial progress in Japan.

While we're still losing money, it's at about half the rate a year ago. Last year was half the rate of the year previously and we're seeing some very encouraging signs in our BSC business in Japan. And we have a number of stores now profitable at the store level in Japan in spite of an enormously difficult economy.

Our operating income in this segment grew 24 percent in U.S. dollars. Foreign currency translation benefited operating profit by 10.6 million in the quarter. And as a net result, operating income grew six percent in local currencies.

A couple of financial highlights: we remain having a very, very strong cash position. Our first quarter cash balance was almost $980 million. Our cap ex for the quarter was 38.5 million. Our free cash flow was 57 million for the quarter.

Before I talk about the future, I'm going to ask Charlie Brown for a brief summary of the impact of EITF 02-16 and the results of the quarter. And hopefully it will give you a little understanding of what all this means. Charlie.

Charles Brown - *EVP and CFO - Office Depot*

Thanks, Bruce.

The first thing I'd like to do is give a little background to EITF 02-16. As most of you know, funds that we receive from vendors historically are classified either as purchasing rebates or as cooperative advertising support.

Rebates were accounted for through reduction of product costs while co-op payments partially offset advertising expenses.

Because rebates are a component of inventory cost, they are recognized as income when the product is sold, rather than when it's approved. That's an important distinction. The FASB, recognizing the potential for companies to manage earnings within a given period, through their categorization of vendor payments, now requires that all such payments are classified as a reduction of product cost. The limited exception is where companies can demonstrate that a vendor's payment offset specific advertising expenses. That's vendor-by-vendor test. This EITF was issued in December of '02 and became effective for us in the first quarter.

Now, as for the impact on Office Depot; we've included schedules B and E in our earnings release to show the financial statement impact of adopting EITF 02-16. For just a quick summary, we recorded a cumulative effect of this accounting change as of the beginning of our first quartet, 2003. As a result, net earnings were reduced by almost $26 million or eight cents per share because payments that previously offset advertising expenses, were effectively capitalized into our cost of inventory.

During the quarter, net earnings were increased by three cents per share. As our normal business cycle reduced our inventory levels and a portion of the eight cents that was previously capitalized is now released to income.

Assuming the amounts of inventory and vendor payments remain relatively constant, this accounting change will have no impact on operating earnings for the full year. There will, however, be small impacts on a quarterly basis as our inventory increases and decreases in conjunction with our normal business cycle.

So hopefully you'll find the schedules B in particular with reconciled B, EPS impact and schedule E, which talks about the segment reporting will be helpful and of course Eileen and I are available after the call to help folks who need a little more clarity.

That's it, Bruce.

Bruce Nelson - *Chairman and CEO - Office Depot*

Thanks, Charlie.

Now I'm going to focus on a minute on what we're going to do to grow our business in North America. While I remain somewhat pessimistic about the overall economic condition, you should know I remain enormously optimistic about Office Depot's ability to grow both our revenue, our income, and earnings per share. We certainly have difficult times, but I - as I said in the first quarter, I'm sorry at the end of the year last year, we had identified five specific retail initiatives and I know a number of you were frustrated I didn't articulate those.

I'm going to give you a little more articulation of some of those today because they're far enough along to understand the results and or they're far enough along to take advantage of being first to do these things competitively.

First and foremost I talk about ink and toner. Why is this important? It's the largest category of supplies we sell in our store. Two, we've put in an average 600 square foot. These are stores in stores. They staff with a register. They have a kiosk. They have an ink finder. You can find the ink you need in terms of using the Internet. You can find it with a piece of paper. There's someone there to help you. You can take a shopping cart in there and buy it and see it and touch it and feel it.

It has changed and is increasing. The traffic in our stores, the constant ink and other related products and we are excited about what this means. While other competitors have focused on this category, no one has given it the space we have. No one has staffed it with an individual person to give help. No one has done what we done and what we've virtually done with this initiative by the end of April or in the first week of May and that's remarkable when you think about [Inaudible] 67 stores. It's not just a re-merge. It's a store in a store. It's at the front of the store, and it's exciting.

We have two more initiatives we will complete in the second quarter of this year. One is a writing instrument transformation. Why is this important? It's our fifth largest category in our stores. It is rich in market basket value and composition. It's one of the few departments in office supply retail stores that's expandable because customers like and have many, many choices. But the end of the second quarter, we will have added eight linear feet to virtually all of our stores in North America. We'll have added 580 new writing instrument SKUs, and we are confident we will have the best and the market-leading assortment of writing instruments, from low-value, low-cost to high-value, high-perceived-cost of writing instruments. We think it will help grow our business in North American retail.

