Office DEPOT

Taking Care of Business

A World of Possibilities

2006 Annual Report

A World of Possibilities...

PERFORMANCE
ACHIEVEMENT
CAPABILITIES
GROWTH
CITIZENSHIP

Office Depot is a global leader in the sale and delivery of office products and services to consumers and businesses of all sizes and industries. We reach our extensive customer base through a broad network of retail stores that includes 1,158 locations in North America and 348 locations, either company-owned, licensed or franchised, in other parts of the world. We create a world of possibilities for our customers by selling our products and services via a dedicated sales force, telephone account managers, direct mailings and multiple web sites. Incorporated in 1986 and headquartered in Delray Beach, Florida, Office Depot operates directly or through affiliates in 42 countries. Office Depot's common stock is listed on the New York Stock Exchange under the symbol ODP and is included in the S&P 500 Index.

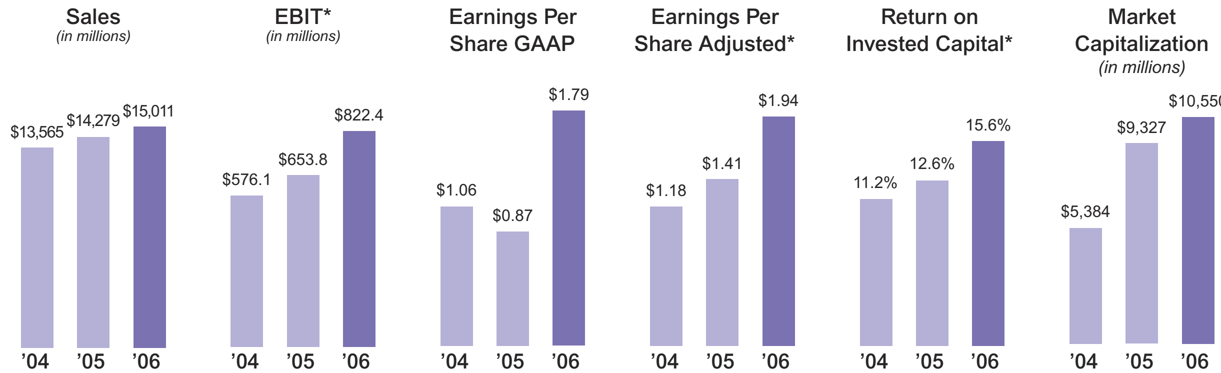
There are more than 17.6 million corporations, small businesses and home offices in North America, Europe, Asia and South America.

The market potential for the office products and services industry in these regions is approximately $850 billion —creating a world of possibilities for new business.

There is one established global leader in this market, providing customer solutions in 42 countries around the world.

Welcome to Office Depot and Our World of Possibilities

Delivering Results



*Non-GAAP number; adjusted for certain charges and credits. A reconciliation of GAAP to Non-GAAP numbers can be found on the Office Depot® web site at www.officedepot.com.

FINANCIAL HIGHLIGHTS

(in millions, except share and return data)	2006	2005	2004
Sales	$15,010.9	$14,278.9	$13,564.7
EBIT*	822.4	653.1	576.1
Net Earnings*	558.3	443.8	372.0
Diluted Earnings Per Share*	1.94	1.41	1.18
Return on Invested Capital*	15.6%	12.6%	11.2%

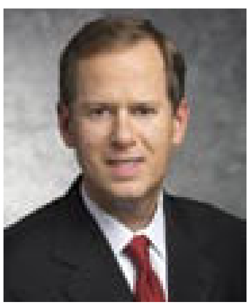
*Non-GAAP number; adjusted for certain charges and credits. A reconciliation of GAAP to Non-GAAP numbers can be found on the Office Depot® web site at www.officedepot.com.

TO OUR CUSTOMERS, EMPLOYEES AND OWNERS:

Since our inception, Office Depot has had a singular goal: to serve the interests of our customers, employees and owners by **fueling profitable growth**. We have repeatedly proved that we excel in this regard, having spent the past two decades executing one of the most successful growth stories in retail history.

As we marked our 20th anniversary in 2006, we paused to reflect on how far we have come since our founders started business with one store, a handful of employees and dreams of possibility. To say that we have realized that vision is a vast understatement. Today, Office Depot is a **Global 500** company with annual sales that exceed $15 billion and more than 52,000 employees. We serve the needs of a wide range of customers though three divisions, and we are a leader in every distribution channel—from retail stores and contract delivery to catalogs and e-commerce. Moreover, we are the only true global player in our industry, serving customers in 42 countries.

While our Company has evolved dramatically and **achieved possibilities** only dreamed of over the last two decades, our commitment to growth remains as strong as the day we were founded. We are fulfilling this commitment by focusing on well-defined strategic priorities in each of our three businesses:



Steve Odland
Chairman and CEO

- In **North American Retail**, we are driving productivity, accelerating growth by opening stores in a combination of new and existing markets, and remodeling our stores to utilize our customer-friendly M2 store format.
- In **North American Business Solutions**, we are acquiring new customers and increasing our business with existing customers by broadening our product and service portfolio, expanding our dedicated sales force, leveraging our team of telephone account managers, and enhancing our e-commerce sites.
- In **International**, we are working to generate profitable market share growth in Europe, and we are increasing the scope and scale of our business by extending our geographic reach through a combination of organic initiatives and strategic acquisitions in Asia and other parts of the world.

In 2006, we made marked progress in all of these areas. As a result, we delivered another year of record financial performance, posting earnings per share of $1.94*, **a 38% increase*** on top of a 19%* increase in 2005; and sales of $15 billion. We also continued to take unnecessary costs out of our business, an effort that helped us to generate $484 million in free cash flow before share repurchase.

The credit for these accomplishments goes to our more than 52,000 global employees who see a world of possibilities in our business each and every day guided by our corporate vision of Delivering Winning Solutions That Inspire Worklife™. Together, these individuals guide our progress, execute our growth strategy, uphold our commitments to the customer and represent Office Depot's unique value proposition. Recognizing the importance of every Office Depot employee in fueling our possibilities, we employ a principle of **shared leadership**—one that draws on the strengths of our entire global team to find new ways to improve quality and efficiency, attract new customers, cut costs, and ensure that best practices are applied universally throughout our operations.

In 2006, we continued to build this team by adding **high-caliber individuals** throughout the world. We move forward with a united focus on creating a world of possibilities that are in the long-term best interests of our three main constituents—customers, employees and owners—and set the stage for Office Depot to enjoy another 20 years of profitable growth.

Sincerely,

Steve Odland
Chairman and Chief Executive Officer

**Non-GAAP number; adjusted for certain charges and credits.*

In 2006, Office Depot marked our 20th anniversary. We also demonstrated our strength as a growth leader, generating a record $15 billion in worldwide sales, and 38% EPS growth. Our performance was reflected clearly in our stock price, which rose 19% during the year.

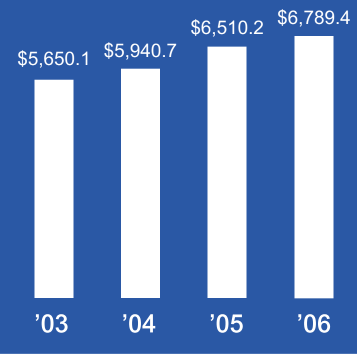
**Non-GAAP number; adjusted for certain charges and credits. A reconciliation of GAAP to Non-GAAP numbers can be found on the Office Depot® web site at www.officedepot.com.*

Office Depot's 1st Store Opened in 1986

Office Depot at-a-glance

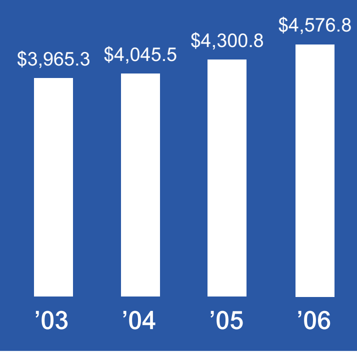
North American Retail encompasses a network of 1,158 office supply stores that span 49 states, the District of Columbia and Canada. Our stores offer an unbeatable combination of easy access to a broad assortment of business-related merchandise and services, competitive prices, and personal assistance from informed sales associates—all in an inviting and easy-to-navigate store environment.

NORTH AMERICAN RETAIL DIVISION SALES
(in thousands)



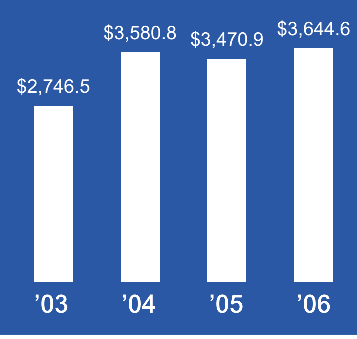
North American Business Solutions offers a direct sales program for small, medium and large business customers. We supply these businesses with a full suite of branded and private-branded products and services through a dedicated sales force, as well as catalogs, call centers and multiple e-commerce sites. Our scale enables us to deliver complete, competitively priced solutions that are tailored to the unique needs of each customer.

NORTH AMERICAN BUSINESS SOLUTIONS DIVISION SALES
(in thousands)



International sells office products and services in 40 countries outside of the United States and Canada via direct marketing, contract sales forces, Internet sites and retail stores, as well as through joint-venture and licensing agreements. A strong and growing business with an extensive worldwide reach, our International division positions us to extend our value proposition to companies of all sizes around the world, and to provide our large, global customers with a seamless, full-service solution.

INTERNATIONAL DIVISION SALES
(in thousands)



NORTH AMERICAN RETAIL

GROWTH INITIATIVES

- Open 300–350 stores in the next two years in a combination of new and existing markets
- Refresh our store network by remodeling our remaining stores to use our customer-friendly M2 store format
- Promote appealing solutions like Design, Print & Ship
- Increase our penetration of private brands

NORTH AMERICAN BUSINESS SOLUTIONS

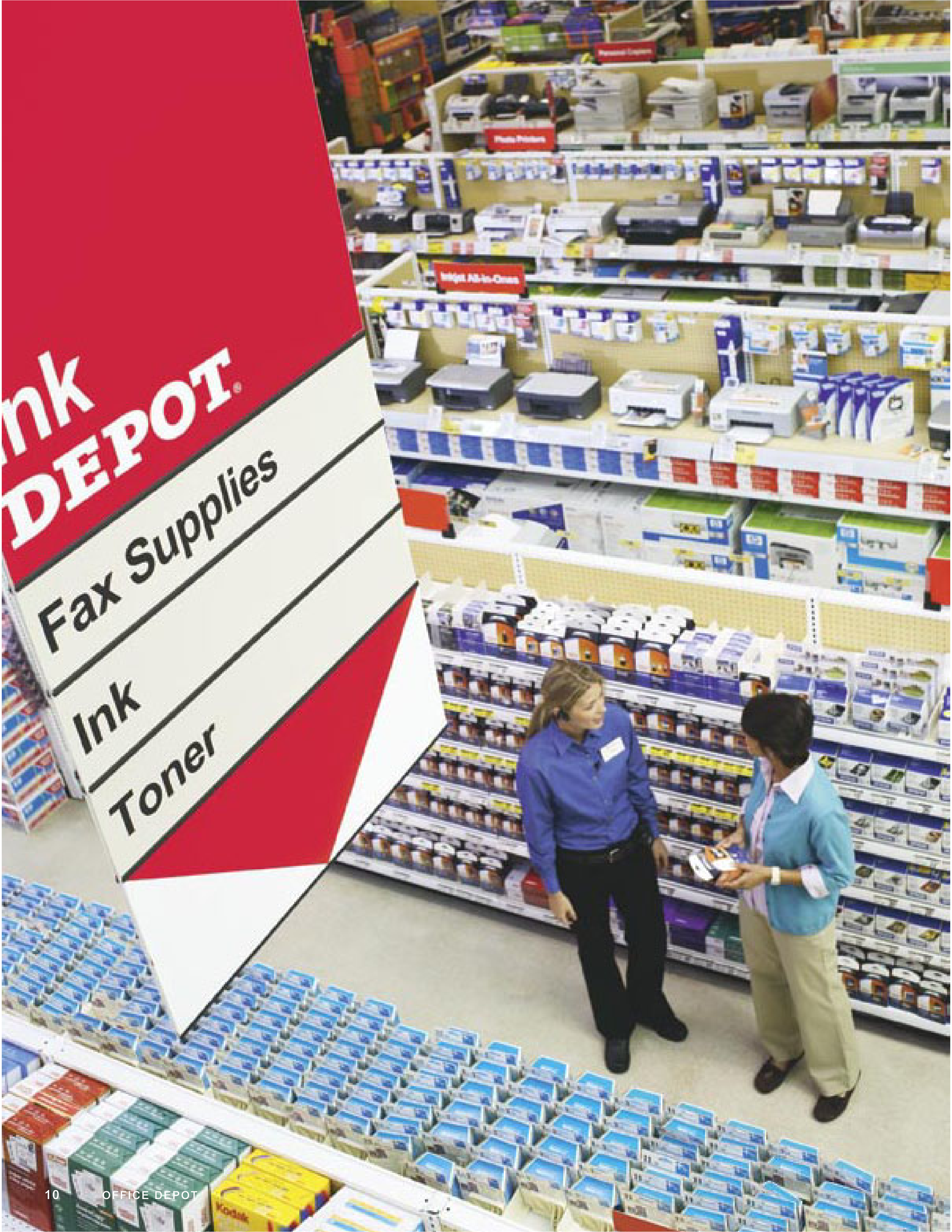
GROWTH INITIATIVES

- Expand our sales force to reach more customers in more regions
- Increase our utilization of telephone account managers to broaden our relationships with existing customers and forge alliances with new ones
- Introduce new product categories and solutions that address changing customer needs
- Enhance our e-commerce sites to be even more effective and simpler to use

INTERNATIONAL

GROWTH INITIATIVES

- Fuel profitability through cost management activities
- Make strategic acquisitions of promising companies in emerging markets
- Drive private-brand sales through expanded product assortments and increased marketing
- Broaden our product and services offerings


nk
DEPOT
Fax Supplies
Ink
Toner

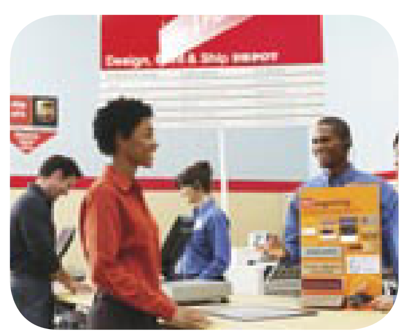
The U.S. office products industry is a $323 billion dollar market, of which Office Depot holds just 3.3 percent[1]. Recognizing the possibilities, our North American Retail Division is focused on growing market share by adding new stores, launching more private-brand products, expanding merchandise assortment in select categories, and offering high-demand services.

In 2006, we advanced all of these initiatives. We opened 115 stores that expanded our presence in several established markets and enabled us to penetrate new markets. We continued to revitalize our selling floors, remodeling 176 of our stores to use our M2 format, which employs an open floor plan to make shopping faster, more convenient and more appealing for our customers. We also continued to pave the way for future growth, laying the groundwork to open approximately 150 new stores in 2007 and to continue to execute our remodeling program throughout our chain.

A central component of Office Depot's value proposition is our commitment to offering customers new possibilities through unique services and products. In 2006, we introduced our Design, Print & Ship Depot both in our retail stores and online. This solution now allows our customers to bring their orders into any Office Depot store or submit them through our OfficeDepot.com web site. Either way, our customers can draw on our professional, full-service printing, copying, binding, finishing and logo design services, and then either pick up their products at any of our retail stores or have them delivered directly to their homes or offices. We also continued to expand the merchandise possibilities we offer through our private brands, which include Office Depot®, Ativa™, Christopher Lowell™, Foray™ and Break Escapes™. Our efforts included launching a line of high-quality business cases under the Foray™ brand, as well as building our other brands through the addition of new products and categories that meet the changing demands of today's business customers.

We also introduced a new customer loyalty program, called Worklife™ Rewards, which is the only program to offer customers the ability to earn unlimited rewards. This adds an exciting new possibility to our value proposition and provides a compelling incentive for more customers to select Office Depot as their business supplies and services destination.

[1]*Source: SHOPA*

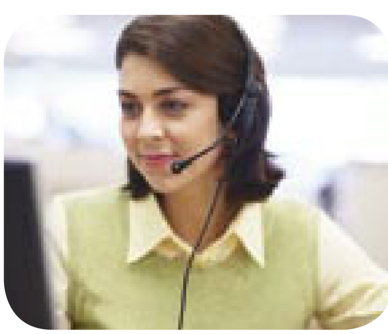


Our North American Business Solutions Division is a thriving business that serves the needs of a loyal and rapidly growing customer base. We are continuously broadening our service possibilities as well as our team of professional associates in order to attract new customers and expand our relationships with existing customers.

North American Business Solutions is a powerful business-to-business delivery network that provides customized office solutions directly to a broad range of business customers in the United States and Canada. As of the close of 2006, we offered these customers direct access to approximately 15,000 products through a network of contract sales teams, telephone account managers, catalogs, direct mail and multiple web sites.

Our focus is on creating new possibilities for our business and our customers, and in 2006, we grew every area of our operations, expanding market share by employing innovative approaches to customer acquisition, retention and penetration. We built our sales force, adding new professionals who helped us to increase our reach and attract new customers. We expanded our use of telephone account managers, and we increased our reliance on this team to work proactively with our customers to identify and serve their needs. We enhanced our e-commerce sites, making them easier to navigate, and creating the possibility for us to interact with visitors in real-time. We broadened our furniture assortment with a selection of high-demand products, and we complemented these additions by providing enhanced delivery and set-up capabilities.

We further accelerated our expansion by acquiring Allied Office Products, the nation's largest privately held dealer of office products and services, with 2005 sales of about $300 million. This acquisition brought Office Depot a strong presence in the medical and legal vertical markets. In addition, it strengthened our position in key parts of the Northeast and California that will serve us well as we continue to grow.




Office DEPOT
white copy paper

International Reach

Austria
Belgium
Canada
China
Czech Republic
France
Germany

Hungary
Ireland
Israel
Italy
Japan
Korea
Lithuania

Luxembourg
Netherlands
Portugal
Slovakia
Spain
Switzerland
United Kingdom

United States
Costa Rica
El Salvador
Guatemala
Honduras
Mexico

Panama
Thailand
Andorra
Liechtenstein
Monaco
San Marino
Vatican City

Affiliates:
Australia
Denmark
Finland
Norway
Sweden
Serbia
Montenegro
Croatia

Europe, Asia and South American countries represent an enormous combined market opportunity of $534 billion. Understanding these possibilities, Office Depot is poised to leverage its international leadership position to capture an even more significant share of this growth.

