OFFICE DEPOT INC
Form 10-Q
November 02, 2001

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 September 29, 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 306,976,507 shares of common stock outstanding as of October 26, 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)

	As of September 29, 2001	As of December 30 2000
ASSETS		
Current assets:		
Cash and cash equivalents	$ 539,876	$ 151,482
Receivables, net	821,527	896,333
Merchandise inventories, net	1,100,398	1,420,825
Deferred income taxes and other current assets	174,812	230,449
Total current assets	2,636,613	2,699,089
Property and equipment, net	1,098,578	1,119,306
Goodwill and other assets, net	446,674	377,939
	$ 4,181,865	$ 4,196,334
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 1,028,719	$ 1,136,994
Accrued expenses and other current liabilities	589,717	580,966
Income taxes payable	73,803	37,118
Current maturities of long-term debt	92,741	153,259
Total current liabilities	1,784,980	1,908,337
Deferred income taxes and other credits	66,335	88,247
Long-term debt, net of current maturities	318,755	374,061
Zero coupon, convertible subordinated notes	232,878	224,438
Commitments and contingencies		
Stockholders' equity:		
Common stock - authorized 800,000,000 shares of $.01 par value; issued 381,903,126 in 2001 and 378,688,359 in 2000	3,819	3,787
Additional paid-in capital	967,227	939,214
Unamortized value of long-term incentive stock grants	(2,547)	(2,793
Accumulated other comprehensive loss	(64,894)	(53,490
Retained earnings	1,677,454	1,516,691
Treasury stock, at cost - 82,189,049 shares in 2001 and 82,190,548 in 2000	(802,142)	(802,158

	1,778,917	1,601,251
	$ 4,181,865	$ 4,196,334

The accompanying notes are an integral part of these statements.

2

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

	13 Weeks Ended		
	September 29, 2001	September 23, 2000	Septem 20
Sales	$ 2,782,493	$ 2,822,991	$ 8,3
Cost of goods sold and occupancy costs	1,973,965	2,087,769	5,9
Gross profit	808,528	735,222	2,3
Store and warehouse operating and selling expenses	569,507	549,200	1,7
General and administrative expenses	133,052	137,243	3
Other operating expenses (income), net	4,444	(354)	
Operating profit	101,525	49,133	2
Other income (expense):			
Interest income	4,155	2,666	
Interest expense	(12,153)	(9,318)	(
Miscellaneous income (expense), net	2,565	39,310	
Earnings before income taxes	96,092	81,791	2
Income taxes	33,632	31,169	
Net earnings	$ 62,460	$ 50,622	$ 1

Earnings per common share:

Basic	$ 0.21	$ 0.17	$
Diluted	0.20	0.16	

The accompanying notes are an integral part of these statements.

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

	39 Weeks Ended	
	September 29, 2001	Septemb 20
CASH FLOW FROM OPERATING ACTIVITIES:		
Net earnings	$ 160,763	$ 217
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	146,879	144
Provision for losses on inventories and receivables	88,815	75
Changes in working capital	210,300	28
Loss (gain) on investment securities	8,500	(57
Write-down of impaired assets	26,079	
Other operating activities, net	27,797	26
Net cash provided by operating activities	669,133	435
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from maturities or sales of investment securities	--	54
Purchases of investments and other assets	(52,481)	(24
Capital expenditures	(143,927)	(185
Proceeds from sale of property and equipment	22,837	4
Net cash used in investing activities	(173,571)	(151

CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from exercise of stock options and sale of stock under stock purchase plans	20,681	9
Acquisition of treasury stock	--	(280
Proceeds from issuance of long-term debt	255,094	
Payments on long- and short-term borrowings	(373,700)	
Other financing activities, net	--	6
Net cash used in financing activities	(97,925)	(263
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(9,243)	(12
Net increase in cash and cash equivalents	388,394	6
Cash and cash equivalents at beginning of period	151,482	218
Cash and cash equivalents at end of period	$ 539,876	$ 225
SUPPLEMENTAL DISCLOSURE OF OTHER CASH FLOW ACTIVITIES:		
Interest received	$ 6,822	$ 9
Interest paid	(20,322)	(7
Income taxes paid	(20,969)	(116
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Additional paid-in capital related to income tax benefits on stock options exercised	$ 3,128	$
Assets acquired under capital leases	6,041	12
Reversal of unrealized gain on investment securities, net of income taxes	--	62

The accompanying notes are an integral part of these statements.