We will also complete, by the end of the second quarter, a significant re-merchandise of our binders. You say, "well, binders -- why is that important?" First of all, every one of our competitors and ourselves currently have binders merchandised by size and capacity. At Office Depot, we call it a "sea of binders." When you walk down an aisle, you see a sea of spines, and you don't know exactly what you want to do. We will provide, by the end of June in virtually all of our stores, a unique shopping experience that differentiates Office Depot from competitors. It is another significant investment in store hours. And remember, these have to be done during normal business times or after business hours, and some have disruptions to your business. But when we get done, we'll have a [Inaudible] that segments binders by usage and occasion, as opposed to size. We'll be divided into presentation, storage and organization. We'll have new store signage, new door signage, new floor graphics, new aisle signage and new channel strips, which we think will make it easier for customers to buy the binder that best fits their needs. We think we can become a destination for customers' needs in binders, and we are confident it will drive incremental revenue. And it, too, will be done by the end of the second quarter.

In the second half of the year, we will make significant changes in Furniture, Copy and Print, and in Technology. I will not articulate at this time what those changes are. That's predominantly for competitive reasons. But needless to say, if you take the time to go look at binders, writing instruments, and ink and toner at Office Depot, it could give you some insight to some of the significant changes we'll make in Furniture, Copy and Print and Technology.

Late in this quarter, we will open an entirely new store format that we've called "Millenium." This store will be unlike any other office products superstore. During the second half of the year, we plan to remodel 25 to 30 of these stores in the new format, and assuming it meets our pro forma expectations, we could potentially remodel in 2004 hundreds of existing Office Depot stores. Our initial customer research on this new format is incredibly and extremely positive. It significantly changes the customers' perception of the customer experience, and after all, that's what it's about.

We are on track to open 40 new stores in 2003, targeting 70-80 in 2004. Of the 10 new stores we plan on opening in this quarter, 6 of those are less than 10,000 square feet. That means we have identified a store size and format that can fit an existing Office Depot markets where we have density, or we can grow our presence, grow our share in markets in which we already have a significant presence. In the third quarter, we'll open about another 10 stores. These will average about 13,000 feet. What this means is, the stores formats are smaller, we can put them more places, they're break-even point is lower, we have enough of these models today that we're confident they work. It will also give us the ability to even further penetrate market areas where we already have significant density and market share.

For example, in the next 18 months, we will increase the number of Office Depot stores in Miami-Dade, Broward and Palm Beach County, by almost 50 percent. We have similar plans for other important existing Office Depot markets. This will let us grow our presence even greater in markets where we have a significant position. In our BSG businesses, here in North America, we are continued to [Inaudible] resources in the large customer segment to take advantage of our cost structure, our capabilities across channels and brands, and our improvements in our North American warehouses. Our goal is to gain market share. Our new business direct division, which includes our North American catalogue businesses, are organized under one leader for the first time. The Viking brand and the Office Depot brand are the one leader. One organization, one infrastructure, will provide synergies, will provide cross-channel marketing opportunities, will make us better at prospecting, and using the leverage and the power of both brands. We expect that business will accelerate in growth in the second half of the year. And as I said, we are not through with our progress on North American warehouse costs. This has been a remarkable story, and continues into the first quarter, and will continue that throughout this year. On the international side, this has always been, [Inaudible] years, the market we said we had the most opportunity to grow old. Our retail expansion in Spain, as an example, our continued growth in multi-channel, multi-brand business models pays out. Take a look at the operating profits in our international business. We've been there since 1990, we know how to run businesses in multi-culture, multi- rainbow and multi-countries.

We have a proven business model, and we have an experienced and in-depth management team. We are accelerating growth in our new Viking catalogue countries of Switzerland, Spain and Portugal. Our BSG startup businesses, which have focused predominantly today on small and medium size accounts in Europe, are achieving substantial growth rates, and we are making great progress in Japan. As you know, we announced, in the first quarter, that we intend to acquire Guilbert, one of Europe's leading contract stationaries. We have filed the necessary paperwork with the DU, and we are hopeful that we'll receive early approval of this transaction. We are confident that we can complete this transaction, and once we receive DU approval, we plan on closing this transaction with days after that approval. We articulated the reasons why we wanted to buy this business when we made the announced position, but the [Inaudible] announcement, but they're all focused on strategic growth and our ability to leverage complimentary businesses.

We said at the time that we thought these businesses could be incremental to EPS five to 10 cents per share in 2004. We still believe that to be true. We said then, we'll say now that we believe those are conservative numbers.

Once we close this business and understand it even in more depth, we will provide you much more specificity as to how and when we'll achieve synergies. But we believe this will be tremendously accretive for Office Depot in anyway you look at accretive: EPS, return on investment, return on net assets and clearly, market position and market share in Europe.

Numbers of you have expressed a concern that Guilbert will cause us to lose focus here in North America. That's simply not true. We've been in Europe, as I said, for 10 years. We know how to do business there. We've got a great management team.

Our marketing merchandising operation teams here in North America do not share responsibility with their European counterparts. Therefore, they'd lose no focus on running and integrating our Guilbert acquisition.

North American retail remains our highest priority. I've tried to give you some insight as to why we believe -- based on what we've seen to date -- that our North American retail comps have bottomed.

It's up from this point, albeit we're still in a challenging business environment clearly into the second quarter. And some of these initiatives, while not complete in the quarter -- we're in today the second quarter -- will give us benefit in the third and fourth quarters.