In 2006, we accelerated our global growth by revamping the structure of our international organization to mirror that of our proven domestic business. This included adding new leaders to our senior management team; launching marketing campaigns to heighten awareness of our private brands; and applying our shared leadership discipline, operational protocols and best practices across our international operations. We supported these initiatives by continuing to take aggressive cost-cutting measures, as well as by consolidating our supply chain operations in Europe to create efficiencies.

We also extended our global reach to take advantage of enormous possibilities in a number of world markets. We accomplished this by increasing our ownership interest in Office Depot Israel to a majority stake, as well as by making several strategic acquisitions:

- We acquired a controlling interest in AsiaEC, one of the largest suppliers of office products and services in China, with annual sales of over $40 million and 500 employees who support contract sales, direct mail, and Internet businesses in four markets. AsiaEC, now Office Depot, markets office supplies, technology, furniture, custom printing and promotional items, and business services.
- We acquired Papirius, one of the largest business-to-business suppliers of office products and services in Eastern Europe, with operations in the Czech Republic, Lithuania, Hungary and Slovakia. Papirius generates annual revenues of more than $56 million through sales of paper and envelopes, filing components, toner, office furniture, writing instruments, cleaning supplies, refreshments, and professional services.
- We acquired a controlling interest in Best Office Co., Ltd., one of the top office supply companies in South Korea. With annual revenues of more than $44 million, Best Office has a network of more than 70 franchised and company-owned retail stores, as well as a delivery sales business.

Collectively, these transactions strengthened Office Depot's global presence in several rapidly growing areas of the world and extended our possibilities to deliver innovative products and services to burgeoning international markets.

Best Office AsiaEC 亚商 papirius

Growing our business means growing our brands. We work hard to raise awareness of our corporate name and private brands in every market, ensuring that each of them resonates with customers as a symbol of excellent quality and great value.

A good reputation is vital to success, making a highly recognized and well-regarded brand name a priceless asset. Office Depot possesses one of the most well-known brand names in North America, as well as several additional brands in Europe, Asia and South America, including Office Depot®, Viking Office Products®, Viking Direct® and Tech Depot®. In addition, we possess numerous private brands, which encompass product lines that are sold exclusively through our businesses. Together, the strength of these brands helps to fuel our possibilities for growth and ensure our successful entry into new markets.

We are sharply focused on initiating marketing programs that heighten awareness of our brands throughout the world. In North America, we are executing our national *Taking Care of Business* advertising campaign in a range of high-profile media. In 2006, we drew more customers into our stores by launching the “Great Tools for Your Schools” sweepstakes during the high-traffic Back-to-School season, awarding one school more than $75,000 in office supplies.

We are also continuing to leverage our partnerships with NASCAR®, Carl Edwards and Roush Fenway Racing to implement promotions that increase our small business exposure. In 2006, we conducted a sweepstakes for small businesses that offered the possibility of winning an advertisement placement for their company on Office Depot’s NASCAR® 99 race car. This was a highly successful promotion that generated significant interest from our target customers.

During the year, we also worked to strengthen our private brands in every market. These brands are an important growth driver for Office Depot, which help us to cultivate customer loyalty and drive product margins. We expanded all of these brands in 2006, adding new products and assortments, and introducing new merchandise possibilities that meet the needs of our customers. We laid the groundwork to continue to enhance these brands by establishing our own direct sourcing office in Shenzhen, China. This program will enable us to reduce manufacturing costs, improve margins and explore exciting new product possibilities.


DATA TO GO
40GB
ATA TO GO
ativa
ativa
Office DEPOT
internet security
Office DEPOT
DVD-R
Office DEPOT
data deletion suite

As a global company with local presence around the world, one of the ways we express good corporate citizenship both internationally and locally is through a diverse range of environmental activities that help us increasingly "buy green," "be green," and "sell green."

In 2006, we made great strides in our environmental vision, bringing new possibilities to all three aspects.

In North America, we worked closely with Conservation International to develop a comprehensive environmental questionnaire which quickly became a part of our approach to "buy green." This document was used by paper buyers globally to ensure that Office Depot sources paper from known and well-managed forests.

To accomplish our goal to "be green," we completed the first phase of a greenhouse gas reduction strategy. This included conversion of our entire North American fleet of delivery trucks to ultra-low-emission vehicles, which helped improve the energy efficiency of many of our facilities; and the purchase of over 76,000 megawatt hours of Renewable Energy Credits.

Finally, in order to "sell green," we expanded the reach of our celebrated Green Book catalog of environmentally preferable products to six countries—UK, USA, Belgium, France, Germany and the Netherlands. In total, these catalogs contain over 6,000 environmental possibilities for our customers.

Our customer base spans diverse organizations, and our services reach millions of individuals across the world. We take actions that improve the communities where we live, work and conduct our business. **We fulfill these possibilities through a broad outreach program that encompasses a rich combination of corporate donations, sponsorships and volunteerism.**

We believe in a forward-thinking and proactive approach to corporate philanthropy. Through the Office Depot Foundation and our community relations initiatives we participate in hundreds of programs each year, offering meaningful assistance to causes and individuals around the world in the areas of education, health, social services, the arts and diversity. Wherever we conduct business, we support local non-profit organizations through product and monetary donations as well as associate fund matching programs. We underscore these efforts by partnering with a vast range of national and international organizations that help to feed, shelter, educate, guide and inspire others, as well as those that engage in global disaster-relief initiatives. We also strongly encourage our associates to embody the Office Depot spirit of possibility, and they have proved to be generous and caring volunteers for a spectrum of worthy causes.


Selected Financial Data

The following table sets forth selected consolidated financial data at and for each of the five fiscal years in the period ended December 30, 2006. It should be read in conjunction with the Consolidated Financial Statements and Notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations.

(In thousands, except per share amounts and statistical data)	2006	2005(1)	2004	2003(2)(3)	2002(2)(4)
Statements of Earnings Data:					
Sales	**$15,010,781**	$14,278,944	$13,564,699	$12,358,566	$11,356,633
Cost of goods sold and occupancy costs	**10,343,141**	9,886,921	9,308,560	8,483,820	8,021,471
Gross profit	**4,667,640**	4,392,023	4,256,139	3,874,746	3,335,162
Store and warehouse operating and selling expenses	**3,296,443**	3,243,935	3,048,809	2,829,921	2,352,411
Asset impairments	**7,450**	133,483	11,528	—	—
General and administrative expenses	**651,696**	666,563	665,825	578,840	486,279
Gain on sale of building	**(21,432)**	—	—	—	—
Operating profit	**733,483**	348,042	529,977	465,985	496,472
Other income (expense):					
Interest income	**9,828**	22,204	20,042	14,196	18,509
Interest expense	**(40,830)**	(32,380)	(61,108)	(54,805)	(46,195)
Loss on extinguishment of debt	**(5,715)**	—	(45,407)	—	—
Miscellaneous income (expense), net	**30,565**	23,649	17,729	15,392	7,183
Earnings from continuing operations before income taxes and cumulative effect of accounting change	**727,331**	361,515	461,233	440,768	475,969
Income taxes	**211,196**	87,723	125,729	141,524	166,554
Earnings from continuing operations before cumulative effect of accounting change	**516,135**	273,792	335,504	299,244	309,415
Discontinued operations, net	**—**	—	—	176	(775)
Cumulative effect of accounting change, net	**—**	—	—	(25,905)	—
Net earnings	**$ 516,135**	$ 273,792	$ 335,504	$ 273,515	$ 308,640
Earnings per share from continuing operations before cumulative effect of accounting change:					
Basic	**$ 1.83**	$ 0.88	$ 1.08	$ 0.97	$ 1.01
Diluted	**1.79**	0.87	1.06	0.95	0.98
Cumulative effect of accounting change:					
Basic	**—**	—	—	(0.08)	—
Diluted	**—**	—	—	(0.08)	—
Net earnings per share:					
Basic	**$ 1.83**	$ 0.88	$ 1.08	$ 0.88	$ 1.01
Diluted	**1.79**	0.87	1.06	0.87	0.97
Statistical Data:					
Facilities open at end of period:					
United States and Canada:					
Office supply stores	**1,158**	1,047	969	900	867
Distribution centers	**20**	20	22	22	24
Call centers	**—**	3	13	13	13
International(5):					
Office supply stores	**125**	70	78	64	50
Distribution centers	**32**	25	25	25	15
Call centers	**30**	31	31	31	13
Total square footage—North American Retail Division	**28,520,269**	26,261,318	24,791,255	23,620,343	23,203,013
Percentage of sales by segment:					
North American Retail Division	**45.2%**	45.6%	43.8%	45.7%	51.1%
North American Business Solutions Division	**30.5%**	30.1%	29.8%	32.1%	34.5%
International Division	**24.3%**	24.3%	26.4%	22.2%	14.4%
Balance Sheet Data:					
Working capital(6)	**$ 359,776**	$ 405,184	$ 385,084	$ 419,494	$ 350,298
Total assets	**6,570,102**	6,098,525	6,794,338	6,194,679	4,765,812
Long-term debt, excluding current maturities	**570,752**	569,098	583,680	829,302	411,970
Stockholders' equity	**2,610,111**	2,739,221	3,223,048	2,747,121	2,252,926

(1) Includes 53 weeks in accordance with our 52–53 week reporting convention.
(2) Statements of Earnings Data for fiscal years 2003 and 2002, and Balance Sheet Data for 2003, have been restated to reflect adjustments for lease accounting.
(3) Reflects the acquisition of Guilbert in June. Also, net earnings and net earnings per share data reflect cumulative effect of adopting a new accounting pronouncement.
(4) As applicable, amounts have been adjusted to reflect the Australian business as discontinued operations.
(5) Facilities of wholly-owned or majority-owned entities operated by our International Division.
(6) Working Capital = (current assets—cash and short-term investments)—(current liabilities—short-term borrowings and current maturities of long-term debt).

Management's Discussion and Analysis of Financial Condition and Results of Operations

RESULTS OF OPERATIONS

GENERAL

Our fiscal year results are based on a 52- or 53-week retail calendar ending on the last Saturday in December. Fiscal years 2006 and 2004 include 52 weeks; fiscal year 2005 is based on 53 weeks, with a 14-week fourth quarter. Our comparable store sales (or "comp" sales) relate to stores that have been open for at least one year. For 2005, this comparison has been adjusted to a 52-week basis.

OVERVIEW

Fiscal year 2006 has been a year of growth across the Company. We have exceeded $15 billion in sales for the first time by increasing sales levels in each of our operating Divisions, even when compared to a 53-week year in 2005. On a comparable 52-week basis, these sales increases are even greater. Also, full year Division gross profit and Division operating profit increased in North America and International. These results were realized at the same time as opening 115 new stores and remodeling another 176 stores in North America, investing in our contract sales force in North America and Europe and expanding our geographic presence with acquisitions in North America, Europe and Asia. Major contributors to our 2006 results are summarized below and reviewed further in the segment discussions.

- Excluding the 53rd week from 2005, total company sales increased 6% compared to 2005. North American Retail Division comp store sales grew 2%.
- During 2006, we refined our measure of Division operating profit to include general and administrative expenses directly or closely attributable to each reportable segment and to exclude charges related to programs initially identified in 2005 following a Company-wide review of operations, processes and commitments (the "Charges"). These Charges will continue to be recognized in future periods as the plans are implemented and the related accounting criteria are met. Also, we continue to explore ways to enhance our financial reporting and may refine presentation or allocations in future periods.
- Diluted earnings per share for 2006, 2005 and 2004 were $1.79, $0.87 and $1.06, respectively. The Charges had a $0.15 per share impact in 2006 and a $0.59 per share impact in 2005. The positive impact of the 53rd week on 2005 net earnings was approximately $0.05 per diluted share.
- In the fourth quarter of 2006, we recognized a gain on building sale after debt termination of approximately $0.04 per share. We also recorded a charge to settle litigation of approximately ($0.04) per share.
- After considering the impact of the Charges, building gain and legal settlement, our operating expenses as a percent of sales declined as a result of various cost control efforts, operational improvements and improved leverage from higher sales.
- During 2006, we acquired all or a majority interest in certain entities headquartered in South Korea, North America, the Czech Republic and China, and increased our previous investment to a majority position in an entity in Israel. Results of those entities have been consolidated in our financial statements since the dates of acquisition.
- Cash flow from operating activities was $827 million in 2006 and totaled $2.1 billion over the past three year period.
- Under plans approved by our board of directors, we acquired 26.4 million shares of our common stock during the year.

OPERATING RESULTS

Our overall sales increased 5% in both 2006 and 2005. However, 2005 was a 53-week year based on our fiscal calendar. On a comparable 52-week basis, fiscal 2006 sales increased 6%, compared to an increase of 4% in 2005. Each of our Divisions reported higher sales in 2006 on both a comparable 52-week basis and when compared to the 53-week period in 2005. The sales increase in 2006 reflects positive organic growth, the impact of acquisitions during the year and positive foreign currency impacts in our International Division. The 2005 increase reflects higher sales in our North American operations, partially offset by a decline in the International Division from reduced local currency sales.

The increase in gross profit as a percentage of sales in 2006 reflects the net impact of higher private brand sales and better category management, partially offset by competitive pressures in certain areas and some change in product sales mix. Cost of goods sold in 2006 and 2005 include the negative impact of $1 million and $20 million, respectively, of inventory-related Charges.

Total store and warehouse operating and selling expenses as a percentage of sales decreased in 2006 and increased in 2005. The 2006 and 2005 totals include Charges of approximately $37 million and $109 million, respectively. Expenses that were similar in nature to these Charges, but not part of the Charges programs totaled $39 million in 2004. After considering those charges, store and warehouse operating and selling expenses as a percent of sales decreased in both 2006 and 2005. The 2006 decrease reflects operational efficiencies and sales leverage, partially offset by higher costs from accelerated store remodel and new store opening activities, as well as initial costs for an expanded sales force and the integration of several acquisitions during the year. The reductions in 2005 also reflect the success we realized in improving our advertising cost effectiveness throughout 2005, as well as leverage from the 53rd week of sales.

Effective with the beginning of the third quarter of 2005, we adopted Statement of Financial Accounting Standards No. 123 (R) ("FAS 123R") using the modified prospective method. Under this method, the portions of previously granted share-based payments that were unvested at the date of adoption, as well as the fair value of awards granted after adoption, are included in operating expenses over the appropriate service period.

Discussion of other income and expense items, including the Charges and changes in interest and taxes follows our review of the operating segments. As noted above, during 2006, we modified our presentation of Division operating profit by including general and administrative expenses considered directly or closely attributable to each reportable segment and excluding the Charges recognized during the period to conform to the internal presentation used to manage the business.

NORTH AMERICAN RETAIL DIVISION

(Dollars in millions)	**2006**	2005	2004
Sales	**$6,789.4**	$6,510.2	$5,940.7
% change	**4%**	10%	5%
Division operating profit	**$ 473.9**	$ 393.6	$ 291.3
% of sales	**7.0%**	6.0%	4.9%

Total sales in the North American Retail Division increased 4% in 2006 and 10% in 2005 compared to the prior periods. However, 2006 sales increased 6% over the prior year after consideration of the impact of the additional week in 2005. Comp store sales in 2006 from the 1,036 stores that were open for more than one year increased 2%. Comp store sales in 2005 from the 945 stores that were open for at least one year increased 3%. The growth in total sales reflects our new store openings, as well as improved selling efforts and effective merchandising and marketing programs. During 2006 and 2005, we increased our private brand offerings, continued improving the effectiveness of our inserts and advertising campaigns and maintained our official office supply partnership with NASCAR®. Also during 2006, we transformed our previous Advantage loyalty program into our WorkLife™ Rewards program, which has continued to promote long-term customer relationships.

Overall gross margins increased in 2006 and 2005 compared to the prior year. We have expanded our selection of private brands which has had a positive impact on gross margins, and we expect to continue developing additional product offerings. We continue to increase our mix of technology sales, which are lower margin products, but have benefited from category management and higher attachment rates. Furniture sales were lower, we believe reflecting the impact of softness in the housing market on our home office furniture sales. Our operating expenses as a percent of sales were lower in 2006 compared to 2005, reflecting lower store operating costs, somewhat offset by higher advertising costs and our store remodeling program. The store expansion and remodel program has impacted our operating expenses by additional pre-opening expenses related to new stores, as well as accelerating depreciation for stores being remodeled and incurring non-capitalizable remodeling costs. We exclude the brief remodel period from our comp sales calculation to account partially for some of the disruption. The new store and store remodel activity lowered the Division operating profit percentage by approximately 50 basis points in 2006 compared to 2005.

We opened 115 new stores during 2006 and 100 stores during 2005, all using our improved M2 store design. At the end of 2006, we operated 1,158 retail stores in the U.S. and Canada. We anticipate opening approximately 150 stores in 2007 and 200 additional stores in 2008. We also remodeled 176 stores during 2006 and 13 stores in 2005. We have a goal of remodeling substantially all remaining stores over the next two years.

NORTH AMERICAN BUSINESS SOLUTIONS DIVISION

(Dollars in millions)	**2006**	2005	2004
Sales	**$4,576.8**	$4,300.8	$4,045.5
% change	**6%**	6%	2%
Division operating profit	**$ 367.7**	$ 350.8	$ 276.2
% of sales	**8.0%**	8.2%	6.8%

Sales in our North American Business Solutions Division increased 6% in both 2006 and 2005. However, sales increased 9% over the prior year after consideration of the impact of the additional week in 2005. The sales increase in 2006 reflects organic growth in our contract sales channel, as well as the impact of an acquisition completed in mid-May 2006. Sales in our contract channel also increased in 2005 compared to 2004 as we added sales force and made changes in account management. The increase in 2005 reflects broad-based revenue growth. During 2005, we began offering a combined catalog to the previously separate Office Depot and Viking catalog customers and completed that integration in 2006. As expected, direct channel sales were lower in 2006 following the conversion as we deliberately reduced some unprofitable business, and we anticipate lower comparisons until about mid-year 2007 when the impact of this combined offering is reflected in both periods.

Gross margin in this Division declined in 2006 compared to 2005, reflecting paper cost increases and a higher mix of contract business, partially offset by additional private brand offerings. Operating expenses increased from our investment in additional sales personnel, as well as short-term costs related to the integration of a contract business acquired during the year and the outsourcing of telephone account management and a new delivery initiative. We expect the impact of these costs to moderate during the first half of 2007 as these activities mature and costs for incremental activities are captured in both periods. During 2006 and 2005, our lower delivery expenses were partially offset by higher fuel costs. During 2004, we reorganized our sales force and decided to consolidate our call centers and outsource certain activities; that process was completed in the third quarter of 2005 and had a positive impact on subsequent operating expenses.