4

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 condensed 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 September 29, 2001 and for the 13- and 39-week periods ending September 29, 2001 (also referred to as "the third quarter of 2001" and "year-to-date 2001," respectively) and September 23, 2000 (also referred to as "the third quarter of 2000" and "year-to-date 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 represents all non-owner changes in stockholders' equity and consists of the following:

	Third Quarter		
	2001	2000	200
Net earnings	$ 62,460	$ 50,622	$ 160
Other comprehensive income, net of tax:			
Foreign currency translation adjustments	17,483	(9,850)	(11
Reversals of unrealized loss on investment securities	--	(16,446)	
Total comprehensive income	$ 79,943	$ 24,326	$ 149

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 September 29, 2001 and December 30, 2000 totaled $21.4 million and $29.9 million, respectively. The decline in carrying value resulted from other than temporary impairments of $8.5 million ($5.4 million net of tax) recorded in the second quarter of 2001.

NOTE D - LONG-TERM DEBT

In May 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 September 29, 2001, we had no outstanding borrowings under these agreements. Outstanding letters of credit at September 29, 2001 totaled $49.4 million.

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 September 29, 2001, the equivalent of $67.4 million was outstanding and classified as a current liability. We entered into a yen interest rate swap (for a notional amount equivalent to $19.0 million as of September 29, 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.

In July 2001, the Company issued $250 million of seven year, non-callable, Senior Subordinated Notes due on July 15, 2008. The Notes contain provisions that, in certain circumstances, place financial restrictions or limitations on the Company. The Notes have a coupon interest rate of 10.00% and are payable semi-annually on January 15 and July 15. In August 2001, the Company entered into LIBOR-based variable rate swap agreements with notional amounts aggregating $250 million that qualify for shortcut hedge accounting.

NOTE E - EARNINGS PER SHARE ("EPS")

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

	Third Quarter		Year-to-Da
	2001	2000	2001
Basic:			
Weighted average number of common shares outstanding	298,375	304,111	297,185
Diluted:			
Net earnings	$ 62,460	$ 50,622	$160,763
Interest expense related to convertible notes, net of income taxes	1,855	3,238	5,374
Adjusted net earnings	$ 64,315	$ 53,860	$166,137
Weighted average number of common shares outstanding	298,375	304,111	297,185
Shares issued upon assumed conversion of convertible notes	13,845	24,741	13,845
Shares issued upon assumed exercise of dilutive stock options	5,374	1,363	3,508
Shares used in computing diluted EPS	317,594	330,215	314,538

Options to purchase 15.6 million shares of common stock were not included in our computation of diluted earnings per share for the third 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		
	Third Quarter		Ye
	2001	2000	2001
North American Retail Division	$ 1,469,460	$ 1,587,093	$ 4,364,926
Business Services Group	947,171	899,187	2,841,929
International Division	366,658	337,553	1,149,327
Total reportable segments	2,783,289	2,823,833	8,356,182
Eliminations	(796)	(842)	(2,272)
Total	$ 2,782,493	$ 2,822,991	$ 8,353,910

	Earnings Before Income Taxes		
	Third Quarter		Year-to-Da
	2001	2000	2001
North American Retail Division	$ 84,957	$ 83,230	$ 242,215
Business Services Group	90,439	54,023	222,209
International Division	61,807	46,387	179,118
Total reportable segments	237,203	183,640	643,542
Eliminations and other	(141,111)	(101,849)	(391,417)
Total	$ 96,092	$ 81,791	$ 252,125

	Assets	
	September 29, 2001	December 30, 2000
North American Retail Division	$1,690,446	$2,184,976
Business Services Group	1,190,334	1,105,936
International Division	851,251	736,229
Total reportable segments	3,732,031	4,027,141
Other	449,834	169,193
Total	$4,181,865	$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:

	Third Quarter		Year
	2001	2000	2001
Total from reportable segments	$ 237,203	$ 183,640	$ 643,542
General and administrative expenses	(133,052)	(137,243)	(361,957)
Gain (loss) on investment securities	--	38,990	(8,500)
Interest (expense) income, net	(7,998)	(6,652)	(22,970)
Other (expense) income, net	119	3,177	2,270
Inter-segment transactions	(180)	(121)	(260)
Total	$ 96,092	$ 81,791	$ 252,125

NOTE G - NEW ACCOUNTING PRONOUNCEMENTS

In July 2001, the Financial Accounting Standards Board ("FASB") 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 nine months ended September 29, 2001, the Company has recognized $5.4 million of goodwill amortization.

In July 2001, the FASB issued Statement No. 143, ACCOUNTING FOR ASSET RETIREMENT OBLIGATIONS. This Statement requires capitalizing any retirement costs as part of the total cost of the related long-lived asset and subsequently allocating the total expense to future periods using a systematic and rational method. Adoption of this Statement is required for fiscal years beginning after June 15, 2002. The Company has not yet completed its evaluation of the impact of the adoption of this Statement.