Based on that, our outlook for earnings growth in the second quarter of this year is to be at about the same rate of shortfall that we were in the first quarter from last year's results.

We also believe, however, that in the second half of the year our earnings will accelerate in the 10 to 15 percent year over year basis in the second half of this year. We believe the initiatives that we've undertaken, the impact of those initiatives predominately in our North American retail business, will accelerate our EPS growth in the second half of this year.

So, with that what I'd like to do is now summarize by saying, certainly it was and remains a difficult business environment. But those of at Office Depot remain incredibly confident about our ability to grow our business, to grow return on net assets, to use our cash and resources wisely to invest and to grow our businesses.

We've been committed to that since my joining Office Depot as the CEO two and a half years ago. And we stay committed to it. So, with that we'll turn the call over to you for questions.

QUESTIONS AND ANSWERS

Operator

Thank you. At this time we are ready to begin the question and answer session. If you would like to ask a question, please press star one. You will be announced prior to asking your question. If you would like to withdraw your question, please press star two.

Once again, to ask a question please press star one. One moment please. Our first question comes from Matthew Fassler of Goldman Sachs. You may ask your question.

Matthew Fassler - *Goldman Sachs & Company - Analyst*

Thanks a lot and good morning.

Bruce Nelson - *Chairman and CEO - Office Depot*

Good morning, Matt.

Matthew Fassler - *Goldman Sachs & Company - Analyst*

A couple of questions. The first one I'd like to ask relates to inventory. I'm not sure whether EITF 02-16 impacted your inventory numbers in anyway, but it does appear that inventory was up a bit, probably in excess of sales.

So, if you could give us a sense as to what issues are driving inventory or drove inventory in the first quarter and how you see that evolving over the course of the year?

Bruce Nelson - *Chairman and CEO - Office Depot*

Charlie, do you want to address that?

Charles Brown - *EVP and CFO - Office Depot*

Yes, Matt. Good morning. The inventory was impacted by the adoption of 02-16. Essentially what happens mechanically is the monies that we use to offset advertising with are now capitalized into inventory. And so it becomes part of the - of the inventory. They would actually be - they would actually be reducing inventory levels, inventory costs because again, they're an offset of that.

Bruce Nelson - *Chairman and CEO - Office Depot*

The other thing that I would say is that we have increased, intentionally increased inventory in our retail stores in two very - two areas. One is part of our marketing program for ink and toner is a guarantee of an in stock position. That's a fast turn item, those are double-digit inventory turns SKUs. We have increased our inventory. That's significant because this is a very large category.

Second of all, we have also increased the inventory in a items in our retail stores. We just have an obsession about never being out of stock. And we have tested and found that by footing additional inventory, predominantly in A items, we have less out in the past and so part of that is intentional. I have no concerns at Office Depot about the quality of our inventories, about the age of our inventory, or about the fact that it did go up slightly in the first quarter. I have zero concerns of that regard.

Matthew Fassler - *Goldman Sachs & Company - Analyst*

Got you. And my second question relates to EITF for quarters going forward. You said in you release, I guess, that you'll restate quarters as they are reported, but for projection purposes, can you give us a sense? Obviously EITF generally would help you, I guess, in the first quarter. If you look at the second, each of the second, third, and fourth quarters when does it help you, when does it typically hurt you?

Bruce Nelson - *Chairman and CEO - Office Depot*

Well, the amount, Matt, of the change is going to be less than a penny a share.

Matthew Fassler - *Goldman Sachs & Company - Analyst*

Right, and then after that.

Bruce Nelson - *Chairman and CEO - Office Depot*

You're correct that it actually hurts us a little bit in the second, helps a little bit in the third, and then hurts us a little bit in the fourth. But again, all these movements are actually very, very small. That's one of the reasons we chose to adopt this standard on a cumulative affect was to try to pull it out so that when we roll into next year, the numbers will be comparable. But we will provide the same kind of guidance schedules B and E as we have this quarter.

Matthew Fassler - *Goldman Sachs & Company - Analyst*

And my final question relates to the international business. I guess in local currency, the growth rate looked, I guess, two points slower than it was in the fourth quarter. Obviously you have retail store openings, you have the cycling of openings, you have you Viking businesses, et cetera and contract. To the extent that there is a comparable like for like number in any of the international businesses that you want to share with us. Can you tell us what that might have been?

Bruce Nelson - *Chairman and CEO - Office Depot*

The answer, Matt, I don't have that. I don't think it's materially different.

Matthew Fassler - *Goldman Sachs & Company - Analyst*

OK.

Bruce Nelson - *Chairman and CEO - Office Depot*

As the start up businesses are small. The biggest impact in the first quarter in international was the slowing of the catalog businesses in Germany and France. The three biggest countries in Europe on the catalog side for Office Depot have always been U.K. one, Germany two, France three. U.K. we had pretty good results in the catalog businesses. But we did have slowing in Germany, frankly for the first time I would say ever in our six or seven years there. And France was exasperated by I think a geopolitical environment and economy in France and some other issues. And so those in effect leveraged down the growth rate internationally.