INTERNATIONAL DIVISION

(Dollars in millions)	**2006**	2005	2004
Sales	**$3,644.6**	$3,470.9	$3,580.8
% change	**5%**	(3)%	30%
Division operating profit	**$ 249.2**	$ 207.5	$ 278.0
% of sales	**6.8%**	6.0%	7.8%

Sales in our International Division increased 5% in 2006 and declined 3% in 2005. However, local currency sales increased 7% over the prior year after consideration of the impact of the additional week in 2005. The increase in sales in 2006 reflects improved performance in all channels and the impact of acquisitions. During 2006, we acquired all or a majority interest in entities headquartered in South Korea, the Czech Republic and China, and increased our previous investment to a majority position in an entity in Israel. Results of those entities have been consolidated in our financial statements since the dates of acquisition. The sales decline in 2005 compared to 2004 reflects competitive pressures in both the contract and catalog channels and challenging economic conditions in many Western European countries. Also in 2005, we closed the contract business in one country as well as 14 retail stores, contributing to the sales decline.

Gross profit as a percentage of sales decreased slightly in 2006, but stabilized in the latter half of the year, after a more significant decline in 2005. The 2006 decrease reflects the addition of lower margin business, as well as an increase in the relative proportion of contract sales, partially offset by increased private brand sales. The 2005 decrease reflects competitive pressures in important product categories across channels and the impact of increased contract sales.

Operating expenses as a percentage of sales decreased in 2006 compared to 2005 reflecting operational efficiencies from streamlining activities initiated in 2005 and continuing in 2006. During 2006, we have increased the size of our contract sales force across Europe and increased the use of telephone account managers to drive account penetration. Operating expenses as a percentage of sales increased slightly in 2005 compared to 2004, primarily reflecting reduced leverage from lower sales.

For U.S. reporting, the International Division's sales are translated into U.S. dollars at average exchange rates experienced during the year. The Division's sales were positively impacted by foreign currency exchange rates in 2006 by $23.0 million, and were negatively impacted in 2005 by $2.5 million. Division operating profit was also positively impacted from changes in foreign exchange rates by $2.0 million in 2006, and negatively by $1.6 million in 2005. Internally, we analyze our international operations in terms of local currency performance to allow focus on operating trends and results.

CORPORATE AND OTHER

Asset Impairments, Exit Costs and Other Charges

During the third quarter of 2005, we announced a number of material charges relating to asset impairments, exit costs and other operating decisions. This announcement followed a wide-ranging assessment of assets and commitments which began in the second quarter of 2005. At the end of 2005, we estimated the total charges to be incurred over a multi-year period would be approximately $406 million. We have since revised that estimate to be approximately $454 million. Of this amount, $282 million was recognized in 2005 and $63 million was recognized in 2006. We estimate that $72 million and $37 million will be recognized in 2007 and 2008, respectively. The expenses associated with these future activities will be recognized as the individual plans are implemented and the related accounting recognition criteria are met. As with any estimate, the amounts may change when expenses are incurred.

These business reviews were performed at a Division level and initially we reported the charges associated with these activities as a component in determining Division operating profit. The financial information used by our management to assess performance of the Divisions for the purpose of resource allocation now excludes the Charges. We believe this measure is an appropriate and useful indicator of the effectiveness of current management activities. Accordingly, we have revised our measure of Division operating profit for external reporting purposes and now report on the Charges at a corporate level. Prior period Division operating profit has been recast to conform to the current presentation.

A summary of the Charges and the line item presentation of these amounts in our accompanying Consolidated Statements of Earnings is as follows.

(Dollars in millions, except share amounts)	**2006 Amounts**	2005 Amounts
Cost of goods sold and occupancy costs	**$ 1**	$ 20
Store and warehouse operating and selling expenses	**37**	109
Asset impairments	**7**	133
General and administrative expenses	**18**	20
Total pre-tax Charges	**63**	282
Income tax effect	**(21)**	(97)
After-tax impact	**$ 42**	$ 185
Per share impact	**$0.15**	$0.59

Of the $282 million pre-tax charge recognized in 2005, approximately $133 million related to asset impairments, approximately $72 million of exit costs and approximately $77 million of costs associated with termination agreements relating to contracts and surplus leases, accelerated amortization of software and depreciation of assets based on changes in estimated useful lives and the write off of certain property and inventory no longer used or useful based on this business review.

The asset impairment charge of $133 million included $83 million related to certain former Kids "R" Us ("KRU") retail store locations acquired in 2004 from Toys "R" Us, Inc. The performance of many of these locations did not meet initial projections to recover the initial asset base. We also recognized a $41 million goodwill and other intangible asset charge related to our Tech Depot subsidiary. A change in market conditions for technology products and a shift in that subsidiary's emphasis resulted in lowering our projected cash flows and goodwill was written down to estimated fair value. Also, as part of this business review and to streamline operations, we decided to migrate customers from the Guilbert trade name to Office Depot. The existing trade name intangible asset was tested for impairment and written down by approximately $9 million to the amount that we estimated to be recoverable over the one-year migration plan.

The KRU, Tech Depot and trade name impairment charges are combined in the Consolidated Statement of Earnings on the line item titled "Asset impairments." Following the fourth quarter review of goodwill and intangible assets in 2004, we recognized a goodwill impairment charge of approximately $12 million related to our investment in Japan. Because of its nature, that charge has been presented on this same line for comparative purposes, but was not part of the Charges programs.

In addition to these significant asset impairment charges, we also recognized significant charges related to exit and other activities. The total exit and other charges recorded in 2005 and anticipated for future periods will be discussed below, as well as where the Charges appear in the Consolidated Statements of Earnings.

We decided to close 25 retail stores (16 in North America and nine internationally), three warehouses (two in North America and one internationally) and consolidate certain international call center and contract operations. Accordingly, we recognized approximately $72 million of charges for future lease obligations, severance-related costs, accelerated depreciation, asset write offs and inventory clearance and disposal. Of this total, approximately $8 million of inventory-related costs were recognized in cost of goods sold, approximately $61 million in store and warehouse operating and selling expenses and approximately $3 million in general and administrative expenses.

In addition to these exit costs, we recognized approximately $77 million of other charges. We terminated certain contractual agreements and adjusted surplus lease property accruals, wrote down and accelerated depreciation on assets based on a decrease in their expected use and accelerated inventory clearance activity in preparation of implementing a new inventory management system. Of this total, approximately $12 million was presented as a charge in cost of goods sold, approximately $48 million in store and warehouse operating and selling expenses and approximately $17 million in general and administrative expenses.

During 2006, an additional $63 million associated with these projects was recognized as the previously-identified plans were implemented and the related accounting recognition criteria were met. These projects primarily related to consolidating and streamlining activities and resulted in charges for severance-related expenses, accelerated depreciation and amortization and other expenses. Of this total, approximately $1 million was recognized in cost of goods sold, approximately $37 million in store and warehouse operating and selling expenses, $7 million in asset impairments related to additional KRU properties and $18 million in general and administrative expenses. Some of these activities, such as planned facility closings, will extend into 2007 and 2008. The costs associated with these activities will be recognized in future periods as incurred, or in the case of asset utilization, over the period of remaining estimated useful life. A summary of past and estimated future charges is presented below.

			Estimated		
(Dollars in millions)	2005 Actual	2006 Actual	2007	2008	Total Charges
Asset impairments	$133	$ 7	$—	$—	$140
Cost of goods sold	20	1	—	—	21
Asset write offs and accelerated depreciation	54	21	24	4	103
Lease obligations/Contract terminations	61	9	2	10	82
One-time termination benefits	11	22	40	16	89
Other associated costs	3	3	6	7	19
Total pre-tax charges	$282	$63	$72	$37	$454

As with any estimate, the timing and amounts may change when projects are implemented. Additionally, changes in foreign currency exchange rates may impact amounts reported in U.S. dollars related to our foreign operations.

Of the total Charges, approximately $184 million either has or is expected to require cash settlement, including longer-term lease obligations that will require cash over multi-year lease terms; approximately $270 million of Charges are non-cash items.

General and Administrative Expenses

(Dollars in millions)	**2006**	2005	2004
General and administrative expenses	**$651.7**	$666.6	$665.8
% of sales	**4.3%**	4.7%	4.9%

General and administrative ("G&A") expenses include Charges of approximately $18 million in 2006 and $20 million in 2005. Additionally in 2006, we recognized a charge of approximately $16 million as an agreement in principle to settle wage and hour litigation in California. G&A expenses in 2004 include approximately $22 million of executive and staff severance, dispute resolutions, loss on disposal of property and lease termination costs associated with property used in G&A functions. After considering these charges, the remaining change in total G&A expenses in 2006 compared to 2005 reflects the positive impacts of various cost control measures and consolidating functions. G&A expenses in 2005 compared to 2004 benefited from lower professional fees and the effect of cost control measures, partially offset by increases from the adoption of FAS 123R and acceleration of certain variable pay and restricted stock awards earned in 2005.

During 2006, we decided to allocate to our Divisions those G&A expenses that are directly or closely related to their operations. Those amounts are now included in our determination of each Division's operating profit. We have recast prior periods for meaningful comparisons. Other companies may charge more or less G&A expenses and other costs to their segments, and our results therefore may not be comparable to similarly titled measures used by other entities.

Gain on Sale of Building

In December 2006, we sold our corporate campus and entered into a leaseback agreement until construction of our new facility is complete. The sale resulted in a gain of approximately $21 million recognized in 2006 and $15 million deferred over the leaseback period. We have also entered into a longer-term lease on a new facility nearby that is expected to be available for occupancy at or about the end of 2008.

Other Income and Expense

(Dollars in millions)	**2006**	2005	2004
Interest income	**$ 9.8**	$ 22.2	$ 20.0
Interest expense	**(40.8)**	(32.4)	(61.1)
Loss on extinguishment of debt	**(5.7)**	—	(45.4)
Miscellaneous income, net	**30.6**	23.6	17.7

Interest income decreased in 2006 as a result of lower average cash balances, partially offset by higher interest rates. The change in 2005 compared to 2004 reflects modestly higher interest rates.

The increase in interest expense in 2006 compared to 2005 primarily results from the 2005 reduction of interest requirements following the favorable settlement of various tax claims. The 2005 comparison to 2004 also reflects the impact of our redemption in December 2004 of the entire issue of the $250 million senior subordinated notes. The loss on extinguishment of debt in 2006 represents the $5.7 million make whole payment related to settlement of the mortgage on our corporate campus that was sold during the year. The net loss on extinguishment of debt of $45.4 million for 2004 included the make whole payment, write off of deferred issuance costs, and recognition of a previously deferred gain related to an interest rate swap.

Our net miscellaneous income consists of our earnings of joint venture investments, royalty and franchise income, and realized gains and impairments of other investments, if any. Our investments are non-controlling interests in Office Depot stores outside North America. Earnings from these investments increased $3.7 million in 2006 and $7.2 million in 2005. We increased our ownership interest in Office Depot Israel during 2006 and have consolidated its results since the date of additional investment. We continue to look for ways to expand our presence overseas and may enter into additional ventures or increase our investment in existing positions which could result in additional entities being consolidated in future periods.

Income Taxes

(Dollars in millions)	**2006**	2005	2004
Income Taxes	**$211.2**	$87.7	$125.7
Effective income tax rate*	**29%**	24%	27%

**Income Taxes as a percentage of earnings from continuing operations before income taxes.*

The effective income tax rate increased in 2006, reflecting a greater impact in the prior year from closing certain worldwide tax audits and adjusted provisions for uncertain tax positions. Fiscal year 2006 also benefited from lower net international tax expense and is more in line with our anticipated base effective tax rate of approximately 30% for 2007. During 2005, we also adjusted certain valuation allowances based on our current assessment of realization of the related deferred tax assets. This decrease was partially offset by additional tax expense from completing our plans to repatriate additional foreign earnings.

During 2004, we recognized tax expense related to our preliminary assessment of foreign earnings to be repatriated in 2005 under the provisions of the American Jobs Creation Act. We also recognized tax benefits from reducing existing valuation allowances on deferred tax assets, from audit settlements and from the release of previously recorded accruals for uncertain tax positions based on changes in the facts and circumstances.

The effective tax rate in future periods can be affected by variability in our mix of income, the tax rates in various jurisdictions, changes in the rules related to accounting for income taxes, outcomes from tax audits that regularly are in process and our assessment of the need of accruals for uncertain tax positions, and therefore may be higher or lower than it has been over the past three years.

The Financial Accounting Standards Board has approved new rules applying to the accounting for uncertain tax positions. These rules become effective in the first quarter of 2007. We do not anticipate that adoption of these rules will have a material impact on our retained earnings at the date of adoption but could introduce additional volatility into our effective income tax rate in future periods.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

We have consistently satisfied operating liquidity needs and planned capital expenditure programs through our normal conversion of sales to cash. Over the three years ended in 2006, we generated approximately $2.1 billion of cash flows from operating activities. At December 30, 2006, we had approximately $174 million in cash and equivalents and another $589 million available under our revolving credit facility. We anticipate opening 150 new stores in 2007 and 200 additional stores in 2008. We expect to remodel substantially all remaining stores over the next two years and to continue to make supply chain network improvements. Also, we will continue to look outside the company for additional growth opportunities, as well as consider additional share repurchases.

We continually review our financing options. Although we currently anticipate that we will fund our 2007 operations, expansion and other activities through cash on hand, funds generated from operations, property and equipment leases and funds available under our credit facilities, we may consider alternative financing as appropriate for market conditions.

Our existing credit agreement is a $750 million unsecured multi-currency revolving credit facility, which includes up to $350 million available for standby and trade letters of credit. This facility is available through April 2010. Upon mutual agreement, the maximum borrowing may be increased to $1 billion. The agreement provides borrowings up to the total amount in U.S. dollars, British pounds, euro, or yen. We may elect interest periods of one, two, three, six, nine or twelve months. Interest is based on the London Interbank Offering Rate ("LIBOR"), or a yen-based-LIBOR as appropriate, plus a spread determined at the time of usage. Based on our current credit ratings, borrowings include a spread of 0.475%. The effective interest rate on yen borrowings at the end of 2006 was 1.1%. At December 30, 2006, we had approximately $589.0 million of available credit under our revolving credit facility that includes coverage of $96.8 million of outstanding letters of credit. We had an additional $48.5 million of letters of credit outstanding under separate agreements.

We are in compliance with all restrictive covenants included in our debt agreements.

We have never paid a cash dividend on our common stock. While our board of directors regularly assesses our dividend policy, there are no current plans to declare a dividend.

Cash provided by (used in) our operating, investing and financing activities is summarized as follows:

(Dollars in millions)	**2006**	2005	2004
Operating activities	**$ 827.1**	$ 635.9	$ 645.9
Investing activities	**(485.2)**	(52.2)	(426.6)
Financing activities	**(889.1)**	(630.7)	(256.5)

Operating Activities

The change in cash flow from operating activities during 2006 reflects increased contribution from the core business and positive impacts of working capital management. Throughout the year, we have worked to collect our cash more timely and to better align trade payables with inventory turnover. The change in cash flows from operating activities during 2005 reflects increased business performance after considering non-cash elements of the Charges and non-cash equity compensation, offset by the reduction of trade payables and payment of taxes. Following our adoption of FAS 123R in the third quarter of 2005, the presentation of tax benefits received from the exercise of stock options in excess of the tax benefit on their estimated fair value has changed from a component of operating activities to a component of financing activities in the statement of cash flows. Operating cash flow in 2004 includes the impact of higher accounts receivable balances from increased fourth quarter sales activity, as well as an increase in receivables from vendors. The higher volume of purchases finalized at the end of the year, along with the increase in promotional activity contributed to the increase in receivables from our vendors.

Investing Activities

During 2006 and 2005, we invested $343.4 million and $260.8 million, respectively in capital expenditures. This activity includes the opening, relocating and remodeling of retail stores in North America, as well as warehouse, logistics and infrastructure improvements in the International Division and for corporate assets. The 2004 capital expenditures of $391.2 million included $90.6 million to acquire retail store locations in an asset purchase transaction.

During 2006, we acquired all or a majority ownership position in entities in North America, the Czech Republic, South Korea, and China, as well as increased our ownership position in our previous investment in Israel. We may continue to expand our global presence with acquisitions or the development of existing business with the corresponding use of cash for investing activities. During 2004, we acquired retail stores in Hungary that had operated as Office Depot stores under a licensing agreement in that country.

Proceeds from the disposition of assets in 2006 includes approximately $80 million in cash received from the sale of our corporate campus. Approximately $22 million from the sale was used to satisfy an existing mortgage and is included as a use of cash in financing activities.

Management of our cash and short-term investment activity resulted in a net cash source of approximately $160 million in 2005, compared to a net investment of approximately $63 million in 2004.

Financing Activities

The Office Depot board of directors has authorized open market purchases of the company's common stock under repurchase plans that were in effect during the three years presented. Under the approved plans, we purchased 26.4 million shares in 2006 at a cost of $970.6 million; 29.8 million shares in 2005 at a cost of $815.2 million; and 4.0 million shares in 2004 at a cost of $65.6 million. At the end of 2006, approximately $200 million remained available for additional repurchases under the most recent board approved plan. We may continue to repurchase shares as we believe conditions warrant. Proceeds from issuance of common stock under our employee related plans were $101.0 million in 2006, $175.9 million in 2005 and $70.6 million in 2004. Following the adoption of FAS 123R in the third quarter of 2005, cash from tax benefits on employee related plans that are in excess of amounts based on grant date fair value are presented as financing activities. Additionally, at the issuance of certain restricted stock awards, employees surrendered shares to the company equal to approximately $12.8 million in exchange for our settlement of their taxes due on these shares.

In connection with the sale of our corporate campus in 2006, a portion of the proceeds was used to liquidate an existing mortgage on one of the facilities.

In December 2004, we redeemed the entire issue of our $250 million senior subordinated notes, pursuant to the optional redemption provisions of the subordinated notes indenture. The payment of approximately $302 million included the principal, accrued interest to the termination date, and contractual interest, discounted at the appropriate U.S. Treasury rate plus 50 basis points.

