# FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **2001-08-03** | Period of Report: **2001-06-30**
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## FILER

**OFFICE DEPOT INC**

CIK:**800240**| IRS No.: **592663954** | State of Incorp.:**DE** | Fiscal Year End: **1226**
Type: **10-Q** | Act: **34** | File No.: **001-10948** | Film No.: **1697743**
SIC: **5940** Miscellaneous shopping goods stores

Mailing Address
*2200 OLD GERMANTOWN ROAD*
*2200 OLD GERMANTOWN ROAD*
*DELRAY BEACH FL 33445*

Business Address
*2200 OLD GERMANTOWN RD*
*DELRAY BEACH FL 33445*
*5612664800*

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

# FORM 10-Q

(Mark One)
[X] Quarterly Report Pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934

For the quarterly period ended June 30, 2001

or

[ ] Transition Report Pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934

For the transition period from ______________ to ______________________

Commission file number 1-10948

OFFICE DEPOT, INC.
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| Delaware | 59-2663954 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| 2200 Old Germantown Road; Delray Beach, Florida | 33445 |
| (Address of principal executive offices) | (Zip Code) |

(561) 438-4800
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [X] No[ ]

The registrant had 298,732,047 shares of common stock outstanding as of July 28, 2001.



## PART I. FINANCIAL INFORMATION

## ITEM 1 FINANCIAL STATEMENTS

OFFICE DEPOT, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share amounts)
(Unaudited)

<TABLE>
<CAPTION>

| <S> | As of June 30, 2001 <C> | As of December 30, 2000 <C> |
|---|---|---|
| ASSETS | | |
| Current assets: | | |

| | | |
|---|---|---|
| Cash and cash equivalents | $ 189,609 | $ 151,482 |
| Receivables, net | 783,614 | 896,333 |
| Merchandise inventories, net | 1,114,054 | 1,420,825 |
| Deferred income taxes and other current assets | 176,274 | 230,449 |
| Total current assets | 2,263,551 | 2,699,089 |
| Property and equipment, net | 1,092,862 | 1,119,306 |
| Goodwill and other assets, net | 372,633 | 377,939 |
| | $ 3,729,046 | $ 4,196,334 |

LIABILITIES AND STOCKHOLDERS' EQUITY

| | | |
|---|---|---|
| Current liabilities: | | |
| Accounts payable | $ 918,707 | $ 1,136,994 |
| Accrued expenses and other current liabilities | 542,568 | 580,966 |
| Income taxes payable | 64,593 | 37,118 |
| Current maturities of long-term debt | 7,925 | 153,259 |
| Total current liabilities | 1,533,793 | 1,908,337 |
| Deferred income taxes and other credits | 50,557 | 88,247 |
| Long-term debt, net of current maturities | 229,718 | 374,061 |
| Zero coupon, convertible subordinated notes | 230,023 | 224,438 |
| Commitments and contingencies | | |
| Stockholders' equity: | | |
| Common stock - authorized 800,000,000 shares of $.01 par value; issued 380,686,294 in 2001 and 378,688,359 in 2000 | 3,807 | 3,787 |
| Additional paid-in capital | 953,459 | 939,214 |
| Unamortized value of long-term incentive stock grants | (2,770) | (2,793) |
| Accumulated other comprehensive loss | (82,377) | (53,490) |
| Retained earnings | 1,614,994 | 1,516,691 |
| Treasury stock, at cost - 82,190,548 shares in 2001 and 2000 | (802,158) | (802,158) |
| | 1,684,955 | 1,601,251 |
| | $ 3,729,046 | $ 4,196,334 |

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS.

</TABLE>





OFFICE DEPOT, INC.
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS
(In thousands, except per share amounts)
(Unaudited)

<TABLE>
<CAPTION>

| | 13 Weeks Ended | | 26 Weeks Ended | |
|---|---|---|---|---|
| | June 30, 2001 | June 24, 2000 | June 30, 2001 | June 24, 2000 |
| <S> | <C> | <C> | <C> | <C> |
| Sales | $ 2,553,503 | $ 2,632,850 | $ 5,571,417 | $ 5,698,507 |
| Cost of goods sold and occupancy costs | 1,814,850 | 1,881,337 | 4,025,848 | 4,109,348 |
| Gross profit | 738,653 | 751,513 | 1,545,569 | 1,589,159 |
| Store and warehouse operating and selling expenses | 539,957 | 533,955 | 1,138,784 | 1,105,740 |
| General and administrative expenses | 119,303 | 115,053 | 228,905 | 221,402 |
| Other operating expenses, net | (1,120) | 6,509 | 449 | 10,188 |

| | | | | |
|---|---|---|---|---|
| | 658,140 | 655,517 | 1,368,138 | 1,337,330 |
| Operating profit | 80,513 | 95,996 | 177,431 | 251,829 |
| Other income (expense): | | | | |
| Interest income | 2,217 | 3,521 | 3,824 | 6,885 |
| Interest expense | (8,515) | (7,070) | (18,796) | (14,266) |
| Miscellaneous (expense) income, net | (7,589) | (483) | (6,426) | 20,589 |
| Earnings before income taxes | 66,626 | 91,964 | 156,033 | 265,037 |
| Income taxes | 24,652 | 34,027 | 57,730 | 98,064 |
| Net earnings | $ 41,974 | $ 57,937 | $ 98,303 | $ 166,973 |
| Earnings per common share: | | | | |
| Basic | $ 0.14 | $ 0.18 | $ 0.33 | $ 0.52 |
| Diluted | 0.14 | 0.18 | 0.33 | 0.50 |

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS.

</TABLE>





OFFICE DEPOT, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

<TABLE>
<CAPTION>

| | 26 Weeks Ended | |
|---|---|---|
| | June 30, 2001 | June 24, 2000 |
| <S> | <C> | <C> |
| CASH FLOW FROM OPERATING ACTIVITIES: | | |
| Net earnings | $ 98,303 | $ 166,973 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: | | |
| Depreciation and amortization | 97,744 | 96,179 |
| Provision for losses on inventories and receivables | 61,085 | 47,630 |
| Changes in working capital | 135,532 | 18,585 |
| Loss (gain) on investment securities | 8,500 | (18,960) |
| Other operating activities, net | 22,028 | 8,759 |
| Net cash provided by operating activities | 423,192 | 319,166 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Proceeds from maturities or sales of investment securities | -- | 18,960 |
| Purchases of investments and other assets | (6,842) | (21,612) |
| Capital expenditures, net of proceeds from sales | (71,546) | (126,370) |
| Net cash used in investing activities | (78,388) | (129,022) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from exercise of stock options and sale of stock under employee stock purchase plans | 8,851 | 7,431 |
| Acquisition of treasury stock | -- | (200,457) |
| Payments on long- and short-term borrowings | (297,416) | (3,321) |
| Other financing activities, net | 4,851 | 8,421 |
| Net cash used in financing activities | (283,714) | (187,926) |
| EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS | (22,963) | (7,879) |
| Net increase (decrease) in cash and cash equivalents | 38,127 | (5,661) |
| Cash and cash equivalents at beginning of period | 151,482 | 218,784 |

| | | |
|---|---|---|
| Cash and cash equivalents at end of period | $ 189,609 | $ 213,123 |
| | ========= | ========= |
| SUPPLEMENTAL DISCLOSURE OF OTHER CASH FLOW ACTIVITIES: | | |
| Interest received | $ 3,825 | $ 6,473 |
| Interest paid | 13,080 | 4,253 |
| Income taxes paid | 12,483 | 72,669 |
| SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES: | | |
| Additional paid-in capital related to income tax benefits on stock options exercised | $ 1,933 | $ 539 |
| Assets acquired under capital leases | 535 | 12,569 |
| Unrealized loss on investment securities, net of income taxes | -- | 45,682 |

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS.