So it was really the two countries. Softer growth rates than planned anticipated forecasts and lead would occur in France and Germany.

Matthew Fassler - *Goldman Sachs & Company - Analyst*

Got you. Thank you so much.

Bruce Nelson - *Chairman and CEO - Office Depot*

Um-hmm.

Operator

Our next question comes from Dan Binder of Buckingham Research.

Daniel Binder - *Buckingham Research Group - Analyst*

Hi, I had a couple of questions. First, could you give us some idea in terms of the extent of testing you've done on some of the initiatives that you plan on rolling out in the latter part of Q2 and the back half of the year? And then the second question is, with regard to the direct mail business in the U.S., can you just give us some sense if there's anything you're doing there to help stimulate that business? And is Viking getting better simply as a result of user comparisons, or is there something changing there?

Bruce Nelson - *Chairman and CEO - Office Depot*

Well, the first answer, Dan, is about the testing. I won't give you a lot of insight to that. I don't think that's fair from a competitive perspective. I mean, I know you'd like to have it, and everybody would. Needless to say, I'll tell you we tested it. I mean, we're just not gonna roll out chain-wide implementations like these without tests; I mean, we just don't do it.

So, we have enough concrete data in both hard data, called "comps" or "transactions," or any way you want to do it, combined with soft data, customer perception. We have total confidence in what we're doing in the categories we've rolled in the first and second quarter, and the ones we're gonna roll in the third and fourth quarter.

But I really won't, Dan, for ...

Daniel Binder - *Buckingham Research Group - Analyst*

OK.

Bruce Nelson - *Chairman and CEO - Office Depot*

... go into the specificity.

Relative to Viking, Viking is comparing against negative results . And so, in that respect, there are some differences. But I will also tell you that there's been a significant number of efforts at Viking, including, for the first time, a significant effort in outbound telemarketing at the Viking operation in Southern California.

Viking was always known for a catalog-only operation; no outbound telemarketers. Telemarketers have been added to the Viking operation, and we think that's part of the reason why we've got some growth. Two is, part of it is coming at some expense to high gross margins at our Viking business because we're using direct marketing, one-to-one, to drive compelling reasons why customers ought to buy from Viking. And three is we think we've revamped and gotten better at prospecting. Both targeting and prospecting margin rates are always lower than regular margin rates, and we believe that if you can get a customer the first time and look to the cost to acquire, it's a good business model.

So, this is a business we've been putting emphasis on for some time. We've had a new leader of it for about 18 months. She ran our Australian business. She's highly familiar with the Viking brand. She had relocated to Del Ray Beach. She sits in the highest levels of our executive meetings, and we are coordinating and managing this business better, and we think the results from it will improve -- continue to improve. And we also think we're gonna get better; we're gonna see the slowing of the negative growth in Office Depot Catalog. And again, there's a lot of initiatives we're doing there. I'm not gonna go into highly-specific explanation of those. I'll just tell you the initiatives are many, they're specific, they're tested, they're tried, they work and we'll go at it.

Daniel Binder - *Buckingham Research Group - Analyst*

And just one follow-up question on store remodels and gross. Are you gonna give us the location of the newest format when it comes out?

Bruce Nelson - *Chairman and CEO - Office Depot*

No.

Daniel Binder - *Buckingham Research Group - Analyst*

OK. And then ...

Bruce Nelson - *Chairman and CEO - Office Depot*

Not the first one. I told you we'll get 25 to 30 of them open in the second half. When we get enough of them opened that I'm confident that's what we want it to look like, and frankly, when I get a much better handle on the leveraging of some of the costs in this new format -- because you've got to leverage some of these over multiple stores -- I will be delighted to tell you where it is. But I think it's early and not in the best interest of the - of you, my competitors, or anybody else to tell you where the store is.

It will open late in this quarter. It's about 40 percent complete in construction. It's a very, very different store. I - I'll just leave you with that. It is unlike any Office Depot store; it is unlike the [Inaudible] model we had; it's unlike our competitor's remodel. It's a very, very different store.

Daniel Binder - *Buckingham Research Group - Analyst*

Anything on the cost to do these remodels?

Bruce Nelson - *Chairman and CEO - Office Depot*

Why, it's early, but I think that I mean if you look to the cost of remodeling of three to 400. I'd like it to be less than that, but if that's a range today, I think that's kind of where I am. That's a very broad range. We've got to fine-tune it. Reason we're going to open 25 or 30 of them is to fully understand it. Clearly to go north of that's going to be a problem in terms of returns I think. But I think that's a - if you want a real wide range, I think that's it. That's not finite; it's not specific; it's not designed to give you absolute. It's just to say directionally, I think that's kind of where it'll end up.

Daniel Binder - *Buckingham Research Group - Analyst*

And does that mean you'd probably need something like a low-single digit sales list to get the - to hit the hurdle rates? [Inaudible] ...