Contractual Obligations

The following table summarizes our contractual cash obligations at December 30, 2006, and the effect such obligations are expected to have on liquidity and cash flow in future periods:

Contractual Obligations	Total	Less than 1 year	1–3 years	4–5 years	After 5 years
Long-term debt obligations(1)	$ 681.8	$ 65.8	$ 51.4	$114.6	$ 450.0
Capital lease obligations(2)	456.3	16.0	39.9	52.6	347.8
Operating leases(3)	4,394.1	490.5	848.3	690.9	2,364.4
Purchase obligations(4)	148.4	99.0	48.9	0.5	—
Other long-term liabilities(5)	—	—	—	—	—
Total contractual cash obligations	$5,680.6	$671.3	$988.5	$858.6	$3,162.2

(1) Long-term debt obligations include our $400 million senior notes and borrowings under our revolving credit facility, excluding any related discount. Amounts include contractual interest payments (using the interest rate as of December 30, 2006 for the revolving credit facility). Amounts due under our revolving credit facility have been classified according to its scheduled maturity in April 2010; however, we may refinance this borrowing under a future credit facility.

(2) The present value of these obligations are included on our Consolidated Balance Sheets. See Note E of the Notes to Consolidated Financial Statements for additional information about our capital lease obligations.

(3) Our operating lease obligations are described in Note G of the Notes to Consolidated Financial Statements.

(4) Purchase obligations include all commitments to purchase goods or services of either a fixed or minimum quantity that are enforceable and legally binding on us that meet any of the following criteria: (1) they are noncancelable, (2) we would incur a penalty if the agreement was cancelled, or (3) we must make specified minimum payments even if we do not take delivery of the contracted products or services. If the obligation is noncancelable, the entire value of the contract is included in the table. If the obligation is cancelable, but we would incur a penalty if cancelled, the dollar amount of the penalty is included as a purchase obligation. If we can unilaterally terminate the agreement simply by providing a certain number of days notice or by paying a termination fee, we have included the amount of the termination fee or the amount that would be paid over the "notice period." As of December 30, 2006, purchase obligations include television, radio and newspaper advertising, sports sponsorship commitments, telephone services, and software licenses and service and maintenance contracts for information technology. Contracts that can be unilaterally terminated without a penalty have not been included.

(5) Our Consolidated Balance Sheet as of December 30, 2006 includes $403.3 million classified as "Deferred income taxes and other long-term liabilities." This caption primarily consists of our net long-term deferred income taxes, the unfunded portion of our pension plans, deferred lease credits, and liabilities under our deferred compensation plans. These liabilities have been excluded from the above table as the timing and/or the amount of any cash payment is uncertain. See Note F of the Notes to Consolidated Financial Statements for additional information regarding our deferred tax positions and Note H for a discussion of our employee benefit plans, including the pension plans and the deferred compensation plan.

In addition to the above, we have letters of credit totaling $48.5 million outstanding at the end of the year, and we have recourse for private label credit card receivables transferred to a third party. We record a fair value estimate for losses on these receivables in our financial statements. The total outstanding amount transferred to a third party at the end of the year was approximately $225.7 million.

We have no other off-balance sheet arrangements other than those disclosed in the Contractual Obligations table.

CRITICAL ACCOUNTING POLICIES

Our consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. Preparation of these statements requires management to make judgments and estimates. Some accounting policies have a significant impact on amounts reported in these financial statements. A summary of significant accounting policies can be found in Note A in the Notes to Consolidated Financial Statements. We have also identified certain accounting policies that we consider critical to understanding our business and our results of operations and we have provided below additional information on those policies.

Vendor arrangements—Each year, we enter into purchase arrangements with many of our vendors that provide for those vendors to make payments to us if and when certain conditions are met. We generally refer to these arrangements as "vendor programs," and they typically fall into two broad categories, with some underlying sub-categories. The largest category is volume-based rebates. Generally, our product costs per unit decline as higher volumes of purchases are reached. Many of our vendor agreements provide that we pay higher per unit costs prior to reaching a predetermined milestone, at which time the vendor rebates the per unit differential on past purchases, and also applies the lower cost to future purchases until the next milestone is reached. Current accounting rules provide that companies with a sound basis for estimating their full year purchases, and therefore the ultimate rebate level, can use that estimate to value inventory and cost of goods sold throughout the year. We believe our history of purchases with many vendors provides us with a sound basis for our estimates.

If the anticipated volume of purchases is not reached, however, or if we form the belief at any given point in the year that it is not likely to be reached, cost of goods sold and the remaining inventory balances are adjusted to reflect that change in our outlook. We review sales projections and related purchases against vendor program estimates at least quarterly and adjust these balances accordingly.

The second category of arrangements we have with our vendors is event-based programs. These arrangements can take many forms, including advertising support and specific promotional activities. These advertising arrangements generally are classified as a reduction of product costs, reducing costs of goods sold and inventory.

Event-based arrangements include special pricing offered by certain of our vendors for a limited time, payments for special placement or promotion of a product, reimbursement of costs incurred to launch a vendor's product, and various other special programs. These payments are classified as a reduction of costs of goods sold or inventory, as appropriate for the program. Additionally, we receive payments from vendors for certain of our activities that lower the vendor's cost to ship their product. Such receipts are recognized as a reduction of our cost of goods sold.

While vendor rebates are recognized throughout the year based on judgment and estimates, the final amounts due from vendors are generally known soon after year-end. Substantially all vendor program receivables outstanding at the end of the year are collected within the three months immediately following year-end. We believe that our historic collection rates of these receivables provide a sound basis for our estimates of anticipated vendor payments throughout the year.

Inventory valuation—Our selling model is predicated on the breadth and availability of our product assortment, and our profitability is impacted by inventory turnover rates. We monitor inventory on hand by location, particularly as it relates to trailing and projected sales trends. When slow moving inventory is identified, or we decide to discontinue merchandise, we review for estimated recoverability and, if necessary, record a charge to reduce the carrying value to our assessment of the lower of cost or market. This assessment is based on the quantity of the merchandise, the rate of sale, and our assessment of market conditions. Additional cost adjustments and sales markdowns will be taken as considered appropriate until the product is sold or otherwise disposed. Estimates and judgments are required in determining what items to stock and at what level, and what items to discontinue and how to value them prior to sale.

Intangible asset testing—Absent any circumstances that warrant testing at another time, we test for goodwill and non-amortizing intangible asset impairment as part of our year-end closing process.

Our goodwill testing consists of comparing the estimated fair values of each of our reporting units to their carrying amounts, including recorded goodwill. We estimate the fair values of each of our reporting units by discounting their projected future cash flows. Developing these future cash flow projections requires us to make significant assumptions and estimates regarding the sales, gross margin and operating expenses of our reporting units, as well as economic conditions and the impact of planned business or operational strategies. Should future results or economic events cause a change in our projected cash flows, or should our operating plans or business model change, future determinations of fair value may not support the carrying amount of one or more of our reporting units, and the related goodwill would need to be written down to an amount considered recoverable. Any such write down would be included in the operating expenses. We recognized goodwill and intangible asset impairments in both 2005 and 2004. While we make reasoned estimates of future performance, actual results below these expectations, or changes in business direction can result in additional impairment charges in future periods.

Closed store reserves and asset impairments—We regularly assess the performance of each retail store against historic patterns and projections of future profitability. These assessments are based on management's estimates for sales growth, gross margin attainments, and cash flow generation. If, as a result of these evaluations, management determines that a store will not achieve certain targets, we may decide to close the store. When a store is no longer used for operating purposes, we recognize a liability for the remaining costs related to the property, reduced by an estimate of any sublease income. The calculation of this liability requires us to make assumptions and to apply judgment regarding the remaining term of the lease (including vacancy period), anticipated sublease income, and costs associated with vacating the premises. With assistance from independent third parties to assess market conditions, we periodically review these judgments and estimates and adjust the liability accordingly. We adjusted the carrying value of some of these obligations as part of the Charges. Future fluctuations in the economy and the market demand for commercial properties could result in material changes in this liability. Costs associated with facility closures are included in store and warehouse operating expenses.

In addition to the decision about whether or not to close a store, store assets are regularly reviewed for recoverability of their carrying amounts. The recoverability assessment requires judgment and estimates of a store's future cash flows. New stores may require years to develop a customer base necessary to achieve expected cash flows and we typically do not test for impairment during this early stage. However, if in subsequent periods, the anticipated cash flows of a store cannot support the carrying amount of the store's assets, an impairment charge is recorded to operations as a component of store and warehouse operating and selling expenses. To the extent that management's estimates of future performance are not realized, future assessments could result in material impairment charges. As discussed above, the Charges recorded in 2006 and 2005 include significant impairment charges.

Income taxes—Income tax accounting requires management to make estimates and apply judgments to events that will be recognized in one period under rules that apply to financial reporting and in a different period in the company's tax returns. In particular, judgment is required when estimating the value of future tax deductions, tax credits, and net operating loss carryforwards (NOLs), as represented by deferred tax assets. When we believe the recovery of all or a portion of a deferred tax asset is not likely, we establish a valuation allowance. Generally, changes in judgments that increase or decrease these valuation allowances impact current earnings. Decreases in valuation allowances associated with NOLs acquired in a business combination reduce goodwill.

In addition to judgments associated with valuation accounts, our current tax provision can be affected by our mix of income and identification or resolution of uncertain tax positions. Because income from domestic and international sources may be taxed at different rates, the shift in mix during a year or over years can cause the effective tax rate to change. We base our rate during the year on our best estimate of an annual effective rate, and update those estimates quarterly.

We file our tax returns based on our best understanding of the appropriate tax rules and regulations. However, complexities in the rules and our operations, as well as positions taken publicly by the taxing authorities may lead us to conclude that accruals for uncertain tax positions are required. We generally maintain accruals for uncertain tax positions until examination of the tax year is completed by the taxing authority, available review periods expire, or additional facts and circumstances cause us to change our assessment of the appropriate accrual amount. The Financial Accounting Standards Board has issued new accounting rules relating to uncertain tax positions that will be applied beginning in the first quarter of 2007.

SIGNIFICANT TRENDS, DEVELOPMENTS AND UNCERTAINTIES

Over the years, we have seen continued development and growth of competitors in all segments of our business. In particular, mass merchandisers and warehouse clubs, as well as grocery and drugstore chains, have increased their assortment of home office merchandise, attracting additional back-to-school customers and year-round casual shoppers. Recently, warehouse clubs have added to their in-store assortment by adding catalogs and web sites from which a much broader assortment of products may be ordered. We also face competition from other office supply superstores that compete directly with us in numerous markets. This competition is likely to result in increased competitive pressures on pricing, product selection and services provided. Many of these retail competitors, including discounters, warehouse clubs, and drug stores and grocery chains, carry basic office supply products. Some of them also have begun to feature technology products. Many of them price certain of these offerings lower than we do, but they have not shown an indication of greatly expanding their somewhat limited product offerings at this time. This trend towards a proliferation of retailers offering a limited assortment of office products is a potentially serious trend in our industry.

We have also seen growth in competitors that offer office products over the internet, featuring special purchase incentives and one-time deals (such as close-outs). Through our own successful internet and business-to-business web sites, we believe that we have positioned ourselves competitively in the e-commerce arena.

Another trend in our industry has been consolidation, as competitors in office supply stores and the copy/print channel have been acquired and consolidated into larger, well-capitalized corporations. This trend towards consolidation, coupled with acquisitions by financially strong organizations, is potentially a significant trend in our industry.

We regularly consider these and other competitive factors when we establish both offensive and defensive aspects of our overall business strategy and operating plans.

MARKET SENSITIVE RISKS AND POSITIONS

We have market risk exposure related to interest rates and foreign currency exchange rates. Market risk is measured as the potential negative impact on earnings, cash flows or fair values resulting from a hypothetical change in interest rates or foreign currency exchange rates over the next year. We manage the exposure to market risks at the corporate level. The portfolio of interest-sensitive assets and liabilities is monitored and adjusted to provide liquidity necessary to satisfy anticipated short-term needs. Our risk management policies allow the use of specified financial instruments for hedging purposes only; speculation on interest rates or foreign currency rates is not permitted.

Interest Rate Risk

We are exposed to the impact of interest rate changes on cash equivalents and debt obligations. The impact on cash and short-term investments held at the end of 2006 from a hypothetical 10% decrease in interest rates would be a decrease in interest income of less than $1 million.

Market risk associated with our debt portfolio is summarized below:

	2006			2005		
(Dollars in thousands)	Carrying Value	Fair Value	Risk Sensitivity	Carrying Value	Fair Value	Risk Sensitivity
$400 million senior notes	$ 400,489	$410,360	$11,200	$400,595	$417,405	$12,725
Revolving Credit Facility	$ 64,361	$ 64,361	$ 321	$ 64,996	$ 64,996	$ 325

The risk sensitivity of fixed rate debt reflects the estimated increase in fair value from a 50 basis point decrease in interest rates, calculated on a discounted cash flow basis. The sensitivity of variable rate debt reflects the possible increase in interest expense during the next period from a 50 basis point change in interest rates prevailing at year-end.

Foreign Exchange Rate Risk

We conduct business in various countries outside the United States where the functional currency of the country is not the U.S. dollar. Our expansion in Europe in recent years increased our operations in countries with euro and British pound functional currencies. We continue to assess our exposure to foreign currency fluctuation against the U.S. dollar. As of December 30, 2006, a 10% change in the applicable foreign exchange rates would result in an increase or decrease in our operating profit of approximately $16 million.

Although operations generally are conducted in the relevant local currency, we also are subject to foreign exchange transaction exposure when our subsidiaries transact business in a currency other than their own functional currency. This exposure arises primarily from a limited amount of inventory purchases in a foreign currency. The notional amount of foreign exchange forward contracts to hedge certain inventory exposures were $92 million at their highest point during 2006. Also, from time-to-time we enter into foreign exchange forward transactions to protect against possible changes in exchange rates related to scheduled or anticipated cash movements among our operating entities.

Generally, we evaluate the performance of our international businesses by focusing on the "local currency" results of the business, and not with regard to the translation into U.S. dollars, as the latter is impacted by external events.

INFLATION AND SEASONALITY

Although we cannot determine the precise effects of inflation on our business, we do not believe inflation has had a material impact on our sales or the results of our operations. We consider our business to be only somewhat seasonal, with sales in our North American Retail Division slightly lower during the second quarter. Certain working capital components may build and recede during the year reflecting established selling cycles, but we do not consider the Company to be highly-seasonal.

NEW ACCOUNTING STANDARDS

In July 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*. This Interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This Interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The Interpretation is effective for fiscal years beginning after December 15, 2006. While our analysis of the impact of this Interpretation is not yet complete, we do not anticipate it will have a material impact on our retained earnings at the time of adoption.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements*, ("FAS 157"). This Standard defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. FAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The adoption of FAS 157 is not expected to have a material impact on the Company's financial position, results of operations or cash flows.

The FASB also issued in September 2006 Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statement No. 87, 88, 106 and 132(R)*, ("FAS 158"). This Standard requires recognition of the funded status of a benefit plan in the statement of financial position. The Standard also requires recognition in other comprehensive income certain gains and losses that arise during the period but are deferred under pension accounting rules, as well as modifies the timing of reporting and adds certain disclosures. FAS 158 provides recognition and disclosure elements to be effective as of the end of the fiscal year after December 15, 2006 and measurement elements to be effective for fiscal years ending after December 15, 2008. At December 30, 2006, we have reported approximately $6 million of deferred pension losses in accumulated other comprehensive income as a result of this new pronouncement. We do not expect the remaining elements of this Statement to have a material impact on our financial condition, results of operations, cash flows when adopted.

FORWARD-LOOKING STATEMENTS

The Private Securities Litigation Reform Act of 1995 (the "Act") provides protection from liability in private lawsuits for "forward-looking" statements made by public companies under certain circumstances, provided that the public company discloses with specificity the risk factors that may impact its future results. We want to take advantage of the "safe harbor" provisions of the Act. This Annual Report contains both historical information and other information that you can use to infer future performance. Examples of historical information include our annual 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 historical, all the information contained in this Annual Report should be considered to be "forward-looking statements" as referred to in the Act. Without limiting the generality of the preceding sentence, any time we use the words "estimate," "project," "intend," "expect," "believe," "anticipate," "continue" and similar expressions, we intend to clearly express that the information deals with possible future events and is forward-looking in nature. Certain information in our MD&A is clearly forward-looking in nature, and without limiting the generality of the preceding cautionary statements, we specifically advise you to consider all of our MD&A in the light of the cautionary statements set forth herein.

Forward-looking information involves future risks and uncertainties. Much of the information in this report that looks towards future performance of our company is based on various factors and important 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 materially and substantially from those we have discussed in the forward-looking statements in this Report. Significant factors that could impact our future results are provided in Item 1A. Risk Factors included in our 2006 Annual Report on Form 10-K. Other risk factors are incorporated into the text of our MD&A, which should itself be considered a statement of future risks and uncertainties, as well as management's view of our businesses.

Market Registrant's Common Equity and Related Stockholder Matters

Our common stock is listed on the New York Stock Exchange ("NYSE") under the symbol "ODP." As of the close of business on January 26, 2007, there were 7,075 holders of record of our common stock. The last reported sale price of the common stock on the NYSE on January 26, 2007 was $37.35.

The following table sets forth, for the periods indicated, the high and low sale prices of our common stock, as quoted on the NYSE Composite Tape. These prices do not include retail mark-ups, markdowns or commission.

	High	Low
2006		
First Quarter	**$38.050**	**$30.640**
Second Quarter	**46.520**	**36.680**
Third Quarter	**40.860**	**33.650**
Fourth Quarter	**44.690**	**36.870**
2005		
First Quarter	$23.700	$16.500
Second Quarter	22.840	18.590
Third Quarter	31.520	21.700
Fourth Quarter	31.760	24.510

We have never declared or paid cash dividends on our common stock. While we regularly assess our dividend policy, we have no current plans to declare a dividend. Earnings and other cash resources will continue to be used in the expansion of our business.

Management's Report on Internal Control over Financial Reporting

Management of Office Depot is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers and effected by the company's board of directors, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the company;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the company's internal control over financial reporting as of December 30, 2006. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control—Integrated Framework*.

Based on our assessment, management believes that, as of December 30, 2006, the company's internal control over financial reporting is effective.

The company's independent registered public accounting firm, Deloitte & Touche LLP, has issued an attestation report on our assessment of the company's internal control over financial reporting. Their report appears on the following page.

Steve Odland
Chairman, Board of Directors and
Chief Executive Officer

Patricia McKay
Executive Vice President and
Chief Financial Officer

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Office Depot, Inc.:

We have audited management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting, that Office Depot, Inc. and subsidiaries (the "Company") maintained effective internal control over financial reporting as of December 30, 2006, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of December 30, 2006, is fairly stated, in all material respects, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 30, 2006, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 30, 2006 of the Company and our report dated February 12, 2007 expressed an unqualified opinion on those financial statements.