</TABLE>





OFFICE DEPOT, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

(Tabular amounts in thousands)

NOTE A - BASIS OF PRESENTATION

Office Depot, Inc. (the Company or Office Depot) is the world's largest seller of office products and services. The consolidated financial statements include the accounts of Office Depot and its subsidiaries after elimination of intercompany accounts and transactions. The Company operates on a 52- or 53-week fiscal year ending on the last Saturday of December. The balance sheet at December 30, 2000 has been derived from audited financial statements at that date. The condensed interim financial statements as of June 30, 2001 and for the 13- and 26-week periods ending June 30, 2001 (also referred to as "the second quarter of 2001" and "the first half of 2001," respectively) and June 24, 2000 (also referred to as "the second quarter of 2000" and "the first half of 2000," respectively) are unaudited. However, in our opinion, these financial statements reflect all adjustments (consisting only of normal, recurring items) necessary to provide a fair presentation of our financial position, results of operations and cash flows for the periods presented. Also, we have made certain reclassifications to our historical financial statements to conform to the current year's presentation.

These interim results are not necessarily indicative of the results you should expect for the full year. For a better understanding of the Company and our financial statements, we recommend that you read these condensed interim financial statements in conjunction with our audited financial statements for the year ended December 30, 2000, which are included in our 2000 Annual Report on Form 10-K, filed on March 27, 2001.

NOTE B - COMPREHENSIVE INCOME

Comprehensive income (loss) represents all non-owner changes in stockholders' equity and consists of the following:

<TABLE>
<CAPTION>

| | Second Quarter | | First Half | |
|---|---|---|---|---|
| | 2001 | 2000 | 2001 | 2000 |
| <S> | <C> | <C> | <C> | <C> |
| Net earnings | $ 41,974 | $ 57,937 | $ 98,303 | $ 166,973 |
| Other comprehensive income, net of tax: | | | | |
| Foreign currency translation adjustments | (6,542) | (23,331) | (28,887) | (15,842) |
| Unrealized loss on investment securities | -- | (36,013) | -- | (45,682) |
| Total comprehensive income (loss) | $ 35,432 | $ (1,407) | $ 69,416 | $ 105,449 |
| | ========= | ========= | ========= | ========= |

</TABLE>

NOTE C - INVESTMENT TRANSACTIONS

We have investments in companies that provide business-to-business e-commerce solutions for small- and medium-sized businesses. The carrying value of these investments as of June 30, 2001 and June 24, 2000 totaled $21.4 million and $98.2 million, respectively. The decline in carrying value resulted primarily from investment sales throughout 2000 and other than temporary impairments recorded in late 2000, with an additional $8.5 million ($5.4 million net of tax) impairment charge recorded in the second quarter of 2001.





NOTE D - LONG-TERM DEBT

On May 10, 2001, we renewed our 364-day credit agreement with a syndicate of banks. This agreement provides us with a working capital line of credit of $255 million. Our five-year credit agreement entered into in February 1998 provides a $300 million line of credit. Both credit agreements contain similar restrictive covenants. As of June 30, 2001, we had $95.5 million in outstanding borrowings under our five-year credit agreement with an average effective interest rate of 5.4%; and we had $49.4 million in outstanding letters of credit.

In July 1999, we entered into term loan and revolving credit agreements with several Japanese banks (the "yen facilities") to provide financing for our operating and expansion activities in Japan. As of June 30, 2001, the equivalent of $58.7 million was outstanding under these yen facilities. We entered into a yen interest rate swap (for a principal amount equivalent to $19.0 million as of June 30, 2001) in order to hedge against the volatility of the interest payments on a portion of our yen borrowings. The swap will mature in July 2002.

See Note H - Subsequent Events.

NOTE E - EARNINGS PER SHARE ("EPS")

The information required to compute basic and diluted EPS is as follows:

<TABLE>
<CAPTION>

| | Second Quarter | | First Half | |
|---|---|---|---|---|
| | 2001 | 2000 | 2001 | 2000 |
| <S> | <C> | <C> | <C> | <C> |
| Basic: | | | | |
| Weighted average number of common shares outstanding | 297,085 | 313,696 | 296,590 | 318,651 |
| Diluted: | | | | |
| Net earnings | $ 41,974 | $ 57,937 | $ 98,303 | $166,973 |
| Interest expense related to convertible notes, net of income taxes | 1,764 | 3,190 | 3,528 | 6,357 |
| Adjusted net earnings | $ 43,738 | $ 61,127 | $101,831 | $173,330 |
| Weighted average number of common shares outstanding | 297,085 | 313,696 | 296,590 | 318,651 |
| Shares issued upon assumed conversion of convertible notes | 13,845 | 24,741 | 13,845 | 24,741 |
| Shares issued upon assumed exercise of dilutive stock options | 2,550 | 2,130 | 2,575 | 2,564 |
| Shares used in computing diluted EPS | 313,480 | 340,567 | 313,010 | 345,956 |

</TABLE>

Options to purchase 26.7 million shares of common stock were not included in our computation of diluted earnings per share for the second quarter of 2001 because their weighted average effect would have been antidilutive.

NOTE F - SEGMENT INFORMATION

The following is a summary of our significant accounts and balances by segment, reconciled to consolidated totals.