Bruce Nelson - *Chairman and CEO - Office Depot*

I think you could conclude that, but also I think you have to recognize, and you've all pointed this out, so one of our challenges that we have that makes us a little different than our two primary superstore competitors in comp growth is our store age is older by some years. I mean it's significantly older than Staples and somewhat older than Max. We've not put money back into our stores the last two or three years as we've worked to find a design that works. And therefore, part of our cap ex in the remodeled stores has to be to maintain and even slightly grow our current position because new - because old stores get tired. And so, part of it's that way.

But the answer is, "Sure." You can do the math. You've got to have single-digit growth out of this to [Inaudible] get a return, but we've got some - we've got some pretty exciting things. And I'll tell you, I - this is a great store. And we've got to get some data behind us before we roll it out to hundreds, but I'll tell you if we get the initial response in reality that we get from the way we've been able to test it, this could be hundreds of stores next year. We'll see. I'll give you a lot more guidance later on this year as we get the first one open and a few more open so you can go see them.

Daniel Binder - *Buckingham Research Group - Analyst*

And last, could you just give us some sense of what part of that three to 400 is expensed versus capitalized?

Bruce Nelson - *Chairman and CEO - Office Depot*

No.

Daniel Binder - *Buckingham Research Group - Analyst*

No? OK, thanks.

Bruce Nelson - *Chairman and CEO - Office Depot*

No, that's as wide - that's directionally all I want to do at this point.

Daniel Binder - *Buckingham Research Group - Analyst*

OK, thanks.

Bruce Nelson - *Chairman and CEO - Office Depot*

Yes, I'm trying to balance for all of you the need for detail which you all have, the need for specificity which you all want, with the direction I want to take the company without getting down to specifics. But the sum total of the discussion I had on the first quarter was "I'm not going to tell you" didn't work so well, so I'm now going to tell you. But I just - I'm not, from a competitive perspective, going to build a lot around it until it's more specific.

And so, ink and toner is much more specific. We have 500-plus stores up and operating as of today. And that's much more specific, so I feel more free to talk about it. So, thanks, Dan .

Daniel Binder - *Buckingham Research Group - Analyst*

Great, thanks.

Operator

Our next question comes from Colin McGranahan of Sanford Bernstein. You may ask your question.

Colin McGranahan - *Sanford C. Bernstein & Co., Inc. - Analyst*

Good morning, Bruce. We definitely like the "tell us" rather than the "not tell us" a lot ...

Bruce Nelson - *Chairman and CEO - Office Depot*

OK.

Colin McGranahan - *Sanford C. Bernstein & Co., Inc. - Analyst*

On that - on that topic, just an easy one first - the guidance for the second quarter then, that's two cents below the GAAP of 18 cents last year, so you're essentially guiding to 16 cents?

Bruce Nelson - *Chairman and CEO - Office Depot*

Guys, I think - I think if you - to put a number to it, Colin - because I think - I hedge a little bit. One cent of EPS at Office Depot equals about $4.5 million. It's pretty finite. So if you said 16 to 18 cents as a range for the second quarter on GAAP, I'm comfortable in that range. We will do our best to drive that to the high end of the range. Some of these marketing initiatives and merchandizing initiatives are early in retail and the key to driving this is North American retail sales.

So in that range I'd say I'm comfortable for the second quarter.

Colin McGranahan - *Sanford C. Bernstein & Co., Inc. - Analyst*

Got you. I just following up on one of Dan's questions, on the new stores in the millennium. First, in terms of the adding these smaller stores and increasing density, I mean, what are you anticipating in terms of cannibalization in the market, like Miami-Dade where you're you know, increasing your concentration by 50 percent?

Bruce Nelson - *Chairman and CEO - Office Depot*

Well, it's not just Miami-Dad. It's three counties. It's Miami-Dade, West Palm and Broward. You got to take those three together. So it's not just Miami-Dade to be clear, where we already have significant numbers of stores.

Two is we will take some cannibalization. It depends on how close, obviously you put the store to a bigger store. Most of these will be smaller stores. So we'll take cannibalization, but frankly, our perspective Colin is when we look at market share in South Florida, look at density in South Florida, this is our home. This is where we live. This is where we've got enormously high brand recognition that we think it does two things. One is every time frankly we put a store in South Florida in the last two or three years, it's surprised us pleasantly by how well it's performed, even with cannibalization.

And second of all, I would rather cannibalize myself than have someone else cannibalize me. And in markets where we have a presence, I want to be known for that presence. I think frankly one of the lessons learned from the ill-fated store ramp out of Office Depot in 1999, '98, and early 2000 was to not focus on density. And I don't want to make that same mistake again. And I'm confident we now got a model that we can make work where we have larger stores that surround us. We've got some really interesting stories of smaller stores. They're exciting.

Colin McGranahan - *Sanford C. Bernstein & Co., Inc. - Analyst*

In terms of 2004, the 70 to 80 stores, any sense of, you know, could some of those be millenniums, how many of those will be kind of 10,000 square foot stores, new markets versus in-fill?