Deloitte & Touche LLP

Certified Public Accountants

Fort Lauderdale, Florida
February 12, 2007

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Office Depot, Inc.:

We have audited the accompanying consolidated balance sheets of Office Depot, Inc. and subsidiaries (the "Company") as of December 30, 2006 and December 31, 2005 and the related consolidated statements of earnings, stockholders' equity, and cash flows for each of the three years in the period ended December 30, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Office Depot, Inc. and subsidiaries at December 30, 2006 and December 31, 2005, and the results of their operations and their cash flows for each of the three years in the period ended December 30, 2006, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 30, 2006, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 12, 2007 expressed an unqualified opinion on management's assessment of the effectiveness of the Company's internal control over financial reporting and an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Deloitte & Touche LLP

Certified Public Accountants

Fort Lauderdale, Florida
February 12, 2007

Office Depot, Inc.
Consolidated Balance Sheets

(In thousands, except share and per share amounts)	**December 30, 2006**	December 31, 2005
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 173,552**	$ 703,197
Short-term investments	**—**	200
Receivables, net of allowances of $32,581 in 2006 and $40,122 in 2005	**1,480,316**	1,232,107
Inventories, net	**1,559,981**	1,360,274
Deferred income taxes	**124,345**	136,998
Prepaid expenses and other current assets	**116,931**	97,286
Total current assets	**3,455,125**	3,530,062
Property and equipment, net	**1,424,967**	1,311,737
Goodwill	**1,198,886**	881,182
Other assets	**491,124**	375,544
Total assets	**$ 6,570,102**	$ 6,098,525
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Trade accounts payable	**$ 1,561,784**	$ 1,324,198
Accrued expenses and other current liabilities	**1,224,565**	979,796
Income taxes payable	**135,448**	117,487
Short-term borrowings and current maturities of long-term debt	**48,130**	47,270
Total current liabilities	**2,969,927**	2,468,751
Deferred income taxes and other long-term liabilities	**403,289**	321,455
Long-term debt, net of current maturities	**570,752**	569,098
Minority interest	**16,023**	—
Commitments and contingencies		
Stockholders' equity:		
Common stock—authorized 800,000,000 shares of $.01 par value; issued and outstanding shares—426,177,619 in 2006 and 419,812,671 in 2005	**4,262**	4,198
Additional paid-in capital	**1,700,976**	1,517,373
Accumulated other comprehensive income	**295,253**	140,745
Retained earnings	**3,383,202**	2,867,067
Treasury stock, at cost—149,778,235 shares in 2006 and 122,787,210 shares in 2005	**(2,773,582)**	(1,790,162)
Total stockholders' equity	**2,610,111**	2,739,221
Total liabilities and stockholders' equity	**$ 6,570,102**	$ 6,098,525

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

Office Depot, Inc.
Consolidated Statements of Earnings

(In thousands, except per share amounts)	**2006**	2005	2004
Sales	**$15,010,781**	$14,278,944	$13,564,699
Cost of goods sold and occupancy costs	**10,343,141**	9,886,921	9,308,560
Gross profit	**4,667,640**	4,392,023	4,256,139
Store and warehouse operating and selling expenses	**3,296,443**	3,243,935	3,048,809
Asset impairments	**7,450**	133,483	11,528
General and administrative expenses	**651,696**	666,563	665,825
Gain on sale of building	**(21,432)**	—	—
Operating profit	**733,483**	348,042	529,977
Other income (expense):			
Interest income	**9,828**	22,204	20,042
Interest expense	**(40,830)**	(32,380)	(61,108)
Loss on extinguishment of debt	**(5,715)**	—	(45,407)
Miscellaneous income, net	**30,565**	23,649	17,729
Earnings before income taxes	**727,331**	361,515	461,233
Income taxes	**211,196**	87,723	125,729
Net earnings	**$ 516,135**	$ 273,792	$ 335,504
Net earnings per share:			
Basic	**$ 1.83**	$ 0.88	$ 1.08
Diluted	**1.79**	0.87	1.06

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

Office Depot, Inc.
Consolidated Statements of Stockholders' Equity

(In thousands, except share amounts)	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Unamortized Value of Long-Term Incentive Stock Grant	Accumulated Other Comprehensive Income (Loss)	Compre-hensive Income	Retained Earnings	Treasury Stock
Balance at December 27, 2003	398,822,742	$3,988	$1,175,497	$(1,362)	$ 214,764		$2,257,771	$ (903,537)
Comprehensive income:								
Net earnings						$ 335,504	335,504	
Foreign currency translation adjustment					126,603	126,603		
Amortization of gain on hedge					(1,659)	(1,045)		
Comprehensive income						$ 461,062		
Acquisition of treasury stock								(65,578)
Grant of long-term incentive stock	105,531	1	1,700	(1,700)				
Cancellation of long-term incentive stock	(32,304)		(186)	186				
Exercise of stock options (including income tax benefits and withholding)	6,029,546	60	81,695					(400)
Issuance of stock under employee stock purchase plans			(1,114)					
Direct Stock Purchase Plans			27					37
Amortization of long-term incentive stock grant				751				
Balance at December 25, 2004	404,925,515	4,049	1,257,619	(2,125)	339,708		2,593,275	(969,478)
Comprehensive income:								
Net earnings						273,792	273,792	
Foreign currency translation adjustment					(197,273)	(197,273)		
Amortization of gain on hedge					(1,690)	(1,065)		
Comprehensive income						$ 75,454		
Acquisition of treasury stock								(815,236)
Adoption of FAS 123R			(2,125)	2,125				
Grant of long-term incentive stock	3,676,229	37	(37)					988
Cancellation of long-term incentive stock	(19,167)							
Forfeiture of restricted stock			4,491					(4,491)
Exercise of stock options (including income tax benefits and withholding)	11,118,091	111	206,559					(1,984)
Issuance of stock under employee stock purchase plans	112,003	1	969					
Direct Stock Purchase Plans			57					39
Amortization of long-term incentive stock grant			49,840					
Balance at December 31, 2005	419,812,671	4,198	1,517,373	—	140,745		2,867,067	(1,790,162)
Comprehensive income:								
Net earnings						516,135	516,135	
Foreign currency translation adjustment					150,112	150,112		
Amortization of gain on hedge					(1,659)	(1,659)		
Comprehensive income						$ 664,588		
Deferred pension loss					6,055			
Acquisition of treasury stock								(983,436)
Grant of long-term incentive stock	287,930	3	(3)					
Forfeiture of restricted stock			2					(2)
Exercise of stock options (including income tax benefits and withholding)	5,973,420	60	141,892					
Issuance of stock under employee stock purchase plans	103,598	1	2,064					
Direct Stock Purchase Plans			51					18
Amortization of long-term incentive stock grant			39,597					
Balance at December 30, 2006	**426,177,619**	**$4,262**	**$1,700,976**	**$ —**	**$ 295,253**		**$3,383,202**	**$(2,773,582)**

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

Office Depot, Inc.
Consolidated Statements of Cash Flows

(In thousands)	**2006**	2005	2004
Cash flows from operating activities:			
Net earnings	**$ 516,135**	$ 273,792	$ 335,504
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	**279,005**	268,098	269,166
Charges for losses on inventories and receivables	**85,610**	92,136	87,927
Net earnings from equity method investments	**(27,125)**	(23,394)	(16,171)
Compensation expense for share-based payments	**39,889**	49,328	751
Deferred income tax provision	**(8,215)**	(109,946)	10,889
Gain on disposition of assets	**(23,948)**	(7,947)	(3,242)
Facility closure costs and impairment charges	**—**	47,166	13,263
Asset impairments	**7,450**	133,483	11,528
Other operating activities	**(1,704)**	10,563	(4,749)
Changes in assets and liabilities:			
(Increase) decrease in receivables	**(128,558)**	4,397	(150,821)
Increase in inventories	**(176,251)**	(49,096)	(114,160)
Net (increase) decrease in prepaid expenses and other assets	**(23,212)**	24,605	(20,615)
Net increase (decrease) in accounts payable, accrued expenses and deferred credits	**287,999**	(77,315)	226,595
Total adjustments	**310,940**	362,078	310,361
Net cash provided by operating activities	**827,075**	635,870	645,865
Cash flows from investing activities:			
Purchases of short-term investments	**(961,450)**	(2,037,015)	(67,975)
Sales of short-term investments	**961,650**	2,196,962	5,000
Acquisitions, net of cash acquired	**(248,319)**	—	(7,900)
Capital expenditures	**(343,415)**	(260,773)	(391,222)
Acquisition of properties held for sale	**—**	—	(19,570)
Proceeds from disposition of assets and deposits received	**105,036**	48,629	55,061
Other	**1,345**	—	—
Net cash used in investing activities	**(485,153)**	(52,197)	(426,606)
Cash flows from financing activities:			
Net proceeds from exercise of stock options and sale of stock under employee stock purchase plans	**101,034**	175,898	70,592
Tax benefit from employee share-based exercises	**43,355**	23,024	—
Acquisition of treasury stock under approved repurchase plans	**(970,640)**	(815,236)	(65,578)
Treasury stock additions from employee related plans	**(12,796)**	—	—
Proceeds from issuance of borrowings	**8,494**	24,490	—
Payments on long- and short-term borrowings	**(58,545)**	(38,901)	(11,491)
Redemption of notes	**—**	—	(250,000)
Net cash used in financing activities	**(889,098)**	(630,725)	(256,477)
Effect of exchange rate changes on cash and cash equivalents	**17,531**	(43,478)	40,056
Net (decrease) increase in cash and cash equivalents	**(529,645)**	(90,530)	2,838
Cash and cash equivalents at beginning of period	**703,197**	793,727	790,889
Cash and cash equivalents at end of period	**$ 173,552**	$ 703,197	$ 793,727

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business: Office Depot, Inc. (“Office Depot”) is a global supplier of office products and services under the Office Depot® brand and other proprietary brand names. We sell to customers in 42 countries throughout North America, Europe, Asia and Latin America either through wholly-owned entities, majority-owned entities or other ventures covering 34 countries, and through alliances in an additional 8 countries.

Basis of Presentation: The consolidated financial statements of Office Depot and its subsidiaries have been prepared in accordance with accounting principles generally accepted in the United States of America. All intercompany transactions have been eliminated in consolidation. During 2006, we acquired majority, but not complete, ownership in entities in South Korea and China and increased our investment to a controlling position in an entity in Israel. Those entities have been consolidated since the date of acquisition with minority interest presented for the portion we do not own. We also participate in a joint venture selling office products and services in Mexico and Central America that is accounted for using the equity method with their results presented in miscellaneous income, net in the Consolidated Statements of Earnings.

Fiscal Year: Fiscal years are based on a 52- or 53-week period ending on the last Saturday in December. Our fiscal 2005 financial statements consisted of 53 weeks, with the additional week occurring in our fourth quarter; all other periods presented in our consolidated financial statements consisted of 52 weeks.

Estimates and Assumptions: Preparation of these financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect amounts reported in the financial statements and related notes. Actual results may differ from those estimates.

Foreign Currency: Assets and liabilities of international operations are translated into U.S. dollars using the exchange rate at the balance sheet date. Revenues and expenses are translated at average monthly exchange rates. Translation adjustments resulting from this process are recorded in stockholders’ equity as a component of other comprehensive income.

Monetary assets and liabilities denominated in a currency other than a consolidated entity’s functional currency result in transaction gains or losses from the remeasurement at spot rates at the end of the period. Foreign currency gains and losses that relate to non-operational accounts, such as cash and investments, are recorded in miscellaneous income, net in the Consolidated Statements of Earnings. Foreign currency gains and losses on operational accounts, such as receivables and payables, are included as a component of operating expenses, though historically these amounts have been immaterial.

Cash Equivalents: All short-term highly liquid securities with maturities of three months or less from the date of acquisition are classified as cash equivalents.

Short-term Investments: We held no short-term investments at December 30, 2006. When held, investments in debt and auction rate securities were classified as available-for-sale and reported at fair market value, based on quoted market prices using the specific identification method. Interest earned on these funds was used to purchase additional units. The historical cost and fair value of this investment was $0.2 million at December 31, 2005.

Receivables: Trade receivables, net, totaled $971.0 million and $766.5 million at December 30, 2006 and December 31, 2005, respectively. An allowance for doubtful accounts has been recorded to reduce receivables to an amount expected to be collectible from customers. The allowance recorded at December 30, 2006 and December 31, 2005 was $32.6 million and $40.1 million, respectively. Receivables generated through a private label credit card program are transferred to financial services companies, a portion of which have recourse to Office Depot. The estimated fair value liability associated with risk of loss is included in accrued expenses.

Our exposure to credit risk associated with trade receivables is limited by having a large customer base that extends across many different industries and geographic regions. However, receivables may be adversely affected by an economic slowdown in the U.S. or internationally. No single customer accounted for more than 5% of our total sales in 2006, 2005 or 2004.

Other receivables are $509.3 million and $465.6 million as of December 30, 2006 and December 31, 2005, respectively, of which $459.4 million and $388.2 million are amounts due from vendors under purchase rebate, cooperative advertising and various other marketing programs. These vendor receivables are net of collection allowances of $20.2 million and $19.4 million at December 30, 2006 and December 31, 2005, respectively.

Inventories: Inventories are stated at the lower of cost or market value. The weighted average method is used to determine the cost of a majority of our inventory and the first-in-first-out method is used for international operations.

Income Taxes: Income tax expense is recognized at applicable U.S. or international tax rates. Certain revenue and expense items may be recognized in one period for financial statement purposes and in a different period’s income tax return. The tax effects of such differences are reported as deferred income taxes.

U.S. income taxes have not been provided on the remaining undistributed earnings of foreign subsidiaries, which were approximately $1,377.9 million as of December 30, 2006. We have reinvested such earnings overseas in foreign operations indefinitely and expect that future earnings will also be reinvested overseas indefinitely.

Property and Equipment: Property and equipment additions are recorded at cost. Depreciation and amortization is recognized over their estimated useful lives using the straight-line method. The useful lives of depreciable assets are estimated to be 15-30 years for buildings and 3-10 years for furniture, fixtures and equipment. Computer software is amortized over three years for common office applications, five years for larger business applications and 7-10 years for certain enterprise-wide systems. Leasehold improvements are amortized over the shorter of the terms of the underlying leases or the estimated economic lives of the improvements.

Goodwill and Other Intangible Assets: Goodwill represents the excess of the purchase price and related costs over the value assigned to net tangible and identifiable intangible assets of businesses acquired and accounted for under the purchase method. Accounting rules require that we test at least annually for possible goodwill impairment. Unless conditions warrant earlier action, we perform our test in the fourth quarter of each year using a discounted cash flow analysis that requires that certain assumptions and estimates be made regarding industry economic factors and future profitability. During 2005, we recognized an impairment charge of $41 million related to goodwill and certain intangible assets held in our Tech Depot subsidiary. A goodwill impairment charge of $12 million was recognized in 2004 related to our investment in Japan. These charges are included in Asset impairments in the Consolidated Statements of Earnings.

We amortize the cost of other intangible assets over their estimated useful lives unless such lives are deemed indefinite. Amortizable intangible assets are reviewed at least annually to determine whether events and circumstances warrant a revision to the remaining period of amortization. Unless conditions warrant earlier action, intangible assets with indefinite lives are tested annually for impairment during the fourth quarter and written down to fair value as required. During 2005, an impairment charge of approximately $9.5 million was recorded following a change in the estimated useful life of a trade name; the charge is included in Asset impairment in the Consolidated Statements of Earnings. See Note B for information related to goodwill and intangible asset impairment charges recognized in 2005.

Impairment of Long-Lived Assets: Long-lived assets are reviewed for possible impairment annually or whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Impairment is assessed at the location level, considering the estimated undiscounted cash flows over the asset's remaining life. If estimated cash flows are insufficient to recover the investment, an impairment loss is recognized based on the estimated fair value of the asset less its carrying value and any costs of disposition. Impairment losses of $2.3 million, $3.4 million and $3.9 million were recognized in 2006, 2005 and 2004, respectively, relating to certain under-performing retail stores. Additionally, see Note B for discussion of material asset impairment charges recognized in 2005 and additional charges recognized in 2006.

Facility Closure Costs: We regularly review store performance against expectations and close stores not meeting our investment requirements. Costs associated with store or other facility closures, principally lease cancellation costs, are recognized when the facility is no longer used in an operating capacity or when a liability has been incurred. Store assets are also reviewed for possible impairment, or reduction of estimated useful lives.

Accruals for facility closure costs are based on the future commitments under contracts, adjusted for anticipated sublease and termination benefits. During 2005, we recorded a charge of $23.2 million relating to leases on retail stores closed as part of a company-wide business review and an additional charge of $28.4 million to terminate certain existing commitments and to adjust the remaining commitments to current market values. During 2006, we recognized a $4 million charge based on our transfer to an unrelated third party of risks associated with disposition activities for additional properties. See Note B for related information. The accrued balance relating to our future commitments under operating leases for our closed stores was $49.8 million and $69.1 million at December 30, 2006 and December 31, 2005, respectively.

Fair Value of Financial Instruments: The estimated fair values of financial instruments recognized in the Consolidated Balance Sheets or disclosed within these Notes to Consolidated Financial Statements have been determined using available market information, information from unrelated third party financial institutions and appropriate valuation methodologies, primarily discounted projected cash flows. However, considerable judgment is required when interpreting market information and other data to develop estimates of fair value. Accordingly, the estimates presented are not necessarily indicative of the amounts that could be realized in a current market exchange.

Short-term Assets and Liabilities: The fair values of cash and cash equivalents, short-term investments, receivables, accounts payable and accrued expenses and other current liabilities approximate their carrying values because of their short-term nature.

Notes Payable: The fair value of the senior notes was determined based on quoted market prices.

Interest Rate Swaps and Foreign Currency Contracts: The fair values of our interest rate swaps and foreign currency contracts are the amounts receivable or payable to terminate the agreements at the reporting date, taking into account current interest and exchange rates. There were no swap agreements in place at the end of 2006.

There were no significant differences between the carrying values and fair values of the financial instruments as of December 30, 2006 and December 31, 2005, except as disclosed below:

	2006		2005	
(Dollars in thousands)	**Carrying Value**	**Fair Value**	Carrying Value	Fair Value
$400 million senior notes	**$400,489**	**$410,360**	$400,595	$417,405

Accounting for Stock-Based Compensation: During the third quarter 2005, we adopted Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment*, ("FAS 123R") using the modified prospective method.

Prior to our FAS 123R adoption, we applied Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* ("APB 25") when accounting for stock-based employee compensation. Under these rules, the value of certain awards, such as our restricted stock programs, has been included as an expense over the award's vesting period. Our stock option awards, however, were granted with exercise prices equal to the grant date share price resulting in no compensation expense under APB 25.