Sales

| | Second Quarter | | First Half | |
| --- | --- | --- | --- | --- |
| | 2001 | 2000 | 2001 | 2000 |
| North American Retail Division | $ 1,284,304 | $ 1,416,041 | $ 2,895,466 | $ 3,211,753 |
| Business Services Group | 913,779 | 870,781 | 1,894,758 | 1,754,642 |
| International Division | 356,045 | 347,033 | 782,669 | 734,069 |
| Total reportable segments | 2,554,128 | 2,633,855 | 5,572,893 | 5,700,464 |
| Eliminations | (625) | (1,005) | (1,476) | (1,957) |
| Total | $ 2,553,503 | $ 2,632,850 | $ 5,571,417 | $ 5,698,507 |

Earnings Before Income Taxes

| | Second Quarter | | First Half | |
| --- | --- | --- | --- | --- |
| | 2001 | 2000 | 2001 | 2000 |
| North American Retail Division | $ 73,867 | $ 100,012 | $ 157,258 | $ 254,239 |
| Business Services Group | 72,654 | 70,207 | 131,770 | 128,064 |
| International Division | 51,644 | 43,722 | 117,311 | 96,988 |
| Total reportable segments | 198,165 | 213,941 | 406,339 | 479,291 |
| Eliminations and other | (131,539) | (121,977) | (250,306) | (214,254) |
| Total | $ 66,626 | $ 91,964 | $ 156,033 | $ 265,037 |

Assets

| | June 30, 2001 | December 30, 2000 |
| --- | --- | --- |
| North American Retail Division | $1,734,377 | $2,184,976 |
| Business Services Group | 1,036,301 | 1,105,936 |
| International Division | 747,176 | 736,229 |
| Total reportable segments | 3,517,854 | 4,027,141 |
| Other | 211,192 | 169,193 |
| Total | $3,729,046 | $4,196,334 |

A reconciliation of our earnings before income taxes from our reportable segments to earnings before income taxes in our condensed consolidated financial statements is as follows:

| Second Quarter | | First Half | |
| --- | --- | --- | --- |
| 2001 | 2000 | 2001 | 2000 |

<S> <C> <C> <C> <C>

| | | | | |
|---|---|---|---|---|
| Total from reportable segments | $ 198,165 | $ 213,941 | $ 406,339 | $ 479,291 |
| General and administrative expenses | (119,303) | (115,053) | (228,905) | (221,402) |
| Gain (loss) on investment securities | (8,500) | 33 | (8,500) | 18,993 |
| Interest (expense) income, net | (6,298) | (3,549) | (14,972) | (7,381) |
| Other (expense) income, net | 2,584 | (3,352) | 2,151 | (4,381) |
| Inter-segment transactions | (22) | (56) | (80) | (83) |
| Total | $ 66,626 | $ 91,964 | $ 156,033 | $ 265,037 |

</TABLE>





NOTE G - NEW ACCOUNTING PRONOUNCEMENTS

In July 2001, the Financial Accounting Standards Board issued Statement No. 141, ACCOUNTING FOR BUSINESS COMBINATIONS, and Statement No. 142, GOODWILL AND OTHER INTANGIBLE ASSETS. These Statements modify accounting for business combinations after June 30, 2001 and will affect the Company's treatment of goodwill and other intangible assets at the start of fiscal year 2002. The Statements require that goodwill existing at the date of adoption be reviewed for possible impairment and that impairment tests be periodically repeated, with impaired assets written-down to fair value. Additionally, existing goodwill and intangible assets must be assessed and classified consistent with the Statements' criteria. Intangible assets with estimated useful lives will continue to be amortized over those periods. Amortization of goodwill and intangible assets with indeterminate lives will cease. At this time, the Company has not determined the complete impact of these Statements. However, for the six months ended June 30, 2001, the Company has recognized $3.6 million of goodwill amortization.

NOTE H - SUBSEQUENT EVENTS

In July 2001, the Company issued $250 million of 10.00% Senior Subordinated Notes due July 15, 2008. The Notes contain provisions that, in certain circumstances, limit the financial flexibility of the Company. A portion of the proceeds from the issuance of these Notes was used to repay all amounts outstanding under domestic credit facilities, and the balance will be used for general corporate purposes.





ITEM 2 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

GENERAL

Office Depot, Inc. is the largest seller of office products and services in the world. Sales to consumers and businesses of all sizes are conducted through our three business segments: North American Retail Division, Business Services Group ("BSG") and International Division.

Management's Discussion and Analysis ("MD&A") is intended to provide information to assist you in better understanding and evaluating our financial condition and results of operations. We recommend that you read this MD&A in conjunction with our condensed consolidated financial statements in Item 1 of this Quarterly Report on Form 10-Q, as well as our 2000 Annual Report on Form 10-K. This MD&A contains significant amounts of forward-looking information. Without limitation, when we use the words "believe," "estimate," "plan," "expect," "intend," "anticipate," "continue," "project," "probably," "should" and similar expressions in this Quarterly Report on Form 10-Q, we are identifying forward-looking statements. Our Cautionary Statements, which you will find immediately following this MD&A and the MD&A in our 2000 Annual Report on Form 10-K, apply to these forward-looking statements.

In the following discussion, all comparisons are with the corresponding items in the prior year unless stated otherwise.

RESULTS OF OPERATIONS

Net earnings of $42 million for the second quarter of 2001 and $98 million for the six months ended June 30, 2001 were 27% and 41% lower than the comparable periods of the prior year. The decline in earnings reflects lower sales volume in the North American Retail Division, influenced by a soft economy, and the adverse effect of a strong U.S. dollar when translating international sales that increased in local currencies. Also during the second quarter of this year, the Company completed a domestic chain-wide re-merchandising program designed to enhance the customers' shopping experience. Operating expenses reflect the incremental period costs of completing this program.

OVERALL

($ in millions)

<TABLE>
<CAPTION>

| | Second Quarter | | | | First Half | | | |
|---|---|---|---|---|---|---|---|---|
| | 2001 | | 2000 | | 2001 | | 2000 | |
| <S> | <C> | <C> | <C> | <C> | <C> | <C> | <C> | <C> |
| Sales | $ 2,553.5 | 100.0% | $ 2,632.8 | 100.0% | $ 5,571.4 | 100.0% | $ 5,698.5 | 100.0% |
| Cost of goods sold and occupancy costs | 1,814.9 | 71.1% | 1,881.3 | 71.5% | 4,025.8 | 72.3% | 4,109.3 | 72.1% |
| Gross profit | 738.6 | 28.9% | 751.5 | 28.5% | 1,545.6 | 27.7% | 1,589.2 | 27.9% |
| Store and warehouse operating and selling expenses | 540.0 | 21.1% | 534.0 | 20.3% | 1,138.8 | 20.4% | 1,105.7 | 19.4% |
| Store and warehouse operating profit | $ 198.6 | 7.8% | $ 217.5 | 8.2% | $ 406.8 | 7.3% | $ 483.5 | 8.5% |

</TABLE>





Overall sales for the second quarter and first half of 2001 decreased 3% and 2%, respectively. Comparable worldwide sales in the 814 stores and 41 delivery centers that have been open for more than one year decreased 2% for the second quarter and 1% for the first half of 2001. Sales of technology hardware and software products, primarily in the North American Retail Division, declined in both periods.

While overall sales decreased, sales through our e-commerce channels increased significantly. Worldwide e-commerce sales grew 64% to $360.2 million during the quarter and grew 74% to $719.6 million for the first half of 2001. These e-commerce sales are comprised of all worldwide online sales, including those from our domestic public Web sites - WWW.OFFICEDEPOT.COM and WWW.VIKINGOP.COM - and Office Depot's contract business-to-business sites, as well as the Company's nine international Web sites. For business segment reporting purposes, these sales are captured within the appropriate business segment.