In October 2001, the FASB issued Statement No. 144, ACCOUNTING FOR THE IMPAIRMENT OR DISPOSAL OF LONG-LIVED ASSETS. This Statement supersedes Statement No. 121 but retains many of its fundamental provisions. Additionally, this Statement expands the scope of discontinued operations to include more disposal transactions. The provisions of this Statement are effective for financial statements issued for fiscal years beginning after December 15, 2001. The Company has not yet completed its evaluation of the impact this Statement will have when adopted.

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

Third quarter net earnings of $62.5 million were 23% higher than the prior year, while year-to-date net earnings of $160.8 million were 26% lower than last year. Net earnings for the quarter increased, despite a soft U.S. economy and the slowdown that followed the events of September 11. Gross profit margins improved across the Company, as sales shifted away from lower-margin technology products. Additionally, management continued its focus on controllable operating and selling expenses.

Results for the third quarter and nine months of 2001 included a $10.2 million pre-tax gain on the sale of certain warehouse property and charges of $37.9 million for the quarter and $38.3 million for the nine months, primarily related to asset impairments and the resolution of certain non-recurring employee claims. Included in 2000 results were charges of $24.4 million for the third quarter and $33.7 million for the nine months, primarily for severance costs associated with a number of changes in the Company's senior management and gains of $39.0 million for the quarter and $58.0 million for the nine months relating to the sale of certain Internet investments.

OVERALL

(in millions)

	Third Quarter				Year-	
	2001		2000		2001	
Sales	$ 2,782.5	100.0%	$ 2,823.0	100.0%	$ 8,353.9	100.0%
Cost of goods sold and occupancy costs	1,974.0	71.0%	2,087.8	74.0%	5,999.8	71.8%
Gross profit	808.5	29.0%	735.2	26.0%	2,354.1	28.2%
Operating and selling expenses	569.5	20.4%	549.2	19.4%	1,708.3	20.5%
Store and warehouse operating profit	$ 239.0	8.6%	$ 186.0	6.6%	$ 645.8	7.7%

Both overall sales and comparable sales in facilities open for more than one year decreased 1% in the third quarter and 2% on a year-to-date basis. Sales have been adversely affected by the slowing U.S. economy throughout 2001. Additionally, the Company estimates that the economic uncertainties following September 11 further reduced sales by $58 million.

While overall Company sales decreased, sales through our e-commerce channels increased significantly. Worldwide e-commerce sales grew 60% to $402.0 million during the quarter and 69% to $1.1 billion for the first nine months of 2001. These e-commerce sales are comprised of all online sales for the Company's worldwide operations, 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 international Web sites. For business segment reporting purposes, these sales are captured within the appropriate business segment.

NORTH AMERICAN RETAIL DIVISION

(in millions)

	Third Quarter				Year-
	2001		2000		2001
Sales	$ 1,469.5	100.0%	$ 1,587.1	100.0%	$ 4,364.9	100.0%
Cost of goods sold and occupancy costs	1,110.6	75.6%	1,257.3	79.2%	3,359.9	77.0%
Gross profit	358.9	24.4%	329.8	20.8%	1,005.0	23.0%
Operating and selling expenses	270.8	18.4%	244.0	15.4%	757.4	17.4%
Store and warehouse operating profit	$ 88.1	6.0%	$ 85.8	5.4%	$ 247.6	5.6%

10

Total North American Retail Division sales, as well as comparable sales in the 792 stores that have been open for more than one year, declined 7% in the third quarter of 2001 and 9% in the first nine months of 2001. The Company estimates that the events following September 11 negatively impacted third quarter retail sales by approximately $35 million. In addition, the slowing of the U.S. economy has had an adverse effect on our year-to-date sales and could continue to affect sales during the fourth quarter. Sales of technology hardware and software products, collectively, were down 25% in both the third quarter and first nine months of 2001.

While sales have declined, third quarter gross profit as a percent of sales increased to 24.4%, as our product mix continued the shift away from lower margin technology products and we experienced improved margins on Back-to-School products. In addition, quarter-over-quarter comparisons were easier because of last year's paper, ink and toner price reductions. Gross margins for the year-to-date period increased as a percentage of sales, but were adversely affected by promotional pricing used during the first quarter of 2001 to complete targeted product line reductions.

Operating costs as a percentage of sales increased for the third quarter, reflecting the loss of leverage from negative retail sales growth and from costs totaling $26.1 million ($17.0 million after tax benefits) primarily related to the write-down of assets in certain stores. These costs were related to asset impairments in 23 stores, a majority of which did not have sufficient operating performance at the time we completed our comprehensive business review in the latter months of 2000 to warrant action.