Had compensation cost for awards under our stock-based compensation plans been determined using the fair value method prescribed by Statement of Financial Accounting Standard ("FAS") No. 123, *Accounting for Stock-Based Compensation*, as amended, we would have recognized additional compensation expense. The previously-disclosed pro forma effects are presented below. The pro forma amounts for 2005 reflect the impact for the first six months of the year, prior to the adoption of FAS 123R.

(In thousands, except per share amounts)	2005	2004
Net earnings:		
As reported	$273,792	$335,504
Pro forma	270,557	315,960
Basic earnings per share:		
As reported	$ 0.88	$ 1.08
Pro forma	0.87	1.01
Diluted earnings per share:		
As reported	$ 0.87	$ 1.06
Pro forma	0.86	1.00

With our adoption of FAS 123R, we decided to use both the Black-Scholes valuation model and straight-line amortization of compensation expense over the requisite service period of the grant. We will reconsider use of this model if additional information becomes available in the future that indicates another model would be more appropriate for us, or if grants issued in future periods have characteristics that cannot be reasonably estimated using this model. We have previously estimated forfeitures in our expense calculation for pro forma footnote disclosure and no change in that methodology was made upon adoption of FAS 123R.

Accrued Expenses: Included in Accrued expenses and other current liabilities on our Consolidated Balance Sheets are accrued payroll-related amounts of approximately $250 million and $220 million at December 30, 2006 and December 31, 2005, respectively.

Revenue Recognition: Revenue is recognized at the point of sale for retail transactions and at the time of successful delivery for contract, catalog and internet sales. We use judgment in estimating sales returns, considering numerous factors such as current overall and industry-specific economic conditions and historical sales return rates. Although we consider our sales return reserves to be adequate and proper, changes in historical customer patterns could require adjustments to the provision for returns. We also record reductions to our revenues for customer programs and incentive offerings including special pricing agreements, certain promotions and other volume-based incentives. Revenue from sales of extended warranty service plans is either recognized at the point of sale or over the warranty period, depending on the determination of legal obligor status. All performance obligations and risk of loss associated with such contracts are transferred to an unrelated third-party administrator at the time the contracts are sold. Costs associated with these contracts are recognized in the same period as the related revenue.

Shipping and Handling Fees and Costs: Income generated from shipping and handling fees is classified as revenues for all periods presented. Freight costs incurred to bring merchandise to stores and warehouses are included as a component of inventory and costs of goods sold. Freight costs incurred to ship merchandise to customers are recorded as a component of store and warehouse operating and selling expenses. Shipping costs, combined with warehouse handling costs, totaled $920.9 million in 2006, $905.6 million in 2005 and $911.3 million in 2004. We have been evaluating our presentation of shipping and handling costs in operating expenses and have conformed prior year presentation to the current view of such costs. If we conclude in a future period that presentation in cost of sales is preferable, we will recast prior periods for meaningful comparison.

Advertising: Advertising costs are charged either to expense when incurred or, in the case of direct marketing advertising, capitalized and amortized in proportion to the related revenues.

We participate in cooperative advertising programs with our vendors in which they reimburse us for a portion of our advertising costs. We classify such reimbursements as a reduction of the costs of our inventory and cost of goods sold. Advertising expense recognized was $575.3 million in 2006, $549.6 million in 2005 and $571.5 million in 2004.

Pre-opening Expenses: Pre-opening expenses related to opening new stores and warehouses or relocating existing stores and warehouses are expensed as incurred and included in store and warehouse operating and selling expenses.

Self-Insurance: Office Depot is primarily self-insured for workers' compensation, auto and general liability and employee medical insurance programs. Self-insurance liabilities are based on claims filed and estimates of claims incurred but not reported. These liabilities are not discounted.

Comprehensive Income: Comprehensive income represents the change in stockholders' equity from transactions and other events and circumstances arising from non-stockholder sources. Comprehensive income consists of net earnings, foreign currency translation adjustments, realized or unrealized gains (losses) on investment securities that are available-for-sale, deferred pension gains and losses and elements of qualifying cash flow hedges, net of applicable income taxes. As of December 30, 2006, our Consolidated Balance Sheet reflected Accumulated other comprehensive income in the amount of $295.3 million, which consisted of $278.2 million in foreign currency translation adjustments, $11.0 million in unamortized gain on hedge and $6.1 million in deferred pension loss.

Derivative Financial Instruments: Certain derivative financial instruments may be used to hedge the exposure to foreign currency exchange rate, fuel price change and interest rate risks, subject to an established risk management policy. Financial instruments authorized under this policy include swaps, options, caps, forwards and futures. Use of derivative financial instruments for trading or speculative purposes is prohibited by company policies.

Vendor Arrangements: We enter into arrangements with many of our vendors that entitle us to a partial refund of the cost of merchandise purchased during the year, or payments for reimbursement of certain costs we incur to advertise or otherwise promote their product. The volume-based rebates, supported by a vendor agreement, are estimated throughout the year and reduce the cost of inventory and cost of goods sold during the year. This estimate is regularly monitored and adjusted for current or anticipated changes in purchase levels and for sales activity. Other promotional rebates are generally event-based and are recognized as a reduction of cost of goods sold or inventory, as appropriate based on the type of promotion and the agreement with the vendor.

Reclassifications: Certain prior year amounts have been reclassified to conform to current year presentation.

New Accounting Standards: In July 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*. This Interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This Interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The Interpretation is effective for fiscal years beginning after December 15, 2006. While our analysis of the impact this Interpretation is not yet complete, we do not anticipate it will have a material impact on our retained earnings at the time of adoption.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements*, ("FAS 157"). This Standard defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. FAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The adoption of FAS 157 is not expected to have a material impact on our financial position, results of operations or cash flows.

The FASB also issued in September 2006 Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statement No. 87, 88, 106 and 132(R)*, ("FAS 158"). This Standard requires recognition of the funded status of a benefit plan in the statement of financial position. The Standard also requires recognition in other comprehensive income of certain gains and losses that arise during the period but are deferred under pension accounting rules, and modifies the timing of reporting and adds certain disclosures. FAS 158 provides recognition and disclosure elements to be effective as of the end of the fiscal year after December 15, 2006 and measurement elements to be effective for fiscal years ending after December 15, 2008. At December 30, 2006, we have reported approximately $6 million of deferred pension losses in Accumulated other comprehensive income as a result of this new pronouncement. We do not expect the remaining elements of this Statement to have a material impact on our financial condition, results of operations or cash flows when adopted.

NOTE B—ASSET IMPAIRMENTS, EXIT COSTS AND OTHER CHARGES

During the third quarter of 2005, we announced a number of material charges relating to asset impairments, exit costs and other operating decisions (the "Charges"). This announcement followed a wide-ranging assessment of assets and commitments which began in the second quarter of 2005. Through the end of 2006, we had recorded $345 million of Charges, with $282 million recognized in 2005 and $63 million in 2006. Expenses associated with future activities will be recognized as the individual plans are implemented and the related accounting recognition criteria are met. As with any estimate, the amounts may change when expenses are incurred.

These business reviews were performed at a Division level and initially we reported the charges associated with these activities as a component in determining Division operating profit. The financial information used by our management to assess performance of the Divisions for the purpose of resource allocation now excludes the Charges. We believe this measure is an appropriate and useful indicator of the effectiveness of current management activities. Accordingly, we have revised our measure of Division operating profit for external reporting purposes and now report on the Charges at a corporate level. Prior period Division operating profit has been recast to conform to the current presentation.

A summary of the Charges and the line item presentation of these amounts in our accompanying Consolidated Statement of Earnings is as follows.

(Dollars in millions)	**2006 Amounts**	2005 Amounts
Cost of goods sold and occupancy costs	**$ 1**	$ 20
Store and warehouse operating and selling expenses	**37**	109
Asset impairments	**7**	133
General and administrative expenses	**18**	20
Total pre-tax Charges	**$63**	$282

Of the $282 million pre-tax charge recognized in 2005, approximately $133 million related to asset impairments, approximately $72 million of exit costs and approximately $77 million of costs associated with termination agreements relating to contracts and surplus leases, accelerated amortization of software and depreciation of assets based on changes in estimated useful lives and the write off of certain property and inventory no longer used or useful based on this business review.

The asset impairment charge of $133 million included $83 million related to certain former Kids "R" Us ("KRU") retail store locations acquired in 2004 from Toys "R" Us, Inc. The performance of many of these locations did not meet initial projections to recover the initial asset base that included amounts paid to facilitate a quick entry into certain markets. We also recognized a $41 million goodwill and other intangible asset charge related to our Tech Depot subsidiary. A change in market conditions for technology products and a shift in that subsidiary's emphasis resulted in lowering our projected cash flows and goodwill was written down to estimated fair value. Also, as part of this business review and to streamline operations, we decided to migrate customers from the Guilbert trade name to Office Depot. The existing trade name intangible asset was tested for impairment and written down approximately $9 million to the amount that we estimated to be recoverable over the one-year migration plan.

The KRU, Tech Depot and trade name impairment charges are combined in the Consolidated Statement of Earnings on the line item titled "Asset impairments." Following the fourth quarter review of goodwill and intangible assets in 2004, we recognized a goodwill impairment charge of approximately $12 million related to our investment in Japan. Because of its nature, that charge has been presented on this same line for comparative purposes, but was not part of the Charges.

In addition to these significant asset impairment charges, we also recognized significant charges related to exit and other activities. The total exit and other charges recorded in 2005 and anticipated for future periods will be discussed below, as well as where the Charges appear in the Consolidated Statements of Earnings.

We decided to close 25 retail stores (16 in North America and nine internationally), three warehouses (two in North America and one internationally) and consolidate certain international call center and contract operations. Accordingly, we recognized approximately $72 million of charges for future lease obligations, severance-related costs, accelerated depreciation, asset write offs and inventory clearance and disposal. Of this total, approximately $8 million of inventory-related costs were recognized in cost of goods sold, approximately $61 million in operating and selling expenses and approximately $3 million in general and administrative expenses.

In addition to these exit costs, we recognized approximately $77 million of other charges. We terminated certain contractual agreements and adjusted surplus lease property accruals, wrote down and accelerated depreciation on assets based on a decrease in their expected use and accelerated inventory clearance activity in preparation of implementation of a new inventory management system. Of this total, approximately $12 million was presented as a charge in cost of goods sold, approximately $48 million in operating and selling expenses and approximately $17 million in general and administrative expenses.

During 2006, an additional $63 million associated with these projects was recognized as the previously-identified plans were implemented and the related accounting recognition criteria were met. These projects primarily related to consolidating and streamlining activities and resulted in charges for severance-related expenses, accelerated depreciation and amortization and other expenses. Of this total, approximately $1 million was recognized in cost of goods sold, $7 million as additional KRU store impairments, approximately $37 million in store and warehouse operating and selling expenses and $18 million in general and administrative expenses. The operating expense categories are presented in the table below. Some of these activities, such as planned facility closings, will extend into 2007 and 2008. The costs associated with these activities will be recognized in future periods as incurred, or in the case of asset utilization, over the period of remaining estimated useful life.

Exit cost accruals and other Charges related to activities described above are as follows:

(Dollars in millions)	Beginning Balance	Charges Incurred	Cash Payments	Non-cash Settlements	Adjustments	Ending Balance
2006						
One-time termination benefits	**$ 6**	**$22**	**$(21)**	**$ —**	**$—**	**$ 7**
Asset write offs and accelerated depreciation	**—**	**28**	**—**	**(28)**	**—**	**—**
Lease and contract obligations	**23**	**9**	**(12)**	**—**	**2**	**22**
Other associated costs	**2**	**4**	**(2)**	**(2)**	**—**	**2**
Total	**$31**	**$63**	**$(35)**	**$(30)**	**$ 2**	**$31**
2005						
One-time termination benefits	$—	$11	$ (5)	$ —	$—	$ 6
Asset write offs and accelerated depreciation	—	25	—	(25)	—	—
Lease and contract obligations	—	28	(5)	—	—	23
Other associated costs	—	8	—	(6)	—	2
Total	$—	$72	$(10)	$(31)	$—	$31

NOTE C—PROPERTY AND EQUIPMENT

Property and equipment consisted of:

(Dollars in thousands)	**December 30, 2006**	December 31, 2005
Land	**$ 101,442**	$ 104,153
Buildings	**297,438**	317,292
Leasehold improvements	**1,014,814**	919,547
Furniture, fixtures and equipment	**1,513,137**	1,386,415
	2,926,831	2,727,407
Less accumulated depreciation	**(1,501,864)**	(1,415,670)
Total	**$ 1,424,967**	$ 1,311,737

Depreciation expense was $245.9 million, $252.3 million and $248.4 million in 2006, 2005 and 2004, respectively. The 2006 and 2005 amounts do not include accelerated depreciation related to the Charges discussed in Note B.

The above table of property and equipment includes assets held under capital leases as follows:

(Dollars in thousands)	**December 30, 2006**	December 31, 2005
Buildings	**$ 112,544**	$ 72,177
Furniture, fixtures and equipment	**29,560**	51,784
	142,104	123,961
Less accumulated depreciation	**(38,141)**	(40,891)
Total	**$ 103,963**	$ 83,070

NOTE D—GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill

The components of goodwill by segment are listed below:

(Dollars in thousands)	**December 30, 2006**	December 31, 2005
Goodwill:		
North American Retail Division	**$ 1,961**	$ 1,952
North American Business Solutions Division	**359,417**	190,532
International Division	**837,508**	688,698
Total	**$1,198,886**	$881,182

The increase in goodwill during 2006 reflects approximately $249 million from the acquisitions addressed in Note M, as well as the impact of changes in foreign currency exchange rates. While asset and liability valuations are substantially complete for the 2006 acquisitions, goodwill may increase or decrease through 2007 as certain amounts are finalized. Additionally, a purchase price adjustment may reduce goodwill in a future period through 2008.

Other Intangible Assets

Indefinite-lived intangible assets related to acquired trade names were $61.6 million and $55.4 million, at December 30, 2006 and December 31, 2005, respectively, and are included in other assets in the Consolidated Balance Sheets. The change in this balance during 2006 results from change in foreign currency rates. Indefinite-lived intangible assets are not subject to amortization. However, during 2005, we adopted a plan to phase out the Guilbert trade name in France. As a result of this change in anticipated use, the useful life of the trade name changed from indefinite to finite. Concurrent with the adoption of this plan, we tested the asset for impairment which resulted in the recognition of an impairment charge of $9.5 million during the fourth quarter of 2005. This charge is included in the asset impairments line in the Consolidated Statements of Earnings.

Amortizing intangible assets, which are included in other assets in the Consolidated Balance Sheets, include the following:

	December 30, 2006		December 31, 2005	
(Dollars in thousands)	Gross Carrying Value	Accumulated Amortization	Gross Carrying Value	Accumulated Amortization
Customer lists	**$ 98,155**	**$(57,583)**	$63,481	$(39,437)
Other	**2,600**	**(406)**	4,599	(4,515)
Total	**$100,755**	**$(57,989)**	$68,080	$(43,952)

In conjunction with our 2006 acquisitions, we have recorded $31.4 million of amortizing intangible assets. Our valuation of intangible assets is not yet complete on all 2006 acquisitions. These assets, primarily customer lists, are being amortized over four to eleven years, with a weighted average of 10 years.

Amortization of intangible assets was $13.6 million in 2006, $13.4 million in 2005 and $19.3 million in 2004 (at average foreign currency exchange rates).

Estimated future amortization expense related to finite-lived intangible assets at December 30, 2006 exchange rates is as follows:

(Dollars in millions)	December 30, 2006
2007	$13,226
2008	7,328
2009	3,195
2010	2,789
2011	2,545

NOTE E—DEBT

The debt components consisted of the following:

(Dollars in thousands)	December 30, 2006	December 31, 2005
Short-term borrowings and current maturities of long-term debt:		
Short-term borrowings	**$ 28,308**	$ 23,698
Capital lease obligations	**8,064**	12,107
Other	**11,758**	11,465
	$ 48,130	$ 47,270
Long-term debt, net of current maturities:		
Revolving credit facility	**$ 64,361**	$ 64,996
$400 million senior notes	**400,489**	400,595
Capital lease obligations	**105,902**	83,149
Other	**—**	20,358
	$570,752	$569,098

In September 2005, we modified and extended to April 2010 our $750 million 5-year unsecured multi-currency revolving credit facility which includes up to $350 million available for standby and trade letters of credit. Upon mutual agreement, the maximum borrowing may be increased to $1 billion. The agreement provides borrowings up to the total amount in U.S. dollars, British pounds, euro, or yen. We may elect interest periods of one, two, three, six, nine or twelve months. Interest is based on the London Interbank Offering Rate ("LIBOR") or yen-LIBOR-based rate as appropriate, plus a spread determined at the time of usage. Based on current credit ratings, borrowings include a spread of 0.475%. The effective interest rate on yen borrowings at the end of 2006 was 1.1%. At December 30, 2006, we had approximately $589.0 million of available credit under our revolving credit facility that includes coverage of $96.8 million of outstanding letters of credit. We had an additional $48.5 million of letters of credit outstanding under separate agreements.

In August 2003, we issued $400 million senior notes due August 2013. These notes are not callable and bear interest at the rate of 6.25% per year, to be paid on February 15 and August 15 of each year. The notes contain provisions that, in certain circumstances, place financial restrictions or limitations on us. Simultaneous with completing the offering, we liquidated a treasury rate lock. The proceeds are being amortized over the term of the issue, reducing the effective interest rate to 5.87%. During 2004, we entered into a series of fixed-to-variable interest rate swap agreements as fair value hedges on the $400 million of notes. The swap agreements were terminated during 2005.

In December 2004, we redeemed the entire issue of our $250 million senior subordinated notes, pursuant to the optional redemption provisions of the subordinated notes indenture. The payment of approximately $302 million included the principal, accrued interest to the termination date, and contractual interest, discounted at the appropriate U.S. Treasury rate plus 50 basis points. The redemption resulted in a fourth quarter 2004 charge of $45.4 million which included the make whole payment, write off of deferred issuance costs, and the previously deferred gain related to the interest rate swap. Additionally, we entered into a lease agreement on a new facility in the surrounding area. The new facility is expected to be completed before the end of 2008. This arrangement will be a recorded as a capital lease when the property is substantially complete.

In December 2006, we sold our corporate campus and entered into a short-term leaseback. Coincident with the sale, we paid $22.2 million to settle the mortgage securing one of the buildings. The total payment of approximately $28 million included the principal, accrued interest to the termination date and the contractual prepayment consideration. Approximately $5.7 million is presented as loss on extinguishment of debt on the Consolidated Statements of Earnings. That mortgage had been assumed in 2005 under conversion of a previously capitalized lease agreement.