Gross profit as a percent of sales increased for the second quarter, primarily from the shift in the sales mix away from lower margin technology products in the North American Retail Division.

Store and warehouse operating and selling expenses as a percent of sales increased for both the quarter and first half, reflecting the benefits of improved cost control that were more than offset by the declining sales base.

NORTH AMERICAN RETAIL DIVISION

($ in millions)

<TABLE>
<CAPTION>

| | Second Quarter | | | | First Half | | | |
|---|---|---|---|---|---|---|---|---|
| | 2001 | | 2000 | | 2001 | | 2000 | |
| <S> | <C> | <C> | <C> | <C> | <C> | <C> | <C> | <C> |
| Sales | $ 1,284.3 | 100.0% | $ 1,416.0 | 100.0% | $ 2,895.5 | 100.0% | $ 3,211.7 | 100.0% |
| Cost of goods sold and occupancy costs | 978.7 | 76.2% | 1,085.0 | 76.6% | 2,249.2 | 77.7% | 2,472.0 | 77.0% |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Gross profit | 305.6 | 23.8% | 331.0 | 23.4% | 646.3 | 22.3% | 739.7 | 23.0% |
| Store and warehouse operating and selling expenses | 230.5 | 17.9% | 228.0 | 16.1% | 486.7 | 16.8% | 479.9 | 14.9% |
| Store and warehouse operating profit | $ 75.1 | 5.9% | $ 103.0 | 7.3% | $ 159.6 | 5.5% | $ 259.8 | 8.1% |

</TABLE>

Sales in the North American Retail Division declined 9% for the second quarter of 2001 and declined 10% during the first six months of 2001. Comparable store sales in the 781 stores in the U.S. and Canada that have been open for more than one year also decreased 9% and 10% for the second quarter and first half of 2001, respectively. The slowing of the U.S. economy has had an adverse effect on sales and could continue to affect sales over the second half of the year. Sales of technology hardware and software products collectively declined 27% in both the second quarter and first half of 2001.

While sales have declined, gross profit as a percent of sales increased as our product mix shifted away from lower margin technology products, and other merchandising initiatives were launched. Additionally, gross margins for the year-to-date period were adversely affected by promotional





pricing used during the first quarter of 2001 to complete targeted inventory reductions. During the second quarter, a chain-wide re-merchandising program was completed. This program included improvements in product adjacencies; more informative signage; increased availability of private label merchandise; and customer-friendly reference charts on technology products. The incremental period costs of completing this program are included in the quarter and year-to-date operating expenses.

During the second quarter, five new retail stores were opened in four states. At the end of the quarter, Office Depot operated a total of 829 retail stores throughout the United States and Canada.

BUSINESS SERVICES GROUP

($ in millions)

<TABLE>
<CAPTION>

| | Second Quarter | | | | First Half | | | |
|---|---|---|---|---|---|---|---|---|
| | 2001 | | 2000 | | 2001 | | 2000 | |
| <S> | <C> | <C> | <C> | <C> | <C> | <C> | <C> | <C> |
| Sales | $ 913.8 | 100.0% | $ 870.7 | 100.0% | $ 1,894.8 | 100.0% | $ 1,754.6 | 100.0% |
| Cost of goods sold and occupancy costs | 623.1 | 68.2% | 587.9 | 67.5% | 1,307.3 | 69.0% | 1,196.1 | 68.2% |
| Gross profit | 290.7 | 31.8% | 282.8 | 32.5% | 587.5 | 31.0% | 558.5 | 31.8% |
| Store and warehouse operating and selling expenses | 216.7 | 23.7% | 211.3 | 24.3% | 453.1 | 23.9% | 427.8 | 24.4% |
| Store and warehouse operating profit | $ 74.0 | 8.1% | $ 71.5 | 8.2% | $ 134.4 | 7.1% | $ 130.7 | 7.4% |

</TABLE>

BSG sales increased 5% in the second quarter of 2001 and increased 8% in the first half of 2001 and included strong growth in e-commerce activity. While BSG experienced some declines in furniture and technology product sales during the quarter, they were more than offset by increases in office supplies, paper and business machines.

The decline in gross profit as a percent of sales reflects weakness in the catalog business that offset margin improvement in our contract business. Several initiatives in our warehouses allowed us to better control costs while improving customer service through increased order-fill rates and better on-time delivery performance. Store and warehouse operating and selling expenses as a percent of sales declined, reflecting better payroll cost control, partially offset by additional advertising expenses.

INTERNATIONAL DIVISION

($ in millions)

| | Second Quarter | | | | First Half | | | |
|---|---|---|---|---|---|---|---|---|
| | 2001 | | 2000 | | 2001 | | 2000 | |
| Sales | $ 356.0 | 100.0% | $ 347.0 | 100.0% | $ 782.7 | 100.0% | $ 734.0 | 100.0% |
| Cost of goods sold and occupancy costs | 213.4 | 59.9% | 208.9 | 60.2% | 470.2 | 60.1% | 442.3 | 60.3% |
| Gross profit | 142.6 | 40.1% | 138.1 | 39.8% | 312.5 | 39.9% | 291.7 | 39.7% |
| Store and warehouse operating and selling expenses | 93.0 | 26.0% | 95.0 | 27.4% | 199.6 | 25.5% | 198.7 | 27.1% |
| Store and warehouse operating profit | $ 49.6 | 13.9% | $ 43.1 | 12.4% | $ 112.9 | 14.4% | $ 93.0 | 12.6% |





Sales in the International Division increased 3% (11% in local currencies) in the second quarter of 2001 and increased 7% (16% in local currencies) in the first six months of 2001. Virtually all countries reported increased sales in local currencies for the quarter and first half of 2001. However, the change in exchange rates from the corresponding periods of the prior year reduced sales reported in U.S. dollars by $30.2 million for the quarter and $68.6 million for the first six months of the year. In U.S. dollar terms, the sales increases in Europe more than offset the decline reported in Japan for the quarter.

Gross profit as a percent of sales benefited from shifts in product mix away from lower margin technology products, as well as from certain pricing initiatives, primarily in the catalog business, implemented during the first six months.

Store and warehouse operating profit in the International Division improved 15% (23% in local currencies) for the second quarter and improved 21% (31% in local currencies) for the first six months of 2001. The positive effect on operating margins from cost control and higher sales were slightly offset by the early start-up costs of our contract business in the U.K., Ireland and The Netherlands, and the integration of an acquired contract business in Australia. Operating profits were negatively impacted by unfavorable exchange rates by $3.6 million in the second quarter and $9.3 million in the first six months of 2001.

CORPORATE AND OTHER

Income and expenses not allocated to the store and warehouse operating profit of our segments consist of pre-opening expenses, general and administrative expenses, corporately-directed activities such as facility closures, our share of the earnings (losses) of our joint ventures, amortization of goodwill, interest income and expense, income taxes, and inter-segment transactions.

GENERAL AND ADMINISTRATIVE EXPENSES: As a percentage of sales, general and administrative expenses increased in the second quarter and first half of 2001 to 4.7% and 4.4%, respectively. This increase resulted mainly from lost leverage because of decreased sales.