During the third quarter, we opened 17 new retail stores, net of closures, in 10 states and one Canadian Province. At the end of the quarter, Office Depot operated a total of 846 retail stores throughout the United States and Canada.

During the first nine months of 2001, a chain-wide re-merchandising program was completed. This program included a reduction in slow-moving products and improved product adjacencies; more informative signage; increased availability of private label merchandise; and the addition of customer-friendly reference charts on technology products.

BSG

(in millions)

	Third Quarter				Year-	
	2001		2000		2001	
Sales	$ 947.1	100.0%	$ 899.2	100.0%	$ 2,841.9	100.0%
Cost of goods sold and occupancy costs	643.7	68.0%	627.4	69.8%	1,951.0	68.7%
Gross profit	303.4	32.0%	271.8	30.2%	890.9	31.3%
Operating and selling Expenses	211.7	22.3%	216.5	24.1%	664.8	23.4%
Store and warehouse operating profit	$ 91.7	9.7%	$ 55.3	6.1%	$ 226.1	7.9%

BSG sales increased 5% in the third quarter of 2001 and 7% in the first nine months of 2001. Included in our third quarter sales for the first time were the sales of 4Sure.com, our newly acquired Internet-based technology business. Excluding sales from 4Sure.com, BSG third quarter sales increased 3%. Contract and Commercial sales for the third quarter have shown some declines,

11

particularly in regions affected by the slowing U.S. economy, and this trend could continue into the fourth quarter. Although BSG experienced some declines for the quarter and year-to-date in furniture and technology product sales, these declines were more than offset by increases in office supplies, paper and business machines. We believe that the events following September 11 negatively impacted BSG sales for the remainder of the third quarter by approximately $15 million.

Gross profit as a percent of sales increased to 32.0% for the quarter, bringing the year-to-date percentage in line with the prior year. This increase was partly attributed to our adherence to volume-dependent pricing programs. Operating and selling expenses as a percent of sales improved on a year-over-year and sequential basis as a result of our focus on productivity and efficiency, and tighter controls over discretionary spending. 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. The combined impact of the above improvements produced a year-to-date operating profit increase of 22%.

INTERNATIONAL DIVISION

(in millions)

	Third Quarter				Year-	
	2001		2000		2001	
Sales	$ 366.7	100.0%	$ 337.6	100.0%	$ 1,149.3	100.0%
Cost of goods sold and occupancy costs	219.9	60.0%	203.6	60.3%	690.1	60.0%
Gross profit	146.8	40.0%	134.0	39.7%	459.2	40.0%
Operating and selling expenses	87.4	23.8%	89.0	26.4%	286.9	25.0%
Store and warehouse operating profit	$ 59.4	16.2%	$ 45.0	13.3%	$ 172.3	15.0%

Sales in the International Division increased 9% (12% in local currency) in the third quarter of 2001 and 7% (15% in local currency) in the first nine months of 2001, with all countries reporting increased sales in local currencies for both the quarter and year-to-date. Unfavorable exchange rates impacted third quarter sales by approximately $12.5 million and year-to-date sales by $81.1 million compared to unfavorable impacts of $36.2 million and $89.9 million, respectively, for the corresponding prior year periods. The events which followed the tragedies of September 11 affected sales in our larger European countries, resulting in an estimated $8 million reduction for the quarter.

Gross profit as a percent of sales increased for both the third quarter and first nine months as a result of 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 half of the year. These gross profit improvements were partially offset by the introduction of our lower margin contract sales in the U.K., Ireland and The Netherlands.

Operating profit in the International Division increased 32% (35% in local currency) for the third quarter and 25% (33% in local currency) for the first nine months of 2001. Improvements in cost control and sales increases were slightly offset on a year-to-date basis by the start-up costs for our contract business in the U.K., Ireland and The Netherlands,

and the integration of an acquired contract business in Australia. Included in the third quarter operating profit was a gain of $10.2 million ($6.7 million after tax) related to the sale of our London warehouse. In August, these operations were relocated to a new 320,000 square foot facility designed to better serve the U.K.'s growing multi-channel business. Excluding this gain, third quarter operating profit was $49.2 million or 13% of sales. Operating profits were negatively impacted by unfavorable exchange rates totaling $0.9 million in the third quarter and $10.2 million in the first nine months of 2001, compared to $5.7 million and $14.2 million in the third quarter and first nine months of 2000, respectively.