We are in compliance with all restrictive covenants included in the above debt agreements.

Aggregate annual maturities of long-term debt and capital lease obligations are as follows:

(Dollars in thousands)	December 30, 2006
2007	$ 56,091
2008	13,531
2009	11,994
2010	76,040
2011	11,109
Thereafter	535,045
Total	703,810
Less amount representing interest on capital leases	(84,927)
Total	618,882
Less current portion	(48,130)
Total long-term debt	$570,752

NOTE F—INCOME TAXES

The income tax provision related to earnings from continuing operations consisted of the following:

(Dollars in thousands)	**2006**	2005	2004
Current:			
Federal	**$179,779**	$150,303	$ 90,606
State	**21,531**	12,358	5,754
Foreign	**18,103**	35,008	18,480
Deferred :			
Federal	**2,559**	(68,881)	5,013
State	**4,032**	(13,734)	1,327
Foreign	**(14,808)**	(27,331)	4,549
Total provision for income taxes	**$211,196**	$ 87,723	$125,729

The components of earnings before income taxes consisted of the following:

(Dollars in thousands)	**2006**	2005	2004
North America	**$558,240**	$226,413	$232,561
International	**169,091**	135,102	228,672
Total	**$727,331**	$361,515	$461,233

The tax-effected components of deferred income tax assets and liabilities consisted of the following:

(Dollars in thousands)	**December 30, 2006**	December 31 2005
Self-insurance accruals	**$ 22,799**	$ 24,650
Inventory	**18,668**	26,480
Vacation pay and other accrued compensation	**35,536**	48,170
Reserve for bad debts	**5,786**	7,318
Reserve for facility closings	**19,536**	25,215
Accrued rebates	**22,417**	10,259
Deferred rent credit	**71,481**	56,585
Foreign and state net operating loss carryforwards	**362,233**	304,240
State credit carryforwards, net of Federal benefit	**10,426**	8,835
Other items, net	**49,332**	23,710
Gross deferred tax assets	**618,214**	535,462
Valuation allowance	**(330,057)**	(288,349)
Deferred tax assets	**288,157**	247,113
Basis difference in fixed assets	**19,795**	8,776
Intangibles	**35,443**	21,732
Other items, net	**12,557**	8,084
Deferred tax liabilities	**67,795**	38,592
Net deferred tax assets	**$ 220,362**	$ 208,521

As of December 30, 2006, we had approximately $1.0 billion of foreign and $660.7 million of state net operating loss carryforwards. Of the foreign carryforwards, $755.6 million can be carried forward indefinitely, $13.0 million will expire in 2007, and the balance will expire between 2008 and 2026. Of the state carryforwards, $20.6 million will expire in 2007, and the balance will expire between 2008 and 2026. The valuation allowance has been developed to reduce our deferred asset to an amount that is more likely than not to be realized, and is based upon the uncertainty of the realization of certain foreign and state deferred assets related to net operating loss carryforwards.

The following is a reconciliation of income taxes at the Federal statutory rate to the provision for income taxes:

(Dollars in thousands)	2006	2005	2004
Federal tax computed at the statutory rate	**$254,566**	$126,530	$161,432
State taxes, net of Federal benefit	**14,694**	7,428	6,289
Foreign income taxed at rates other than Federal	**(53,762)**	(15,404)	(27,015)
Repatriation of foreign earnings	**—**	5,204	11,540
Increase (reduction) in valuation allowance	**2,010**	(6,042)	(11,295)
Settlement of tax audits	**(3,875)**	(25,682)	(12,355)
Change in accrual estimates relating to uncertain tax positions	**(923)**	(1,444)	(4,418)
Other items, net	**(1,514)**	(2,867)	1,551
Provision for income taxes	**$211,196**	$ 87,723	$125,729

In accordance with provisions of the American Jobs Creation Action of 2004, we recognized income tax charges of $11.5 million in 2004 and $5.2 million in 2005, related to the repatriation of $400 million of foreign earnings.

We regularly assess our position with regard to individual tax exposures and record liabilities for our uncertain tax positions and related interest and penalties according to the principles of FAS 5, *Accounting for Contingencies*. These accruals, which relate primarily to cross-jurisdictional transactions, reflect management's view of the likely outcomes of current and future audits. It is likely that the future resolution of these uncertain tax positions will be different from the amounts currently accrued and will impact future tax period expense. However, management believes those amounts will not be material to financial position, results of operations or cash flows.

In connection with the adoption of FAS 123R, we have elected to calculate our pool of excess tax benefits under the alternative, or "short-cut" method. At adoption, this pool of benefits was approximately $55.3 million and was $102.2 million as of December 30, 2006. This pool may increase in future periods if tax benefits realized are in excess of those based on grant date fair values of share-based payments and is available to absorb future tax deficiencies determined for financial reporting purposes under provisions of FAS 123R.

NOTE G—COMMITMENTS AND CONTINGENCIES

Operating Leases: We lease retail stores and other facilities and equipment under operating lease agreements that expire in various years through 2032. In addition to minimum rentals, there are certain executory costs such as real estate taxes, insurance and common area maintenance on most of our facility leases. Many lease agreements contain tenant improvement allowances, rent holidays, and/or rent escalation clauses. For purposes of recognizing incentives and minimum rental expenses on a straight-line basis over the terms of the leases, we use the date of initial possession to begin amortization, which is generally when we enter the space and begin to make improvements in preparation for intended use.

We recognize a deferred rent liability for tenant improvement allowances and rent holidays and amortize these amounts over the terms of the related leases as a reduction of rent expense. For scheduled rent escalation clauses during the lease terms or for rental payments commencing at a date other than the date of initial occupancy, we record minimum rental expenses on a straight-line basis over the terms of the leases.

Certain leases contain provisions for additional rent to be paid if sales exceed a specified amount, though such payments have been immaterial during the years presented.

The table below shows future minimum lease payments due under non-cancelable leases as of December 30, 2006. These minimum lease payments include facility leases that were accrued as store closure costs.

(Dollars in thousands)	
2007	$ 502,955
2008	457,567
2009	409,740
2010	370,647
2011	334,418
Thereafter	2,383,357
	4,458,684
Less sublease income	(64,602)
	$4,394,082

Rent expense, including equipment rental, was $477.8 million, $444.8 million and $443.7 million in 2006, 2005, and 2004, respectively. Rent expense was reduced by sublease income of $3.2 million in 2006, $3.6 million in 2005 and $2.9 million in 2004.

Guarantee of Private Label Credit Card Receivables: Office Depot has private label credit card programs that are managed by a third-party financial services company. We act as the guarantor of all loans between our commercial customers and the financial services company. The difference between the transfer amount and the amount received is recognized in store and warehouse operating and selling expense. Maximum exposure to off-balance sheet credit risk is represented by the outstanding balance of private label credit card receivables, less reserves held by the financial services company which we fund. At December 30, 2006, the outstanding balance of credit card receivables sold was approximately $225.7 million. The estimated fair value liability associated with risk of loss is included in accrued expenses.

Legal Matters: During 2006, we recorded a charge in anticipation of settling a case styled Birch et al. v. Office Depot, Inc. pending in United States District Court in San Diego, CA. This case was brought as a class action by certain current and former employees of the company, alleging that they and other current and former employees were not properly compensated for meal breaks and rest breaks in accordance with California law. Without admitting any liability, during 2007, the company has agreed in principle to settle this matter in full for a total payment of approximately $16 million. The parties are working to secure court approval of the settlement. The charge related to this settlement is included in General and administrative expenses in the Consolidated Statements of Earnings.

We are involved in litigation arising from time to time in the normal course of business. While from time to time claims are asserted that may make demands for large sums of money, including ones asserted in the form of class action suits, we do not believe that the resolution of any of these matters, either individually or in the aggregate, will materially affect our financial position, results of operations or cash flows.

NOTE H—EMPLOYEE BENEFIT PLANS

Long-Term Equity Incentive Plan

The company's board of directors has approved a new Long-Term Incentive Plan and that Plan is subject to stockholder approval during 2007. During 2006, the company operated under the Long-Term Equity Incentive Plan, which was approved by Office Depot's stockholders and became effective October 1, 1997. This plan provides for the grants of stock options, restricted stock, performance-based and other equity-based incentive awards to directors, officers and key employees. Under this plan, stock options must be granted at an option price that is greater than or equal to the market price of the stock on the date of the grant. If an employee owns 10% or more of Office Depot's outstanding common stock, the option price must be at least 110% of the market price on the date of the grant. Options granted under this plan become exercisable from one to five years after the date of grant, provided that the individual is continuously employed with the company. All options granted expire no more than 10 years following the date of grant.

Long-Term Incentive Stock Plan

A summary of the activity in our stock option plans for the last three years is presented below.

	2006		2005		2004	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	**16,806,110**	**$17.20**	26,109,787	$16.04	29,452,938	$14.89
Granted	**1,970,274**	**33.73**	3,757,200	20.82	5,483,750	17.53
Canceled	**(540,238)**	**18.94**	(1,806,751)	17.74	(2,792,564)	16.60
Exercised	**(5,852,063)**	**16.45**	(11,254,126)	15.63	(6,034,337)	11.56
Outstanding at end of year	**12,384,083**	**$20.14**	16,806,110	$17.20	26,109,787	$16.04

The weighted average fair values of options granted during 2006, 2005, and 2004 were $11.49, $7.24, and $4.43, respectively, using the following weighted average assumptions for grants:

- Risk-free interest rates of 4.64% for 2006, 3.8% for 2005, and 2.64% for 2004
- Expected lives of 5.0, 5.0 and 4.5 years for 2006, 2005, 2004, respectively
- A dividend yield of zero for all three years
- Expected volatility ranging from 27% to 31% for 2006, 30% to 32% for 2005, and 35% for 2004

The following table summarizes information about options outstanding at December 30, 2006.

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life (in years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$ 4.43–$ 6.64	8,568	3.5	$ 6.19	8,568	$ 6.19
6.65– 9.97	564,999	3.9	8.75	564,999	8.75
9.98– 14.96	1,614,934	3.6	11.51	1,548,434	11.51
14.97– 22.45	6,465,014	4.6	18.04	4,050,394	18.00
22.46– 45.00	3,730,568	6.2	29.28	914,697	24.81
$ 4.43–$45.00	12,384,083	4.9	$20.14	7,087,092	$16.71

As of December 30, 2006, there was approximately $25.8 million of total stock-based compensation expense not yet recognized relating to non-vested awards granted under our option plans as calculated under SFAS 123R. This expense is net of estimated forfeitures and is expected to be recognized over a weighted-average period of approximately 1.75 years. The number of exercisable shares was 7.1 million shares of common stock at December 30, 2006, 9.8 million shares of common stock at December 31, 2005 and 16.9 million shares of common stock at December 25, 2004.

Restricted Stock and Performance-Based Grants

Prior to our merger with Viking Office Products (“Viking”) in 1998, Viking’s Long-Term Incentive Stock Plan allowed awards of restricted shares of common stock to key Viking employees. As part of the merger, shares issued under this plan were converted to restricted shares of Office Depot common stock, and no additional shares will be issued under the plan. Restrictions on the remaining 150,000 shares are scheduled to expire at the end of June 2007. Compensation expense is recognized on a straight-line basis over the vesting period.

Our employee share-based awards are generally issued in the first quarter of the year. In 2006, we granted approximately 0.3 million shares of time-based restricted stock to certain company officers. The weighted average fair value of $33.13 for these awards was based on the grant date market price. As of December 30, 2006, none of these shares had vested. Shares under the 2006 grant vest over a three year period.

In 2005, we granted approximately 2.4 million shares of performance-based restricted stock to employees as part of a multi-year incentive program. The shares were valued based on the grant date market price of $18.09 per share. The performance conditions were tied to meeting or exceeding earnings targets. Restrictions on approximately 1.0 million of shares were lifted in 2005 as target performance conditions were met. Approximately 0.5 million shares have been forfeited. The performance conditions on the remaining 0.9 million shares were satisfied in 2006 and the associated restrictions lifted. Additionally during 2005, approximately 1.3 million shares of time-based and certain performance-based restricted stock were granted to company officers under a retention program, as well as for newly-hired associates. The weighted average fair value of $18.69 per share for these awards was based on the grant date market price. Restrictions have been lifted on approximately 0.9 million shares and approximately 0.3 million shares remain under restriction. Additionally, approximately 0.1 million shares from prior year awards remain outstanding but restricted at December 30, 2006 and are subject to time vesting arrangements. Restricted stock issued under this plan may have vesting periods of up to four years from the date of grant. Compensation expense is generally recognized on a straight-line basis over the vesting period, but may be accelerated if lifting of restriction is based on satisfaction of a performance condition and the condition is deemed probable of being met.

In 2002, stockholders approved an amendment to the Long-Term Equity Incentive Plan allowing the compensation committee of the board of directors to grant performance-based shares to our senior executives and directors. Grants of market-based awards were provided to certain senior executives and directors in 2002, 2003 and 2004, each with a three-year earning period of company performance compared to a peer group. Compensation expense based on the estimated fair value of these grants has been included in the share-based compensation pro forma disclosure prior to the adoption of FAS 123R and as a component of operating expenses following adoption. The performance conditions of 2002 grants were not met and the awards expired at the end of the measurement period. During 2005, 172,875 performance-based shares were earned under the 2003 grants. During 2006, 121,500 performance-based shares were earned under the 2004 grants. No grants remain outstanding under this program.

Employee Stock Purchase Plan

The Employee Stock Purchase Plan, which was approved by Office Depot's stockholders, permits eligible employees to purchase our common stock at 85% of its fair market value. Following adoption of FAS 123R, compensation expense is recognized for the difference between employee cost and fair value. Share needs associated with this plan are generally satisfied through open market purchases; however, we are authorized to issue up to 172,593 shares under this plan.

Retirement Savings Plans

The Office Depot, Inc. Retirement Savings Plan (401(k) Plan), which was approved by the board of directors, allows eligible employees to contribute a percentage of their salary, commissions and bonuses, up to $15,000 in 2006, to the plan on a pretax basis in accordance with the provisions of Section 401(k) of the Internal Revenue Code. The 401(k) Plan was amended effective January 1, 2005 to increase the maximum deferral percentage from 18% to 50% of eligible compensation. Employer matching contributions are equivalent to 50% of the first 6% of an employee's contributions and are subject to the limits of the plan. The 401(k) Plan was amended effective July 1, 2005 to allow employer matching contributions made on or after this date to be allocated and invested in the same manner as the participants' pre-tax contributions. Prior company matching contributions of Office Depot Common Stock were allocated, in accordance with participants' elections, into other investment alternatives. The plan also allows for a discretionary matching contribution in addition to the normal match if approved by the board of directors. Office Depot also sponsors the Office Depot, Inc. Non-Qualified Deferred Compensation Plan that permits eligible employees who are limited in the amount they can contribute to the 401(k) Plan to alternatively defer a portion of their salary, commissions and bonuses up to maximums specified in this plan. Employer matching contributions to the Deferred Compensation Plan are allocated to investment alternatives selected by the participants. During 2006, 2005, and 2004, $14.1 million, $10.7 million and $11.9 million, respectively, was recorded as compensation expense for company contributions to these programs.

Pension Plans

At the end of 2005, the company maintained two defined benefit pension plans that cover a limited number of employees in Europe. During 2006, plan arrangements were restructured for one plan such that the primary responsibility for the related pension benefit obligation has been transferred to an unrelated third party and that plan is settled. The following table provides a reconciliation of changes in the projected benefit obligation, the fair value of plan assets and the funded status of our foreign defined benefit pension plans with the amounts recognized on our balance sheets:

Changes in projected benefit obligation:	**December 30, 2006**	December 31, 2005
Obligation at beginning of period	**$223,776**	$189,783
Service cost	**5,963**	6,978
Interest cost	**10,644**	9,548
Member contributions	**1,787**	1,967
Benefits paid	**(3,439)**	(2,420)
Actuarial (gain) loss	**(5,972)**	41,200
Curtailment and settlement	**(24,180)**	—
Currency translation	**22,601**	(23,280)
Obligation at valuation date	**231,180**	223,776
Changes in plan assets:		
Fair value at beginning of period	**123,826**	117,730
Actual return on plan assets	**19,184**	14,689
Company contributions	**3,441**	5,484
Member contributions	**1,787**	1,967
Benefits paid	**(3,439)**	(2,420)
Curtailment and settlement	**(17,255)**	—
Currency translation	**12,706**	(13,624)
Plan assets at valuation date	**140,250**	123,826
Benefit obligation in excess of plan assets	**(90,930)**	(99,950)
Unrecognized loss	**—**	26,950
Post-valuation contributions	**527**	628
Currency translation	**(870)**	(710)
Net amount recognized at end of period	**$ (91,273)**	$ (73,082)

Plan accounts for 2006 were measured as of October 31, with post-valuation contributions and subsequent foreign currency effects noted above. The net unfunded amount is classified as a non-current liability in the caption deferred taxes and other long-term liabilities in the Consolidated Balance Sheets. With the adoption of FAS 158, we classified approximately $6 million of deferred pension losses as a component of other comprehensive income. The table above presents projected benefit obligations, which include the estimated effect of future salary increases. The accumulated benefit obligations were approximately $219.9 million and $199.5 million at the 2006 and 2005 valuation dates, respectively. The pension assets are invested in managed pension funds, with an objective of meeting or exceeding a pooled pension fund performance over a rolling three year period, as well as interest bearing securities timed to match estimated benefit payouts.

The components of net periodic expense for our foreign defined benefit pension plans are presented below:

(Dollars in thousands)	2006	2005	2004
Service cost	$ 5,963	$ 6,978	$ 7,164
Interest cost	10,644	9,548	8,540
Expected return on plan assets	(7,297)	(7,077)	(6,640)
Amortized loss	325	—	—
Curtailment and settlement	(4,993)	—	—
Net periodic pension cost	$ 4,642	$ 9,449	$ 9,064

Assumptions used in calculating the funded status included:

	2006	2005	2004
Long-term rate of return on plan assets	6.06%	6.14%	6.79%
Discount rate	4.85%	4.94%	5.38%
Salary increases	4.00%	4.44%	4.25%
Inflation	3.00%	2.72%	2.45%

The allocation of assets is as follows:

	Percentage of Plan Assets		Target
	2006	2005	Allocation
Equity securities	82%	79%	60%–95%
Debt securities	8%	17%	0%–20%
Real estate	1%	1%	0%–20%
Other	9%	3%	0%–10%
Total	100%	100%	

Anticipated benefit payments, at December 30, 2006 exchange rates, are as follows:

(Dollars in thousands)	
2007	$ 2,306
2008	3,291
2009	3,557
2010	4,713
2011	6,245
Next five years	33,732

The anticipated Office Depot contribution for fiscal year 2007 is $3.2 million, at December 30, 2006 exchange rates.