OTHER OPERATING EXPENSES, NET: During the second quarter of 2001, certain sub-lease and lease termination arrangements for closed facilities were completed on terms better than expected. Accordingly, $3.2 million of facility closure costs accrued in the fourth quarter of 2000 were reversed in this period. Additionally, pre-opening expenses and other costs included in this caption decreased from prior periods.

INTEREST INCOME AND EXPENSE: Interest income decreased in the second quarter and first six months of 2001 because of lower average cash balances and lower interest rates. Interest expense increased in the second quarter and first half of 2001 because of increased borrowings on our bank credit facility compared to the prior year.

MISCELLANEOUS EXPENSE: Miscellaneous expense, net for the second quarter and first half of 2001, primarily reflects a write-down of investments in certain Internet investment partners totaling $8.5 million ($5.4 million net of tax). Miscellaneous income, net for the first half of 2000 included a $19.0 million gain ($12.0 million net of tax) on the sale of Internet-related investments.





LIQUIDITY AND CAPITAL RESOURCES

Operating cash flows for the first six months of 2001 were 33% higher than the same period in 2000. A net reduction in working capital more than offset the reduction in net income for the period. Total inventory levels decreased $306.8 million, reflecting increased inventory turnover and our SKU reduction program. Additionally, lower inventory purchases contributed to a decrease in accounts payable and improved collections led to a decrease in accounts receivable.

During the first half of 2001, capital expenditures decreased $54.8 million or 43%, primarily from fewer store openings. We have also been more closely scrutinizing capital expenditures with an emphasis on improving our return on assets. Eleven stores were opened during the first half of 2001, compared to 30 during the same period of 2000. We anticipate higher capital expenditures in the second half of 2001 compared to the first six months. We currently project opening approximately 45 stores during 2001.

During the first six months of 2001, we made payments of $297.4 million on our short- and long-term domestic bank borrowings. As a result, total borrowings as of June 30, 2001 consisted of $95.5 million under our long-term domestic credit facility and $49.4 million in outstanding letters of credit. In addition, the equivalent of $58.7 million was outstanding under our term loan and revolving credit agreements with several Japanese banks. (See Note D of the Notes to the Condensed Consolidated Financial Statements for more information regarding our credit facilities.) During the first half of 2000, we repurchased $200.5 million of our stock under a stock repurchase program authorized by our Board of Directors. This stock repurchase program was completed in the latter half of 2000.

In May 2001, the Company completed renewal of its 364-day unsecured revolving credit facility in the principal amount of $255 million. In July 2001, the Company completed the issuance of $250 million of senior subordinated Notes, due July 15, 2008. A portion of the proceeds of this issuance was used to repay amounts outstanding under domestic credit facilities, and the remainder will be used for general corporate purposes.

NEW ACCOUNTING PRONOUNCEMENTS

In July 2001, the Financial Accounting Standards Board issued Statement No. 141, ACCOUNTING FOR BUSINESS COMBINATIONS, and Statement No. 142, GOODWILL AND OTHER INTANGIBLE ASSETS. These Statements modify accounting for business combinations after June 30, 2001 and will affect the Company's treatment of goodwill and other intangible assets at the start of fiscal year 2002. The Statements require that goodwill existing at the date of adoption be reviewed for possible impairment and that impairment tests be periodically repeated, with impaired assets written-down to fair value. Additionally, existing goodwill and intangible assets must be assessed and classified consistent with the Statements' criteria. Intangible assets with estimated useful lives will continue to be amortized over those periods. Amortization of goodwill and intangible assets with indeterminate lives will cease. At this time, the Company has not determined the complete impact of these Statements. However, for the six months ended June 30, 2001, the Company has recognized $3.6 million of goodwill amortization.

CAUTIONARY STATEMENTS FOR PURPOSES OF THE "SAFE HARBOR" PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

In December 1995, the Private Securities Litigation Reform Act of 1995 (the "Act") was enacted by the United States Congress. The Act, as amended, contains certain amendments to the Securities Act of 1933 and the Securities Exchange Act of 1934. These amendments provide protection from liability in private lawsuits for "forward-looking" statements made by public companies. We want to take advantage of the "safe harbor" provisions of the Act. In doing so, we have disclosed these forward-looking statements by informing you in specific cautionary statements of the circumstances which may cause the information in these statements not to transpire as expected.

This Quarterly Report on Form 10-Q contains both historical information and other information that you may use to infer future performance. Examples of historical information include our quarterly financial statements and the commentary on past performance contained in our MD&A. While we have specifically identified certain information as being forward-looking in the context of its presentation, we caution you that, with the exception of information that is clearly historical, all the information contained in this Quarterly Report on Form 10-Q should be considered to be "forward-looking statements" as referred to in the Act. Without limitation, when we use the words "believe," "estimate," "plan," "expect," "intend," "anticipate," "continue," "project," "probably," "should" and similar expressions, we intend to clearly express that the information deals with possible future events and is forward-looking in nature.

Forward-looking information involves risks and uncertainties, including certain matters that we discuss in more detail below and in our 2000 Annual Report on Form 10-K. This information is based on various factors and assumptions about future events that may or may not actually come true. As a result, our operations and financial results in the future could differ substantially from those we have discussed in the forward-looking statements in this Quarterly Report. In particular, the factors we discuss below and in our 2000 Annual Report on Form 10-K could affect our actual results and could cause our actual results during the remainder of 2001 and in future years to differ materially from those expressed in any forward-looking statement made by us in this Quarterly Report on Form 10-Q. Those Cautionary Statements contained in our 2000 Annual Report on Form 10-K are incorporated herein by this reference to them; and, in addition, we urge you to also consider the following cautionary statements:

ECONOMIC DOWNTURN

In the past decade, the favorable United States economy has contributed to the expansion and growth of retailers. Since the third quarter of 2000, the U.S. economy has shown signs of a downturn. The retail industry, in general, is displaying signs of a slowdown, with several specialty retailers, both in and outside our industry segment, reporting earnings shortfalls compared to market expectations over the last several months. This general economic slowdown negatively





impacted our results during the second half of 2000 and the first half of 2001, and may continue to adversely impact our business and the results of our operations.

COMPETITION

We compete with a variety of retailers, dealers and distributors in a highly competitive marketplace that includes high-volume office supply chains, warehouse clubs, computer stores, contract stationers, Internet-based merchandisers and well-established mass merchant retailers. In order to achieve and maintain expected profitability levels, we must continue to grow our business while maintaining the service levels and aggressive pricing necessary to retain existing customers in each of our business segments. Our failure to adequately address these challenges could put us at a competitive disadvantage relative to these competitors.

EXECUTIVE MANAGEMENT

Our success depends largely on the efforts and abilities of our current senior management team. Their experience and industry contacts significantly benefit us. Our management team has undergone changes in the last year with the appointment of a new Chief Executive Officer and presidents to each of our operating business segments. We are currently searching for a Chief Financial Officer. If we were to lose the benefit of their experience and contacts or if the changes in management do not generate the benefits we seek, our business could be adversely affected.