CORPORATE AND OTHER

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

INTEREST INCOME AND EXPENSE: Interest income reflects higher cash balances in the third quarter and, for the nine months, lower earnings rates. Interest expense reflects increased borrowings on our bank credit facility during the beginning of the year as well as the $250 million in Notes issued in July 2001.

MISCELLANEOUS INCOME (EXPENSE): Miscellaneous income, net, for the third quarter and nine months of 2000 primarily reflect gains on the sale of Internet investments.

INCOME TAXES: The effective rate for the third quarter declined to 35% and reflects the Company's anticipated domestic and foreign tax expense, given existing tax planning strategies.

LIQUIDITY AND CAPITAL RESOURCES

Operating cash flows for the first nine months of 2001 were $233.9, or 54%, 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 $256.8 million, reflecting increased inventory turnover and our SKU reduction program. Additionally, improved collections led to a decrease in accounts receivable.

During the first nine months of 2001, capital expenditures decreased $41.5 million or 22%, primarily from fewer store openings and closely scrutinizing capital expenditures with an emphasis on improving our return on assets. We opened 28 stores during the first nine months of 2001, compared to 48 during the same period of 2000. We anticipate higher capital expenditures in the fourth quarter of 2001 compared to the first nine months. We currently project opening approximately 45 stores during 2001.

During the first nine months of 2001, we made payments of $373.7 million on our short- and long-term domestic bank borrowings. As a result, total borrowings as of September 29, 2001 consisted solely of the equivalent of $67.4 million 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 nine months of 2000, we repurchased $280 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 July 2001, the Company completed the issuance of $250 million of senior subordinated Notes, due July 15, 2008. (See Note D of the Notes to the Condensed Consolidated Financial Statements for more information regarding these Notes.)

In October 2001, the Board of Directors authorized the Company to repurchase up to $50 million of its common stock annually. The repurchased shares will be added to the Company's Treasury Shares and will be used to meet the Company's near term requirements for its stock option and other benefit plans.

NEW ACCOUNTING PRONOUNCEMENTS

In July 2001, the Financial Accounting Standards Board ("FASB") 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 nine months ended September 29, 2001, the Company has recognized $5.4 million of goodwill amortization.

In July 2001, the FASB issued Statement No. 143, ACCOUNTING FOR ASSET RETIREMENT OBLIGATIONS. This Statement requires capitalizing any retirement costs as part of the total cost of the related long-lived asset and subsequently allocating the total expense to future periods using a systematic and rational method. Adoption of this Statement is required for fiscal years beginning after June 15, 2002. The Company has not yet completed its evaluation of the impact of the adoption of this Statement.

In October 2001, the FASB issued Statement No. 144, ACCOUNTING FOR THE IMPAIRMENT OR DISPOSAL OF LONG-LIVED ASSETS. This Statement supersedes Statement No. 121 but retains many of its fundamental provisions. Additionally, this Statement expands the scope of discontinued operations to include more disposal transactions. The provisions of this Statement are effective for financial statements issued for fiscal years beginning after December 15, 2001. The Company has not yet completed its evaluation of the impact this Statement will have when adopted.

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, and the events of September 11 have further exacerbated the situation. The retail industry, in general, is displaying signs of a slowdown, both in and outside our industry segment, with many companies 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 nine months 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. 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 our competitors.

INTERNATIONAL ACTIVITY

We operate in a number of international markets and intend to continue entering other 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 in 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. These risks could have 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 during the last nine months, 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. 3.1 Amended and Restated By-laws of Office Depot, Inc.

b. 1. A Current Report on Form 8-K was filed on August 23, 2001 regarding a third quarter 2001 mid-quarter performance update.

2. A Current Report on Form 8-K was filed on September 5, 2001 regarding certain management remarks made at analyst conferences.

3. A Current Report on Form 8-K was filed on October 2, 2001 regarding an update to investors on the Company's sales performance for the third quarter of 2001.

4. A Current Report on Form 8-K was filed on October 17, 2001 regarding a press release issued to announce our third quarter 2001 results, and a second press release to announce certain management changes.

5. A Current Report on Form 8-K was filed on October 26, 2001 regarding a press release announcing the extension of offer to exchange Senior Subordinated Notes for Registered Senior Subordinated Notes, and a second press release announcing a new stock repurchase program.

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: November 2, 2001

By: /s/ Charles E. Brown

Charles E. Brown
Executive Vice President, Finance
and Chief Financial Officer
(Principal Financial Officer)

Date: November 2, 2001

By: /s/ James A. Walker

James A. Walker
Senior Vice President, Finance
and Controller
(Principal Accounting Officer)

INDEX TO EXHIBITS

Exhibit No.	Description
3.1	Amended and Restated Bylaws of Office Depot, Inc.