The remaining pension plan was part of an entity acquired in 2003. The purchase and sale agreement included a provision whereby the seller is required to pay to Office Depot an amount of unfunded benefit obligation as measured in a future period at the seller's option, but no later than five years following the purchase date. This contract provision is contingent upon an uncertain future outcome and we have not recorded a receivable for the amount that would be recovered if settled currently, though it would be a portion of the unfunded liability recorded in purchase accounting. The after-tax effect of the payment from the seller, if any, will reduce goodwill when received.

NOTE I—CAPITAL STOCK

Preferred Stock

As of December 30, 2006, there were 1,000,000 shares of $0.01 par value preferred stock authorized of which none were issued or outstanding.

Treasury Stock

The Office Depot board of directors has authorized a series of common stock repurchase plans, the latest of which is a $500 million authorization in 2006.

Under these approved plans we purchased approximately 26.4 million shares at a cost of $970.6 million in 2006, 29.8 million shares at a cost of $815.2 million in 2005 and 4.0 million shares for $65.6 million in 2004. At December 30, 2006, approximately $199.7 million remains available for repurchase under the current authorization.

NOTE J—EARNINGS PER SHARE

Basic earnings per share is based on the weighted average number of shares outstanding during each period. Diluted earnings per share reflects the impact of assumed exercise of dilutive stock options and vesting of restricted stock.

The following table represents the calculation of net earnings per common share—basic and diluted:

(In thousands, except per share amounts)	2006	2005	2004
Numerator:			
Net earnings	$516,135	$273,792	$335,504
Denominator:			
Weighted average shares outstanding:			
Basic	281,618	310,020	311,760
Effect of dilutive stock options and restricted stock	6,104	5,222	3,865
Diluted	287,722	315,242	315,625
Net earnings per share:			
Basic	$ 1.83	$ 0.88	$ 1.08
Diluted	1.79	0.87	1.06

Options to purchase 0.1 million, 0.2 million and 11.8 million shares in the years ended December 30, 2006, December 31, 2005 and December 25, 2004, respectively, were not included in the computation of diluted earnings per share because the exercise prices of these options exceeded the average market price of the common shares during the respective periods.

NOTE K—SUPPLEMENTAL INFORMATION ON OPERATING, INVESTING AND FINANCING ACTIVITIES

Additional supplemental information related to the Consolidated Statements of Cash Flows is as follows:

(Dollars in thousands)	**2006**	2005	2004
Cash paid for:			
Interest	**$ 37,158**	$ 28,346	$ 78,590
Taxes	**208,606**	175,818	112,771
Non-cash asset additions under capital leases	**26,542**	37,286	18,798
Non-cash capital expenditure accruals	**25,157**	20,802	21,107
Additional paid-in capital related to tax benefit on stock options exercised	**43,355**	31,165	12,138

NOTE L—SEGMENT INFORMATION

Office Depot operates in three reportable segments: North American Retail Division, North American Business Solutions Division, and International Division. Each of these segments is managed separately primarily because it serves different customer groups. The accounting policies for each segment are the same as those described in the summary of significant accounting policies (see Note A).

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

(Dollars in thousands)		North American Retail Division	North American Business Solutions Division	International Division	Eliminations and Other*	Consolidated Total
Sales	**2006**	**$6,789,386**	**$4,576,803**	**$3,644,592**	**—**	**$15,010,781**
	2005	6,510,239	4,300,781	3,470,898	(2,974)	14,278,944
	2004	5,940,677	4,045,501	3,580,809	(2,288)	13,564,699
Division operating profit	**2006**	**$ 473,945**	**$ 367,696**	**$ 249,164**	**$ (512)**	**$ 1,090,293**
	2005	393,597	350,776	207,539	(210)	951,702
	2004	291,252	276,165	278,049	(393)	845,073
Capital expenditures	**2006**	**$ 187,232**	**$ 15,353**	**$ 39,363**	**$ 101,467**	**$ 343,415**
	2005	145,283	28,254	48,795	38,441	260,773
	2004	230,225	16,891	65,843	78,263	391,222
Depreciation and amortization	**2006**	**$ 127,261**	**$ 29,334**	**$ 43,912**	**$ 78,498**	**$ 279,005**
	2005	110,431	28,423	51,582	77,662	268,098
	2004	98,143	30,530	52,509	87,984	269,166
Charges for losses on receivables and inventories	**2006**	**$ 46,399**	**$ 27,703**	**$ 11,508**	**—**	**$ 85,610**
	2005	43,947	24,352	23,837	—	92,136
	2004	51,108	20,176	16,643	—	87,927
Net earnings from equity method investments	**2006**	**—**	**—**	**$ 27,125**	**—**	**$ 27,125**
	2005	—	—	23,394	—	23,394
	2004	—	—	16,171	—	16,171
Assets	**2006**	**$1,940,525**	**$1,278,948**	**$2,699,824**	**$ 650,805**	**$ 6,570,102**
	2005	1,714,428	970,667	2,278,030	1,135,400	6,098,525

**Amounts included in "Eliminations and Other" consist of inter-segment sales, which are generally recorded at the cost to the selling entity, and assets (including all cash and equivalents) and depreciation related to corporate activities.*

During 2006 we modified our presentation of Division operating profit by including general and administrative expenses considered directly or closely attributable to each reportable segment and to exclude the Charges recognized during the period. A reconciliation of the measure of Division operating profit to consolidated earnings from continuing operations before income taxes follows.

(Dollars in thousands)	**2006**	2005	2004
Division operating profit	**$1,090,293**	$951,702	$845,073
(Add)/subtract:			
Charges	**63,297**	282,088	—
General and administrative expenses—corporate	**293,513**	321,572	315,096
Interest expense, net	**31,002**	10,176	41,066
Loss on extinguishment of debt	**5,715**	—	45,407
Miscellaneous income, net	**(30,565)**	(23,649)	(17,729)
Earnings before income taxes	**$ 727,331**	$361,515	$461,233

We sell to customers in 42 countries throughout North America, Europe, Asia and Latin America either through wholly-owned entities, majority-owned entities or other ventures covering 34 countries, and through alliances in an additional 8 countries. There is no single country outside of the United States in which we generate 10% or more of our total revenues. Geographic financial information relating to our business is as follows (in thousands).

	Sales			Property and Equipment	
	2006	2005	2004	**2006**	2005
United States	**$11,234,053**	$10,671,297	$ 9,846,856	**$1,076,294**	$1,003,513
International	**3,776,728**	3,607,647	3,717,843	**348,673**	308,224
Total	**$15,010,781**	$14,278,944	$13,564,699	**$1,424,967**	$1,311,737

NOTE M—ACQUISITIONS

During 2006, we acquired all or a majority ownership position in four companies and increased our investment to majority ownership in another company. The transactions have been included in our consolidated results since the dates of acquisition. The cash paid in 2006 for these acquisitions, net of cash acquired, was approximately $248 million. The consideration has been allocated to assets and liabilities, including separate identifiable intangible assets, based on independent third party valuations and internal assessments with approximately $249 million allocated to goodwill. For those entities that are not wholly owned, Office Depot has the right to acquire or may be required to purchase some or all of the minority interest shares at various points over the next five years. Certain arrangements will require additional cash payments of $22 million in 2007, $7 million in 2008 and a minimum of approximately $7 million in 2010; the related obligations are included in the Consolidated Balance Sheets.

During the second quarter of 2006, we completed the acquisitions of Allied Office Products in North America and Best Office in South Korea. We also increased our ownership interest to a majority stake in Office Depot Israel, an investment previously accounted for under the equity method. Allied Office Products, with annual sales of more than $300 million, is included in our North American Business Solutions Division. Best Office and Office Depot Israel, together with annual sales of more than $140 million, are included in our International Division.

During the third quarter of 2006, we completed the acquisition of Papirius s.r.o, one of the largest business-to-business suppliers of office products and services in Eastern Europe. Papirius has annual revenues of more than $56 million and has sales in the Czech Republic, Lithuania, Hungary, and Slovakia.

During the fourth quarter of 2006 we acquired a majority stake in AsiaEC, one of the largest suppliers of office products and services in China.

During the second quarter of 2004, we acquired the business of Elso Iroda Superstore Kft for $8 million, net of cash acquired. This company operated Office Depot retail stores and direct sales businesses in Hungary under an Office Depot license agreement.

The size of these acquisitions is not material and therefore pro forma financial information has not been provided.

NOTE N—QUARTERLY FINANCIAL DATA (UNAUDITED)

(In thousands, except per share amounts)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter[1]
Fiscal Year Ended December 30, 2006				
Net sales	**$3,815,700**	**$3,494,907**	**$3,857,144**	**$3,843,030**
Gross profit	**1,201,906**	**1,078,242**	**1,186,839**	**1,200,653**
Net earnings	**129,530**	**118,306**	**133,259**	**135,040**
Net earnings per share*:				
Basic	**$ 0.44**	**$ 0.42**	**$ 0.48**	**$ 0.49**
Diluted	**0.43**	**0.41**	**0.47**	**0.48**

** Due to rounding, the sum of the quarterly earnings per share amounts may not equal the reported earnings per share for the year.*

(1) Net earnings for the quarter includes the following pretax items: $31.0 million related to Charges, $16.5 million for a legal settlement, $21.4 million in a gain on the sale of our corporate campus and $5.7 million of loss on extinguishment of debt.

Fiscal Year Ended December 31, 2005	First Quarter	Second Quarter	Third Quarter	Fourth Quarter[3]
Net sales	$3,702,891	$3,364,052	$3,492,900	$3,719,101
Gross profit	1,151,655	1,036,247	1,046,599	1,157,522
Net earnings (loss)	115,308	100,099	(47,881)[1]	106,266[2]
Net earnings (loss) per share*:				
Basic	$ 0.37	$ 0.32	$ (0.15)	$ 0.35
Diluted	0.37	0.31	(0.15)	0.34

** Due to rounding, the sum of the quarterly earnings per share amounts may not equal the reported earnings per share for the year.*

(1) Net loss in the third quarter of 2005 includes $121.9 million relating to asset impairments, $48.7 million for exit related activities, $28.3 million for lease adjustments, $18.9 million for asset impairments and accelerated depreciation and amortization, $12.7 million for accelerated inventory clearance, and $6.3 million related to cancellation of other commitments.

(2) Net earnings in the fourth quarter of 2005 includes $11.6 million related to asset impairments, $23.4 million for exit related activities, and $10.2 million for asset impairments and accelerated depreciation and amortization.

(3) Fiscal year 2005 includes 53 weeks in accordance with our 52-week, 53-week retail calendar; accordingly, the fourth quarter includes 14 weeks.

Shareholder Information

CORPORATE OFFICES
2200 Old Germantown Road
Delray Beach, FL 33445
(561) 438-4800
Web site: www.officedepot.com

ANNUAL MEETING
April 25, 2007 at 8:30am (ET)
Boca Raton Marriott at Boca Center
5150 Town Center Circle
Boca Raton, FL 33486
(561) 620-3712

CERTIFIED PUBLIC ACCOUNTANTS
Deloitte & Touche LLP
Fort Lauderdale, FL

TRANSFER AGENT & REGISTRAR
Mellon Investor Services, LLC
P.O. Box 3315
South Hackensack, NJ 07606
(800) 681-8059
Web site: www.melloninvestor.com

TRUSTEE FOR 6.25% SENIOR NOTES DUE 2013
SunTrust Bank
777 Brickell Avenue
Miami, FL 33131

COMMON STOCK
Office Depot's common stock is listed on the New York Stock Exchange under the symbol ODP. As of December 29, 2006, there were 7,033 stockholders of record. This number excludes individual stockholders holding stock under nominee security position listings.

DIRECT STOCK PURCHASE PLAN
New investors and current stockholders of record may acquire shares of Office Depot's common stock through the Company's direct stock purchase plan. Enrollment materials, including the prospectus, are available on the Company's web site under Company Information/Investor Relations/Stock Purchase or by calling Mellon Investor Services at (800) 681-8059.

CERTIFICATIONS
Our chief executive officer certified to the New York Stock Exchange (NYSE) that, as of May 25, 2006, he was not aware of any violation by the Company of the NYSE's corporate governance listing standards. The certifications of our chief executive officer and chief financial officer required under Section 302 of the Sarbanes-Oxley Act of 2002 were filed as Exhibits 31.1 and 31.2, respectively, to our 2006 Form 10-K.

DIVIDEND POLICY
We have never declared or paid cash dividends on our common stock. While we regularly assess our dividend policy, we have no current plans to declare a dividend.

FORM 10-K
A Form 10-K is available without charge online at www.officedepot.com, or through www.sec.gov.

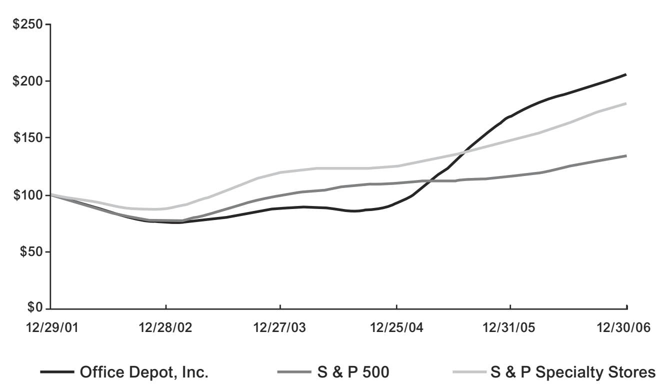
QUARTERLY STOCKHOLDER REPORTS
Office Depot's quarterly stockholders' information is provided on the Company web site under Company Information/Investor Relations/SEC Filings.

QUARTERLY STOCK PRICE RANGE
The following table sets forth, for the periods indicated, the high and low sales prices of the Company's common stock quoted on the NYSE Composite Tape. These prices do not include retail mark-ups, markdowns or commissions:

2006	**High**	**Low**
First Quarter	$38.050	$30.640
Second Quarter	46.520	36.680
Third Quarter	40.860	33.650
Fourth Quarter	44.690	36.870

2005	High	Low
First Quarter	$23.700	$16.500
Second Quarter	22.840	18.590
Third Quarter	31.520	21.700
Fourth Quarter	31.760	24.510

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*
Among Office Depot, Inc., The S & P 500 Index
And The S & P Specialty Stores Index



**$100 invested on 12/29/01 in stock or on 12/30/01 in index-including reinvestment of dividends. Fiscal year ending December 30. Indexes calculated on month-end basis.*

Board of Directors

LEE A. AULT III
(Retired) Chairman,
President and CEO
Telecredit, Inc.

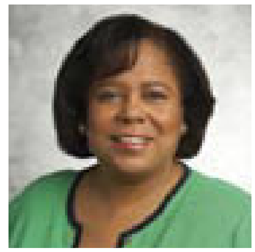
NEIL R. AUSTRIAN
(Retired) President and
Chief Operating Officer
National Football League

DAVID W. BERNAUER
Chairman of the Board
Walgreen Co.

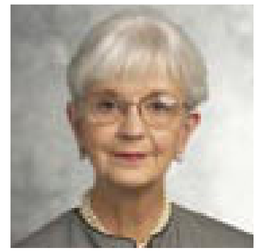
ABELARDO (AL) E. BRU
(Retired) Vice Chairman
PepsiCo, Inc.

MARSHA J. EVANS
(Retired) Rear Admiral
United States Navy

DAVID I. FUENTE
Managing Partner
Dash Ventures

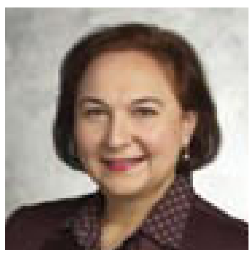


BRENDA J. GAINES
(Retired) President and Chief
Executive Officer of Diners Club
North America, Division of Citigroup

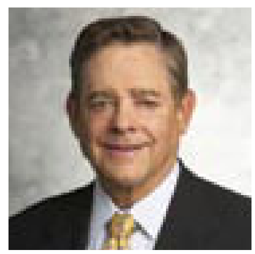


MYRA M. HART
Professor
Entrepreneurial Management,
Harvard Business School

W. SCOTT HEDRICK
General Partner
InterWest Partners



KATHLEEN MASON
President and
Chief Executive Officer
Tuesday Morning Corporation



MICHAEL J. MYERS
Senior Advisory Partner, Sentinel Capital
Partners; (Retired) Senior Vice President
and Managing Director, Smith Barney, Inc.

Executive Committee

STEVE ODLAND
Chairman of the Board
Chief Executive Officer

CHARLES BROWN
President
International Division

CYNTHIA CAMPBELL
Executive Vice President
North American Business
Solutions Division

DAVID FANNIN
Executive Vice President
General Counsel
& Corporate Secretary

MONICA LUECHTEFELD
Executive Vice President
Business Development,
Information Technology
and Supply Chain

PATRICIA McKAY
Executive Vice President
Chief Financial Officer

CHUCK RUBIN
President
North American Retail
Division

DAISY VANDERLINDE
Executive Vice President
Human Resources

Other Corporate Officers

ROBERT BREWER
Senior Vice President
Chief Compliance Officer

JENNIFER BOESE
Vice President
Treasurer

JENNIFER MOLINE
Senior Vice President
Controller

ANNE ZUCKERMAN
Vice President
Associate General Counsel
& Assistant Corporate
Secretary

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Office DEPOT

20th Anniversary

Our Vision

Delivering Winning Solutions That Inspire Worklife™

Our Values

Integrity.

We earn the trust and confidence of associates, customers, suppliers and shareholders by being open, honest and truthful in all that we do.

Innovation.

With a culture of creativity and a thirst for intelligent risk-taking, we aspire to do what has never been done.

Inclusion.

We approach all opportunities and challenges by respecting the diverse thoughts, beliefs, backgrounds, cultures and energies of all associates, customers and suppliers.

Customer Focus.

We fuel our customers' dreams by anticipating and listening to their needs and passionately delivering on our promises. Failure is not an option, as we promise to "wow" on recovery.

Accountability.

We are responsible for achieving and sustaining unprecedented results that create extraordinary value to our shareholders and stakeholders through personal commitment, sensible thrift, collaboration and shared leadership.

Office DEPOT
2200 Old Germantown Road
Delray Beach, Florida 33445
Tel: 561.438.4800
www.officedepot.com
NYSE: ODP