INTERNATIONAL ACTIVITY

We operate in a number of international markets and intend to continue to enter into additional international markets as attractive opportunities arise. In addition to the risks described above, we face such international risks as: foreign currency fluctuations; unstable political, economic, financial and market conditions; compromised operating control of some of our foreign operations that are not wholly owned; system changes and harmonization of prices to accommodate the adoption of the euro; and lack of adequate management resources. All of these risks have in the past and could have in the future a material adverse effect on our business and operating results.





ITEM 3 QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

INTEREST RATE RISKS

See the disclosure in our 2000 Annual Report on Form 10-K. We do not believe that the risk we face related to interest rate changes is materially different than it was at the date of such Report.

FOREIGN EXCHANGE RATE RISKS

See the disclosure in our 2000 Annual Report on Form 10-K. While we realize that foreign currency exchange rates have fluctuated in the past year, we do not believe that the risk we face related to foreign currencies is materially different than it was at the date of such Report.

PART II. OTHER INFORMATION

ITEM 1 LEGAL PROCEEDINGS

We are involved in litigation arising in the normal course of our business. While from time to time claims are asserted that make demands for large sums of money (including from time to time, actions which are asserted to be maintainable as class action suits), we do not believe that any of these matters, either individually or in the aggregate, will materially affect our financial position or the results of our operations.

ITEM 6 EXHIBITS AND REPORTS ON FORM 8-K

a. A Current Report on Form 8-K was filed on May 30, 2001 regarding mid-quarter performance update.

b. A Current Report on Form 8-K was filed on June 18, 2001 regarding renewal of a credit facility.

c. A Current Report on Form 8-K was filed on June 21, 2001 regarding the private placement of Senior Subordinated Notes.

d. A Current Report on Form 8-K was filed on July 10, 2001 regarding the acquisition of 4Sure.com.

e. A Current Report on Form 8-K was filed on July 19, 2001 regarding earnings for the second quarter of 2001.

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

OFFICE DEPOT, INC.
(Registrant)

Date: August 3, 2001 By: /s/ M. Bruce Nelson

M. Bruce Nelson
Chief Executive Officer

Date: August 3, 2001 By: /s/ Charles E. Brown

Charles E. Brown
Senior Vice President, Finance and Controller (Principal Financial and Accounting Officer)





## INDEX TO EXHIBITS

| Exhibit No. | Description |
|---|---|
| 10.1 | Revolving Credit Agreement dated as of May 10, 2001 by and among Office Depot, Inc. and Suntrust Bank, individually and as Administrative Agent; Solomon Smith Barney, Inc. (SSBI) and Bank One, NA, as joint lead arrangers, SSBI as sole bookrunner; Citibank, N.A.., individually and as sole Syndication Agent; Bank One, NA, individually and as Documentation Agent; and BNP Paribas and Wells Fargo Bank, N.A. individually and as Co-Documententation Agents and First Union National Bank, Fleet National Bank and The Royal Bank of Scotland. (Exhibits to the Revolving Credit Agreement have been omitted, but a copy may be obtained free of charge upon request to the Company) |

Exhibit 10.1

AMENDED AND RESTATED 364-DAY CREDIT AGREEMENT

DATED AS OF MAY 10, 2001

OFFICE DEPOT, INC., a Delaware corporation (the "BORROWER"), the banks, financial institutions and other institutional lenders (collectively, the "INITIAL LENDERS") party hereto, SUNTRUST BANK, as paying agent (together with any successor thereto appointed pursuant to Article VII of the Existing Credit Agreement referred to below, the "ADMINISTRATIVE AGENT") for the Lenders (as defined in the Existing Credit Agreement referred to below), SALOMON SMITH BARNEY INC. ("SSBI") and BANK ONE, NA ("BANK ONE"), as joint lead arrangers, SSBI, as sole bookrunner, CITIBANK, N.A., as sole Syndication Agent, and Bank One, as Co-Documentation Agent, hereby agree as follows:

PRELIMINARY STATEMENTS

(1) The Borrower is party to a 364 Day Revolving Credit Agreement dated as of June 2, 2000 (as amended, supplemented or otherwise modified from time to time to (but not including) the date of this Amendment and Restatement, the "EXISTING CREDIT AGREEMENT") with the banks, financial institutions and other institutional lenders party thereto and SunTrust Bank, as Administrative Agent for the Lenders and such other lenders, Bank of America, N.A., as Syndication Agent, Bank One, NA, as Documentation Agent and Citibank, N.A., as Managing Agent. Capitalized terms not otherwise defined in this Amendment and Restatement shall have the same meanings as specified in the Existing Credit Agreement.

(2) The parties to this Amendment and Restatement desire to amend the Existing Credit Agreement as set forth herein and to restate the Existing Credit Agreement in its entirety to read as set forth in the Existing Credit Agreement with the following amendments.

(3) The Borrower has requested that the Lenders agree to extend credit to it from time to time in an aggregate principal amount of up to $250,000,000 for general corporate purposes of the Borrower and its Subsidiaries not otherwise prohibited under the terms of this Agreement. The Lenders have indicated their willingness to agree to extend credit to the Borrower from time to time in such amount on the terms and conditions of this Amendment and Restatement.

SECTION 1. AMENDMENTS TO THE EXISTING CREDIT AGREEMENT. The Existing Credit Agreement is, effective as of the date of this Amendment and Restatement and subject to the satisfaction of the conditions precedent set forth in Section 2, hereby amended as follows:

(a) The recital of parties is amended in full to read as set forth in the recital of parties to this Amendment and Restatement.

(b) Section 1.1 is amended by deleting the definitions of "Commitment" and "Lenders" set forth therein and replacing them, respectively, with the following new definitions thereof:

> "COMMITMENT" or "REVOLVING LOAN COMMITMENT" shall mean, at any time for any Lender, the amount of such commitment set forth opposite such Lender's name on Schedule I hereto, as the same may be decreased from time to time as a result of any reduction thereof pursuant to Section 2.3, any assignment thereof pursuant to Section 10.6, or any amendment





> thereof pursuant to Section 10.2, or as the same may be increased from

time to time pursuant to Section 3.22, which amount shall include such Lender's Revolving Loans.

"LENDERS" means, collectively, each Initial Lender and each other Person that shall become a party hereto pursuant to Sections 3.22 or 10.6.