Bruce Nelson - *Chairman and CEO - Office Depot*

I would say if we look at 70 to 80 stores in 2004, we'd have 80 to 90 percent of those stores in Office Depot existing markets where we already have a fairly significant presence. By the way that presence could be three stores in a market where nobody has any. I mean that's just, so it's relative.

Two is, again, I think, these stores that will open in millennium will be in the late quarter, later in the half as opposed to earlier. As quick as we get a handle on what they're doing, frankly, I'd like to get as many new stores in 2004 in that format as possible.

So you know, it just depends. I think again, we've got to get enough open to understand before we go to new stores and again, a 10,000 square foot store is not going to give you the same impact of a millennia store that an existing 22,000 does. But millennia isn't just a small format. That part I want to make clear. Millennium fits from 20 to 36,000 feet, it just means you expand it. So Millennium is not a small store format. Millennium is a new store format and frankly as quick as we can get our arms around it, and understand what it does, I would hope that most of our new stores, in 2004, will be of a millennium format. The quicker we can do that, the better, and we're not, you know, stores open in the first quarter of 2004 may be difficult, because in some cases, we've already started and got construction plans.

So those you want to be careful about changing, because of cost. So I hope that gives you some insight.

Colin McGranahan - *Sanford C. Bernstein & Co., Inc. - Analyst*

Right, yes, so there won't be any new millennium stores this year, right? Those will all just be remods?

Bruce Nelson - *Chairman and CEO - Office Depot*

No there's one new millennium opening in this quarter; it's a new store.

Colin McGranahan - *Sanford C. Bernstein & Co., Inc. - Analyst*

OK. It's a new store.

Bruce Nelson - *Chairman and CEO - Office Depot*

It's a brand new site, brand new store.

Colin McGranahan - *Sanford C. Bernstein & Co., Inc. - Analyst*

Got you.

Bruce Nelson - *Chairman and CEO - Office Depot*

One, 25 to 30 stores will open in the second half. They're skewed towards the last half of this year, not the first half of, the last half of the second half will all be remodeled.

Colin McGranahan - *Sanford C. Bernstein & Co., Inc. - Analyst*

OK, just one final quick question. You know these merchandizing initiatives sound interesting, hopeful. Can you give us, would you care to give us any sense of what you're seeing, April so far, overall comps in North America retail?

Bruce Nelson - *Chairman and CEO - Office Depot*

No, I would just tell you the comp trends improved, slightly improved in the last week of March. They have been on improving trends, April to date. We think a significant driver of those overall comp trends is the ink and toner shops. Ink and toner shops from the stores they're in, are outperforming the chain, where we don't have it, that's why we are more confident about our ability to, so that we one, bottomed out, if you will, on the comps negative rate North America, and two, that will give us some lift in the second quarter as the rest of these stores come online. Remember we don't get the whole chain until the first or second week of May.

Colin McGranahan - *Sanford C. Bernstein & Co., Inc. - Analyst*

Great. Thanks, Bruce.

Bruce Nelson - *Chairman and CEO - Office Depot*

You're welcome.

Operator

Our next question comes from Michael Baker of Deutsche Bank. You may ask your question.

Michael Baker - *Deutsche Bank - Analyst*

Hi. Thanks. Two questions, one, did just want a little bit more clarity on the '03 outlook. So when you're talking about three to four percent growth on the 2002 GAAP numbers, so that's three to five percent growth on the 98 cents that you reported for GAAP last year?

Bruce Nelson - *Chairman and CEO - Office Depot*

Yes.

Michael Baker - *Deutsche Bank - Analyst*

OK, so that's about a $1.01 to $1.03. OK, got it, and then, so then the next question I have relates to some of the supplier issues that you had in your, in your CTO kiosk. Has that been fixed and is that something, or is that something that you're continuing to try improvement on?

Bruce Nelson - *Chairman and CEO - Office Depot*

The answer to the question is about to get, the answer is it's much better than it was. I mean frankly we were running at 28 days and it's down to roughly 10. It's still unacceptable to us. When you can figure the order to compete with people with Dell and IBM, you can't be at 28 days. And it has hurt our business and that frankly, last year, was the best part of our desktop business. It grew the fastest last year. So it has hurt us. But it is down to 10 days today. We're putting pressure on our supplier to get it better and we will look, also look at alternatives to make sure we have the best alternatives our customers can have in this regard.

In that regard, we have and continue to use our acquisition of Forsure.com to help our retail stores get better access to technology, because this is a great company that we acquired last year, doing very well by the way, growing nicely and outperforming frankly at this stage what we thought it would do at Office Depot. So, and that's helping us leverage that expertise across, not only retail, but our DSP group as well.

Michael Baker - *Deutsche Bank - Analyst*

OK, sounds good. And then the last question, is some of these changes that you're making, like adding space for the ink and toner that you talked about, you're going to add a couple of linear feed for the writing instruments. Is that replacing anything or is that just a reconfiguration of the store, if you're taking the managing of ...

Bruce Nelson - *Chairman and CEO - Office Depot*

You have to be careful Michael to generalize, because you got to understand these stores. The average square foot of ink and toner in most stores is 600, but we've got some that go down to 400, some that are a little larger, depending on the store size. And so that's really fitting and that's why it takes 200 to 300 to 350 hours in some stores to reconfigure, because you're moving a lot of steel. Because you want that shop at the front of the store.

The second question on ink is again, in our larger stores one of the -- remember, we've got an advantage in one respect. It's been in some respects a disadvantage, because our stores are larger than our competitors on average. That gets back to the average age. We can incrementally add eight feet of writing instruments in a lot of our stores here in North America and just take up some additional space and not push anything out.

Third, is we have -- because in some smaller stores if you add eight feet of writing instruments and then put in ink and toner -- and frankly, in some stores, we have a thing called Quick Shop -- we've had to position some other items.

And so we've taken a look at our skew mix and I'd prefer not to go into the specificity of that. But in some skews we've reduced and some other areas we've cutback that we don't think overall contribute significantly to the sales of an Office Depot store. Or, more importantly, to a market basket. And that's kind of how we have to look at things.

So, the answer is in some cases there are fewer skews, but in general we're able to fit this in most of our existing stores.

Michael Baker - *Deutsche Bank - Analyst*

But net isn't it a little bit of an increase in the total skew count when we look at both ...

Bruce Nelson - *Chairman and CEO - Office Depot*

... and I'd say if you add net, the answer is that it's a slight increase in skews.

Michael Baker - *Deutsche Bank - Analyst*

OK. Great. Thank you.

Bruce Nelson - *Chairman and CEO - Office Depot*

You're welcome.

Operator

Our next question comes from David Cass of Matrix . You may ask your question.

David Katz - *Matrix - Analyst*

Hey, guys. Bruce, in light of the weak stock price and what appears to be fairly favorable intermediate term prospects, do you expect to do any insider buying or to buy any of the stock? And do you think any of your new management team is going to step in at some point?

Bruce Nelson - *Chairman and CEO - Office Depot*

You know, David , I don't know the answer to my executives, because I think that's always a personal decision.

Two is I would tell you that we have a significant number of short windows at Office Depot in which we can either buy or sell. And given the length of time we've been engaged with Guilbert, we virtually had no windows.

Three is I think the stock's compelling and I don't think this is the place for me to articular my personal plans about stock. I do personally own a fair amount of Office Depot stock.

And in fact, realistically, most of my relatively speaking small wealth is tied up in owning of Office Depot stock personally as well as my options, which are skin in the game, frankly, and are an incentive for me and the others to grow shareholder value.

I would also add we were one of the first companies to premium price options. And a significant portion of my options are premium priced. And a significant number of them are out of the money. And I want you to know both from a personal perspective and a business perspective nothing would make me happier than to drive the value of our stock.

And that's why on the Guilbert transaction, by the way, we had a contingent price that said if our stock hits $20.00 in five consecutive days, 18 months after we close we'll deliver stock. And I kiddingly said and said to my colleague Serge Weinberg at PPR, I'll personally deliver you the stock or cash gain if it gets 20 in 18 months.

And believe me, this management team is doing everything we know how to get it there. I would also say to you that we've said all along that we'll use our cash to grow our business. If we can't find ways to grow the business we'll give it back to shareholders.

And we do have a strong cash position. We're going to use a fair amount of it for Guilbert, assuming that EU approves. But you know what? We've still got positive cash flow in this business. We have virtually untapped credit lines. And so this is a business that can grow itself both by using cash to grow and if we can't find high returns that grow that way, we'll give it back to shareholders. I've always said that, and that's not changed.

David Katz - *Matrix - Analyst*

Thank you.

Operator

Our last question comes from Bill Patzer . You may ask your question.

Bill Patser - *Analyst - Analyst*

Hi, Bruce. The question I wanted to ask was about the low sales or the declining sales North American retail. And I've heard about what you're doing in terms of positive initiatives, but I didn't hear an assessment of the competitive situation. Who is it you're losing - obviously losing share to the other office retailers. Are you losing share to anybody else? And what do you think the specific reasons you're losing share are in the categories where you're doing so poorly? In other words, I want to understand how your fixes - what your fixes are actually trying to address [Inaudible] .

Bruce Nelson - *Chairman and CEO - Office Depot*

Well, I'm about to make an absurd statement you'll think I'm partly crazy on, but I do not believe we are losing share to either Office Max or Staples, to be specific. And I could go into a long explanation of that. A lot has to do where Staples has stores and we don't. A lot has to do with the presence they have in Canada where they don't have a competitor. A lot has to do with store age. I can tell you the market basket of our small and medium-sized business that's loyal to Office Depot - I do not believe we've lost share.

There is some share loss from this channel to others in some important categories. I believe ink has been one of them, and I believe that share is going to a variety of people. It's not one. It's not just Wal-Mart. It's Walgreen's; it's gas stations that put out [Inaudible] ink cartridges. The way to compete against that is to make ink a destination. I said [Inaudible] on this category. None of them have devoted the space, the education, the technology, the easy-to-find, easy-to-get, easy-to-deliver the way we market and sell it in totality, and none of them have done that.