(c) The definition of "Applicable Margin" in Section 1.1 is amended by deleting the table included therein and substituting therefor the following:

<TABLE>
<CAPTION>

| Level | Rating: S&P/Moody's | Facility Fee | Eurodollar Margin/Letter of Credit Fee | Utilization Fee |
|---|---|---|---|---|
| <S> | <C> | <C> | <C> | <C> |
| I | Less than A-/A3 | 10.0 bp | 40.0 bp | 12.5 bp |
| II | BBB+/Baa1 | 12.5 bp | 50.0 bp | 12.5 bp |
| III | BBB/Baa2 | 15.0 bp | 72.5 bp | 12.5 bp |
| IV | BBB-/Baa3 | 17.5 bp | 95.0 bp | 25.0 bp |
| V | Greater than BBB-/Baa3 | 30.0 bp | 95.0 bp | 50.0 bp |

</TABLE>

(d) The definition of "Pro Rata Share" in Section 1.1 is amended by deleting the phrase "set forth under the name of such Lender on the respective signature page for such Lender" and substituting therefor the phrase "set opposite the name of such Lender on Schedule I hereto".

(e) Section 3.5(b) is amended by deleting therefrom the phrase "a Utilization Fee equal to 0.125% times such aggregate outstanding principal amount" and substituting therefor the phrase "a Utilization Fee computed at the rate of the Utilization Fee Applicable Margin times such aggregate outstanding principal amount".

(f) Section 3.20 is amended (i) by deleting the date "June 1, 2001" in subsection (a) thereof and substituting therefor the date "May 3, 2002", (ii) by deleting the figures "30" and "59" from subsection (a) thereof and substituting therefor the figures "45" and "60", respectively, (iii) by deleting the figure "15" from subsection (b) thereof and substituting therefor the figure "20" and (iv) deleting from subsection (b) thereof the proviso at the end of the second sentence.

(g) A new Section 3.22 is added to read as follows:

SECTION 3.22. INCREASE IN THE AGGREGATE COMMITMENTS. (a) The Borrower may, at any time but in any event not more than once in any calendar year prior to the Termination Date, by notice to the Administrative Agent, request that the aggregate amount of the Commitments be increased by integral multiples of $10,000,000 (each a "COMMITMENT INCREASE") to be effective as of a date that is at least 90 days prior to the scheduled Termination Date then in effect (the "INCREASE DATE") as specified in the related notice to the Administrative Agent; PROVIDED, HOWEVER



that (i) in no event shall the aggregate amount of the Commitments at any time exceed $300,000,000 and (ii) on the date of any request by the Borrower for a Commitment Increase and on the related Increase Date, (x) the Borrower's senior unsecured long-term debt shall be rated better than or equal to Baa3 from Moody's and BBB- from S&P and (y) the applicable conditions set forth in Section 4.2 shall be satisfied.

(b) The Administrative Agent shall promptly notify the Lenders of a request by the Borrower for a Commitment Increase, which notice shall include (i) the proposed amount of such requested Commitment Increase, (ii) the proposed Increase Date and (iii) the date by which Lenders wishing to participate in the Commitment Increase must commit to an increase in the amount of their respective Commitments (the "COMMITMENT DATE"). Each Lender that is willing to participate in such requested Commitment Increase (each an "INCREASING LENDER") shall, in its sole discretion, give written notice to the Administrative Agent on or prior to the Commitment Date of the amount by which it is willing to increase its Commitment. If the Lenders notify the Administrative Agent that they are willing to increase the amount of their respective Commitments by an aggregate amount that exceeds the amount of the requested Commitment Increase, the requested Commitment Increase shall be allocated among the Lenders willing to participate therein based on the ratio of each existing Lender's proposed Commitment increase to the aggregate of the proposed Commitment increases of all Lenders.

(c) Promptly following each Commitment Date, the Administrative Agent shall notify the Borrower as to the amount, if any, by which the Lenders are willing to participate in the requested Commitment Increase. If the aggregate amount by which the Lenders are willing to participate in any requested Commitment Increase on any such Commitment Date is less than the requested Commitment Increase, then the Borrower may extend offers to one or more Eligible Assignees to participate in any portion of the requested Commitment Increase that has not been committed to by the Lenders as of the applicable Commitment Date; PROVIDED, however, that the Commitment of each such Eligible Assignee shall be in a minimum amount of $5,000,000.

(d) On each Increase Date, each Eligible Assignee that accepts an offer to participate in a requested Commitment Increase in accordance with Section 3.22(b) (each such Eligible Assignee, an "ASSUMING LENDER") shall become a Lender party to this Agreement as of such Increase Date and the Commitment of each Increasing Lender for such requested Commitment Increase shall be so increased by such amount (or by the amount allocated to such Lender pursuant to the last sentence of Section 3.22(b)) as of such Increase Date; PROVIDED, HOWEVER, that the Administrative Agent shall have received on or before such Increase Date the following, each dated such date:

(i) (A) certified copies of resolutions of the Board of Directors of the Borrower or the Executive Committee of such Board approving the Commitment Increase and the corresponding modifications to this Agreement (B) a duly executed consent to such Commitment Increase from each Guarantor, (C) duly executed Revolving Notes to each Assuming Lender and each Increasing Lender evidencing their respective Revolving Loan Commitments and (D) an opinion of counsel for the Borrower (which may be in-house counsel), in form and substance satisfactory to the Administrative Agent, each Assuming Lender and each Increasing Lender;

(ii) an assumption agreement from each Assuming Lender, if any, in form and substance satisfactory to the Borrower and the Administrative Agent (each an "ASSUMPTION AGREEMENT"), duly executed by such Assuming Lender, the Administrative Agent and the Borrower; and



(iii) confirmation from each Increasing Lender of the increase in the amount of its Commitment in a writing satisfactory to the Borrower and the Administrative Agent.

On each Increase Date, upon fulfillment of the conditions set forth in the immediately preceding sentence of this Section 3.22(d), the Administrative Agent shall notify the Lenders (including, without limitation, each Assuming Lender) and the Borrower, on or before 1:00 P.M. (Florida time), by telecopier or telex, of the occurrence of the Commitment Increase to be effected on such Increase Date and shall record in the Register the relevant information with respect to each Increasing Lender and each Assuming Lender on such date.

(h) Section 4.2(c) is amended by deleting the date "December 25, 1999" and substituting therefor the date "December 30, 2000" and (ii) by deleting the phrase "1999 fiscal year" and substituting therefor the phrase "2000 fiscal year".

(i) Section 5.3 is amended (i) by deleting the phrase "December 1999" and substituting therefor the phrase "December 2000", (ii) by deleting the phrase "March, June and September 1999 and of March 2000" and substituting therefor the phrase "March, June and September 2000" and (iii) by deleting the date "December 25, 1999" and substituting therefor the date "December 30, 2000".

(j) Section 5.7 is amended by deleting the date "December 25, 1999" and substituting therefor the date "December 30, 2000".

(k) Section 10.7 is amended (i) by deleting the phrase "State of Illinois" in subsection (a) thereof and substituting therefor the phrase "State of New York", (ii) by deleting the phrase "Cook County, Illinois" in subsection (b) thereof and substituting therefor the phrase "New York County, New York" and (iii) by deleting the phrase "the Northern District of Illinois" in subsection (b) thereof and substituting therefor the phrase "the Southern District of New York".

(l) A new Schedule I is added to read as set forth on Schedule I to this Amendment and Restatement.