So, I think there is some share loss in some categories to other players. I think in writing instruments, we made some Plan-A-Gram changes a year ago in writing instruments that cost us share. I believe that the changes we'll make by the end of the second quarter will not only gain back that share we lost in that category - the fifth largest category in store - in our store, but will gain share in it.

So, you know, the insight into this is complex because then you've got to talk about markets by category. We've clearly lost share in technology. And if you go back two-and-a-half - three years ago, 25 percent of our North American retail sales were in desktops, laptops, printers, monitors, all-in-one machines. That's down to 10 - 11 percent of our business. While the market's declined, our share of that market has gone down more and we will take steps to address that in the second half.

So, it's a very broad question. It takes an awful lot more time than I've got. I know people come to the conclusion since Max's comps and Staples' comps are better than ours, we must be losing share to them. And as I've said, certainly in a store or two, of course you lose share. In a market, I don't think so, and across the board, I don't think so. Again, commenting on a competitor, which people say you're not [Inaudible] to do, clearly Max is a better company today than they were a year ago and that gives them a higher lift in their comps. And so, they're comparing, frankly, to a company a year ago that was having trouble in supply chain.

But we're focused on share. We're focused on detonation . We're focused on being a choice of our business customer in retail to beat category teams in four or five things. I would also tell you that our core customer has always been a small and medium-sized business. And frankly, where we compete - that is where we have stores, aligned with Staples and Max, we in totality have a higher share of the small business - medium business customer than our competitor has in the same market. That's always been Office Depot's strength, that continues to be our strength, and we'll build on that strength.

That segment, as an example, had a more difficult time economically this past year or two [Inaudible] historically has. That's not an excuse; it's just a fact. So I hope that gives you, David, a little more insight into your kind of complex question. And I know you didn't mean it that way, but it requires an awful lot of explanation. Part of it - it's not - neither time-wise to do it nor competitive-wise to go into more specificity than I have.

I hope I've give you some perspective of it, and I want to leave you the fact that we've studied this well. This is not - this is not something on the surface we just scratched at. And it's this scratching and digging that caused us last fall to say there's five big initiatives we're going to do. And I've identified what those are and I've added one to it. So, hopefully, that'll give you confidence we've got our arms on what needs to be done.

Bill Patser - *Analyst - Analyst*

Sure. That was - that was helpful. I would ask one other follow-up if I could. Just and - at some point are you prepared to consider a change in your retail management of your North American retail if the comps don't turn around?

Bruce Nelson - *Chairman and CEO - Office Depot*

Well, I think that's a - the broad answer to that question is always, "Yes, of course you are." But do I think a change is required? Do I think this is about leadership? No, I don't. I mean if you ask my Board are they prepared to make a change to the CEO of the company if he or she doesn't perform? Absolutely. Tangible evidence? They made a change three years ago. So the answer to that question in a broad aspect is, "Yes." But do I think the head of our retail organization is under-performing and therefore ought to be changed? The answer is, "No, I do not."

Bill Patser - *Analyst - Analyst*

OK, I appreciate it.

Bruce Nelson - *Chairman and CEO - Office Depot*

I have confidence in the leadership of my retail organization. I have confidence in the leadership team most of whom are in this room with me today. I've said that to them privately. I've said to them publicly. Now I've had private discussions with every one of them about how I think they can improve, and they're all smiling because I'm pretty direct. So, ...

Bill Patser - *Analyst - Analyst*

OK.

Bruce Nelson - *Chairman and CEO - Office Depot*

... the answer is, "I believe we know what to do. I believe we have the wherewithal to do it. I believe we have the ability to execute it."

I believe ink and toner shops in two-and-a-half months, 870 stores is but a small indication of that capability, and I am confident that we'll get better results for North American retail. Having said that, we still all need some economic good news in this country - frankly, the world to get us to where we all want to be. That's reality.

OK, I'm going to summarize the call in a statement I made. I remember it well in July of 2000 when I had the opportunity to become the CEO of Office Depot. It's a one-line summary. It says, "I would not bet against Office Depot in the long term." I said that then; I say it today. We've come through interesting times. We are focused on what's important to our company, important to our people, important to our shareholders, and important to the public. We will not lose that focus. [Inaudible] will help us achieve our dream of being the world's leader in selling office supplies to small, medium, and large businesses across multiple brands, multiple channels, and multiple countries. We've demonstrated we've done it. We will demonstrate in the future we'll do it in spite of short-term economic difficulties and short-term economic challenges.

Thanks for your confidence in Office Depot. Thanks for taking the time to listen to us today. It's a confusing period of time complicated by the adoption of EITF-0216. Feel free to call Eileen or Charlie for more clarification of that. We tried to give you enormous insight to it. More importantly, we tried to give you some insight to where we think this business goes.

I end by saying I am not overoptimistic about the geopolitical environment or the economic environment, either North America or Europe. I am incredibly optimistic about Office Depot's ability to perform in the long term. Thanks for your time and thanks for your support. Have a great day.