SECTION 2. CONDITIONS OF EFFECTIVENESS OF THIS AMENDMENT AND RESTATEMENT. This Amendment and Restatement shall become effective as of the date first above written (the "RESTATEMENT EFFECTIVE DATE") when and only if:

(a) The Administrative Agent shall have received counterparts of this Amendment and Restatement executed by the Borrower and all of the Initial Lenders or, as to any of the Initial Lenders, advice satisfactory to the Administrative Agent that such Initial Lender has executed this Amendment and Restatement.

(b) The Administrative Agent shall have received on or before the Restatement Effective Date the following, each dated such date and (unless otherwise specified below) in form and substance satisfactory to the Administrative Agent and in sufficient copies for each Initial Lender:

(i) The duly executed Revolving Notes evidencing the Revolving Loan Commitments.

(ii) The duly executed Consent of each Guarantor in the form attached to this Amendment and Restatement.



(iii) A certificate of the Secretary or an Assistant Secretary of the Borrower certifying the names and true signatures of the officers of the Borrower authorized to sign this Amendment and Restatement and the Revolving Notes and the other documents to be delivered hereunder by the Borrower.

(iv) A certificate of the Secretary or Assistant

Secretary of the Borrower, attaching and certifying copies of the resolutions of the board of directors of the Borrower, authorizing the execution, delivery and performance of this Amendment and Restatement.

(v) A favorable opinion of independent counsel of the Borrower acceptable to the Administrative Agent, addressed to, and in form and substance satisfactory to, the Administrative Agent and each of the Initial Lenders.

(c) The representations and warranties contained in Article V of the Existing Credit Agreement shall be correct on and as of the Restatement Effective Date, before and after giving effect to the Restatement Effective Date, as though made on and as of such date.

(d) No event shall have occurred and be continuing, or shall occur as a result of the occurrence of the Restatement Effective Date, that constitutes a Default.

SECTION 3. REFERENCE TO AND EFFECT ON THE EXISTING CREDIT AGREEMENT AND THE NOTES. (a) On and after the effectiveness of this Amendment and Restatement, each reference in the Existing Credit Agreement to "this Agreement", "hereunder", "hereof" or words of like import referring to the Existing Credit Agreement, and each reference in the Notes and each other Credit Document to "the Credit Agreement", "thereunder", "thereof" or words of like import referring to the Existing Credit Agreement, shall mean and be a reference to the Existing Credit Agreement, as amended by this Amendment and Restatement.

(b) The Existing Credit Agreement and the Notes, as specifically amended by this Amendment and Restatement, are and shall continue to be in full force and effect and are hereby in all respects ratified and confirmed.

(c) Without limiting any of the other provisions of the Existing Credit Agreement, as amended by this Amendment and Restatement, any references in the Existing Credit Agreement to the phrases "Closing Date", "on the date hereof", "on the date of this Agreement" or words of similar import shall mean and be a reference to the date of the Existing Credit Agreement (which is June 2, 2000).

SECTION 4. COSTS AND EXPENSES. The Borrower agrees to pay on demand all reasonable out-of-pocket costs and expenses of the Administrative Agent in connection with the preparation, execution, delivery and administration, modification and amendment of this Amendment and Restatement, the Notes and the other documents to be delivered hereunder (including, without limitation, the reasonable and documented fees and expenses of counsel for the Administrative Agent with respect hereto and thereto) in accordance with the terms of Section 10.4 of the Existing Credit Agreement.

SECTION 5. EXECUTION IN COUNTERPARTS. This Amendment and Restatement may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement. Delivery of an executed counterpart of a signature page to this Amendment and Restatement by telecopier shall be effective as delivery of a manually executed counterpart of this Amendment and Restatement.



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SECTION 6. GOVERNING LAW. This Amendment and Restatement shall be governed by, and construed in accordance with, the laws of the State of New York.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment and Restatement to be executed by their respective officers thereunto duly authorized, as of the date first above written.

THE BORROWER

OFFICE DEPOT, INC.

By ---------------------------------

Name:

Title:

THE AGENT

SUNTRUST BANK,
as Administrative Agent

By ---------------------------------

Name:

Title:

THE INITIAL LENDERS

Joint Lead Arrangers

CITIBANK, N.A.

By ---------------------------------

Name:

Title:

BANK ONE, NA

By_______________________________

Name:

Title:

CO-DOCUMENTATION AGENTS

BNP PARIBAS

By ---------------------------------

Name:

Title:

By ---------------------------------

Name:

Title:



7

WELLS FARGO BANK, N.A.

By ---------------------------------

Name:

Title:

MANAGING AGENTS

FIRST UNION NATIONAL BANK

By

---------------------------------
Name:
Title:

FLEET NATIONAL BANK

By
---------------------------------
Name:
Title:

THE ROYAL BANK OF SCOTLAND

By
---------------------------------
Name:
Title:

Lender

SUNTRUST BANK

By
---------------------------------
Name:
Title:





SCHEDULE I TO THE AMENDMENT AND RESTATEMENT

COMMITMENTS AND PRO RATA SHARES

| Name of Lender | Commitment | Pro Rata Share |
|---|---|---|
| Bank One, NA | $ 40,000,000 | 15.69% |
| BNP Paribas | $ 40,000,000 | 15.69% |
| Citibank, N.A. | $ 40,000,000 | 15.69% |
| First Union National Bank | $ 25,000,000 | 9.80% |
| Fleet National Bank | $ 25,000,000 | 9.80% |
| The Royal Bank of Scotland | $ 30,000,000 | 11.76% |
| Suntrust Bank | $ 20,000,000 | 7.84% |
| Wells Fargo Bank, N.A. | $ 35,000,000 | 13.73% |
| Total of Commitments | $255,000,000 | 100.00% |



CONSENT

Dated as of May 4, 2001

The undersigned, each a Guarantor under the Subsidiary Guaranty and the Contribution Agreement, each dated _______________, 2000 (collectively, the "GUARANTY AGREEMENTS") in favor of the Administrative Agent[, for its benefit and the benefit of] the Lenders parties to the Existing Credit Agreement referred to in the foregoing Amendment and Restatement, hereby consents to such Amendment and Restatement and hereby confirms and agrees that notwithstanding the effectiveness of such Amendment and Restatement, each Guaranty Agreement is, and shall continue to be, in full force and effect and is hereby ratified and confirmed in all respects.

EASTMAN INC.

By
---------------------------------------
Name:
Title:

EASTMAN OFFICE PRODUCTS CORPORATION

By
---------------------------------------
Name:
Title:

OD INTERNATIONAL, INC.

By
---------------------------------------
Name:
Title:

ODNV, INC.

By
---------------------------------------
Name:
Title:

THE OFFICE CLUB, INC.

By
---------------------------------------
Name:
Title:

OFFICE DEPOT OF TEXAS, L.P.

By
---------------------------------------
Name:
Title:

VIKING OFFICE PRODUCTS, INC.

By
---------------------------------------
Name:
Title: