OFFICE DEPOT INC
Form 10-Q
July 28, 2009
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark One)

x Quarterly Report Pursuant to Section 13 or 15 (d) of the

Securities Exchange Act of 1934
For the quarterly period ended June 27, 2009

or

¨ Transition Report Pursuant to Section 13 or 15 (d) of the

Securities Exchange Act of 1934
For the transition period from __________ to __________

Commission file number 1-10948

Office Depot, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**59-2663954**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
6600 North Military Trail; Boca Raton, Florida	**33496**
(Address of principal executive offices)	(Zip Code)

(561) 438-4800

(Registrant s telephone number, including area code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ¨ No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	x	Accelerated filer	¨
Non-accelerated filer (Do not check if a smaller reporting company)	¨	Smaller reporting company	¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

The number of shares outstanding of the registrant s common stock, as of the latest practicable date: At June 27, 2009 there were 274,735,651 outstanding shares of Office Depot, Inc. Common Stock, $0.01 par value.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

OFFICE DEPOT, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share amounts)

(Unaudited)

	As of June 27, 2009	As of December 27, 2008	As of June 28, 2008
Assets			
Current assets:			
Cash and cash equivalents	$ 558,710	$ 155,745	$ 156,607
Receivables, net	1,137,088	1,255,735	1,471,710
Inventories	1,264,355	1,331,593	1,647,044
Deferred income taxes	225,721	196,192	99,398
Prepaid expenses and other current assets	175,777	183,122	166,247
Total current assets	3,361,651	3,122,387	3,541,006
Property and equipment, net	1,316,286	1,557,301	1,695,581
Goodwill	19,431	19,431	1,391,656
Other intangible assets	26,725	28,311	110,964
Other assets	542,547	540,796	579,175
Total assets	$ 5,266,640	$ 5,268,226	$ 7,318,382
Liabilities and stockholders equity			
Current liabilities:			
Trade accounts payable	$ 1,176,649	$ 1,251,808	$ 1,398,321
Accrued expenses and other current liabilities	1,101,177	1,173,201	1,148,041
Income taxes payable	20,508	8,803	13,063
Short-term borrowings and current maturities of long-term debt	62,484	191,932	296,884
Total current liabilities	2,360,818	2,625,744	2,856,309
Deferred income taxes and other long-term liabilities	668,369	585,861	579,371
Long-term debt, net of current maturities	669,273	688,788	615,653
Total liabilities	3,698,460	3,900,393	4,051,333
Redeemable preferred stock	325,322		
Stockholders equity:			
Office Depot, Inc. stockholders equity:			
Common stock - authorized 800,000,000 shares of $.01 par value; issued and outstanding shares 280,650,919 in 2009, 280,800,135 in December 2008 and 280,962,284 in June 2008	2,807	2,808	2,810
Additional paid-in capital	1,203,521	1,194,622	1,177,644
Accumulated other comprehensive income	221,216	217,197	587,649
Retained earnings (accumulated deficit)	(130,541)	6,270	1,551,979

Treasury stock, at cost 5,915,268 shares in 2009, 5,938,059 shares in December 2008 and 5,972,334 shares in June 2008	(57,733)	(57,947)	(58,288)
Total Office Depot, Inc. stockholders equity	1,239,270	1,362,950	3,261,794
Noncontrolling interest	3,588	4,883	5,255
Total stockholders equity	1,242,858	1,367,833	3,267,049
Commitments and contingencies			
Total liabilities and stockholders equity	$ 5,266,640	$ 5,268,226	$ 7,318,382

This report should be read in conjunction with the Notes to Condensed Consolidated Financial Statements (Notes) herein and the Notes to Consolidated Financial Statements in the Office Depot, Inc. Form 10-K filed February 24, 2009 (the 2008 Form 10-K).

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OFFICE DEPOT, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

(Unaudited)

	13 Weeks Ended		26 Weeks Ended	
	June 27, 2009	June 28, 2008	June 27, 2009	June 28, 2008
Sales	$ 2,824,141	$ 3,605,073	$ 6,049,405	$ 7,567,090
Cost of goods sold and occupancy costs	2,060,093	2,621,557	4,375,095	5,414,894
Gross profit	764,048	983,516	1,674,310	2,152,196
Store and warehouse operating and selling expenses	691,583	811,694	1,485,903	1,678,500
General and administrative expenses	170,394	175,224	346,793	373,774
Amortization of deferred gain on building sale		(1,873)		(3,746)
Operating profit (loss)	(97,929)	(1,529)	(158,386)	103,668
Other income (expense):				
Interest income	718	5,604	1,912	6,509
Interest expense	(16,745)	(14,406)	(34,663)	(29,226)
Miscellaneous income (expense), net	412	5,875	(3,147)	14,176
Earnings (loss) before income taxes	(113,544)	(4,456)	(194,284)	95,127
Income tax expense (benefit)	(30,680)	(1,827)	(56,088)	29,123
Net earnings (loss)	(82,864)	(2,629)	(138,196)	66,004
Less: Net loss attributable to the noncontrolling interest	(792)	(627)	(1,385)	(767)
Net earnings (loss) attributable to Office Depot, Inc.	(82,072)	(2,002)	(136,811)	66,771
Preferred stock dividends	486		486	
Income (loss) available to common shareholders	$ (82,558)	$ (2,002)	$ (137,297)	$ 66,771
Earnings (loss) per share:				
Basic	$ (0.31)	$ (0.01)	$ (0.51)	$ 0.24

Diluted	(0.31)	(0.01)	(0.51)	0.24
Weighted average number of common shares outstanding:				
Basic	270,290	272,845	271,735	272,620
Diluted	270,290	272,845	271,735	273,101

This report should be read in conjunction with the Notes herein and the Notes to Consolidated Financial Statements in the 2008 Form 10-K.

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OFFICE DEPOT, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	26 Weeks Ended	
	June 27, 2009	June 28, 2008
Cash flows from operating activities:		
Net earnings (loss)	$ (138,196)	$ 66,004
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:		
Depreciation and amortization	106,796	130,390
Charges for losses on inventories and receivables	35,239	64,678
Changes in working capital and other	102,547	(123,331)
Net cash provided by operating activities	106,386	137,741
Cash flows from investing activities:		
Capital expenditures	(53,799)	(206,840)
Acquisitions, net of cash acquired, and related payments		(84,659)
Release of restricted cash	6,037	18,100
Purchase of assets subsequently sold		(39,772)
Proceeds from assets sold	146,697	36,781
Other	2,049	
Net cash provided by (used in) investing activities	100,984	(276,390)
Cash flows from financing activities:		
Proceeds from exercise of stock options and sale of stock under employee stock purchase plans	34	855
Tax benefits from employee share-based payments		56
Treasury stock additions from employee related plans		(944)
Proceeds from issuance of redeemable preferred stock, net	326,861	
Net proceeds (payments) on borrowings	(139,043)	69,279
Net cash provided by financing activities	187,852	69,246
Effect of exchange rate changes on cash and cash equivalents	7,743	3,056
Net increase (decrease) in cash and cash equivalents	402,965	(66,347)
Cash and cash equivalents at beginning of period	155,745	222,954
Cash and cash equivalents at end of period	$ 558,710	$ 156,607

This report should be read in conjunction with the Notes herein and the Notes to Consolidated Financial Statements in the 2008 Form 10-K.

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OFFICE DEPOT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note A Summary of Significant Accounting Policies

Basis of Presentation: Office Depot, Inc., including consolidated subsidiaries, is a global supplier of office products and services. Fiscal years are based on a 52- or 53-week period ending on the last Saturday in December. The Condensed Consolidated Balance Sheet at December 27, 2008 has been derived from audited financial statements at that date. The condensed consolidated interim financial statements as of June 27, 2009 and June 28, 2008, and for the 13-week and 26-week periods ended June 27, 2009 (also referred to as the second quarter of 2009 and the first half of 2009) and June 28, 2008 (also referred to as the second quarter of 2008 and the first half of 2008) are unaudited. However, in our opinion, these financial statements reflect adjustments (consisting only of normal, recurring items) necessary to provide a fair presentation of our financial position, results of operations and cash flows for the periods presented. In addition to the normal, recurring items recorded for interim financial statement presentation, we recognized expenses associated with exit and other activities because the related accounting criteria were met during the period. We have included the balance sheet from June 28, 2008 to assist in analyzing our company.

These interim results are not necessarily indicative of the results that should be expected for the full year. For a better understanding of Office Depot, Inc. and its condensed consolidated financial statements, we recommend reading these condensed interim financial statements in conjunction with the audited financial statements for the year ended December 27, 2008, which are included in our 2008 Annual Report on Form 10-K (the 2008 Form 10-K), filed with the U.S. Securities and Exchange Commission (SEC).

Cash Management: Our cash management process generally utilizes zero balance accounts which provide for the reimbursement of the related disbursement accounts on a daily basis. Accounts payable as of June 27, 2009, December 27, 2008 and June 28, 2008 included $87 million, $71 million and $92 million, respectively, of disbursements not yet presented for payment drawn in excess of our book deposit balances where offset provisions exist. We borrow to meet working capital and other needs throughout any given quarter, which may result in higher levels of borrowings and invested cash within the period. At the end of the quarter, excess cash may be used to minimize borrowings outstanding at the balance sheet date.

Fair Value of Financial Instruments: The estimated fair values of financial instruments recognized in the Condensed Consolidated Balance Sheets 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.

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. The following table reflects the difference between the carrying value and fair value of the senior notes as of June 27, 2009 and December 27, 2008:

(In thousands)	June 27, 2009 Carrying Value	June 27, 2009 Fair Value	December 27, 2008 Carrying Value	December 27, 2008 Fair Value
$400 million senior notes	$400,225	$320,000	$400,278	$206,000

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Redeemable Preferred Stock: Because the issuance was completed in close proximity to the end of the second quarter, proceeds, net of amounts returned to investors, of approximately $347 million is considered to represent fair value as of June 27, 2009. The carrying amount, which is net of issuance costs and plus accrued dividends, was $325 million as of June 27, 2009.

Interest Rate Swaps, Foreign Currency and Fuel Contracts: The fair values of our interest rate swaps, foreign currency contracts and fuel contracts are the amounts receivable or payable to terminate the agreements at the reporting date, taking into account current interest and exchange rates. The values are based on market-based inputs or unobservable inputs that are corroborated by market data. There were no interest rate swap agreements in place as of June 27, 2009, December 27, 2008 or June 28, 2008, and the amounts receivable or payable under foreign currency and fuel contracts were not significant as of these dates.

There were no significant differences between the carrying values and fair values of our financial instruments as of June 27, 2009 or December 27, 2008 except as disclosed above.

New Accounting Pronouncements: Effective at the beginning of the first quarter of 2009, we adopted Statement of Financial Accounting Standards No. 160, *Noncontrolling Interests in Consolidated Financial Statements* [Accounting Standards Codification (ASC) 810-10-45]. As required by this Standard, the presentation of noncontrolling interests, previously referred to as minority interest, has been changed on the Condensed Consolidated Balance Sheets to be reflected as a component of total stockholders equity and on the Condensed Consolidated Statements of Operations to be a specific allocation of net earnings (loss). Note D also allocates comprehensive income between Office Depot and noncontrolling interest. Amounts reported or included in prior periods have not changed but have been reclassified to conform with the current period presentation. Earnings per share continue to be based on earnings attributable to Office Depot, Inc.

In April 2009, the FASB issued three related FASB Staff Positions: (i) FSP FAS No. 115-2 and FAS No. 124-2, *Recognition of Presentation of Other-Than-Temporary Impairments* (FSP FAS 115-2 and FAS 124-2), (ii) FSP FAS No. 107-1 and APB No. 28-1, *Interim Disclosures about Fair Value of Financial Instruments* (FSP FAS 107-1 and APB 28-1), and (iii) FSP FAS No. 157-4, *Determining the Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* (FSP FAS 157-4), which are effective for interim and annual reporting periods ending after June 15, 2009. FSP FAS 115-2 and FAS 124-2 modifies the requirement for recognizing other-than-temporary impairments, changes the existing impairment model, and modifies the presentation and frequency of related disclosures. FSP FAS 107-1 and APB 28-1 requires disclosures about fair value of financial instruments for interim reporting periods as well as in annual financial statements. FSP FAS 157-4 provides additional guidance for estimating fair value in accordance with SFAS No. 157, *Fair Value Measurements*. The adoption of these FASB Staff Positions did not have a material impact on our financial condition, results of operations or cash flows.

In May 2009, the FASB issued Statement of Financial Accounting Standards No. 165, *Subsequent Events* (FAS 165) [ASC 855-10-05], which provides guidance to establish general standards of accounting for and disclosures of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. FAS 165 also requires entities to disclose the date through which subsequent events were evaluated as well as the rationale for why that date was selected. FAS 165 is effective for interim and annual periods ending after June 15, 2009, and accordingly, we adopted this Standard during the second quarter of 2009. FAS 165 requires that public entities evaluate subsequent events through the date that the financial statements are issued. We have evaluated subsequent events through the time of filing these financial statements with the SEC on July 28, 2009.

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In June 2009, the FASB issued Statement of Financial Accounting Standards No. 166, *Accounting for Transfers of Financial Assets an amendment of FASB Statement No. 140* (FAS 166) [ASC 860], which requires entities to provide more information regarding sales of securitized financial assets and similar transactions, particularly if the entity has continuing exposure to the risks related to transferred financial assets. FAS 166 eliminates the concept of a qualifying special-purpose entity, changes the requirements for derecognizing financial assets and requires additional disclosures. FAS 166 is effective for fiscal years beginning after November 15, 2009. We have not completed our assessment of the impact FAS 166 will have on our financial condition, results of operations or cash flows.

In June 2009, the FASB issued Statement of Financial Accounting Standards No. 167, *Amendments to FASB Interpretation No. 46(R)* (FAS 167) [ASC 810-10], which modifies how a company determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. FAS 167 clarifies that the determination of whether a company is required to consolidate an entity is based on, among other things, an entity s purpose and design and a company s ability to direct the activities of the entity that most significantly impact the entity s economic performance. FAS 167 requires an ongoing reassessment of whether a company is the primary beneficiary of a variable interest entity. FAS 167 also requires additional disclosures about a company s involvement in variable interest entities and any significant changes in risk exposure due to that involvement. FAS 167 is effective for fiscal years beginning after November 15, 2009. We have not completed our assessment of the impact FAS 167 will have on our financial condition, results of operations or cash flows.

In June 2009, the FASB issued Statement of Financial Accounting Standards No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles a Replacement of FASB Statement No. 162* (FAS 168). This Standard establishes the FASB Accounting Standards Codification (the Codification) as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with U.S. GAAP. The Codification does not change current U.S. GAAP, but is intended to simplify user access to all authoritative U.S. GAAP by providing all the authoritative literature related to a particular topic in one place. The Codification is effective for interim and annual periods ending after September 15, 2009, and as of the effective date, all existing accounting standard documents will be superseded. The Codification is effective for us in the third quarter of 2009, and accordingly, our Quarterly Report on Form 10-Q for the quarter ending September 26, 2009 and all subsequent public filings will reference the Codification as the sole source of authoritative literature.

Note B Redeemable Preferred Stock

On June 23, 2009, Office Depot, Inc. issued 274,596 shares of 10.00% Series A Redeemable Convertible Participating Perpetual Preferred Stock, par value $0.01 per share (Series A Preferred Stock), and 75,404 shares of 10.00% Series B Redeemable Conditional Convertible Participating Perpetual Preferred Stock, par value $0.01 per share (Series B Preferred Stock), to funds advised by BC Partners, Inc., for $350 million. Once approved by shareholders, the initial liquidation value of $1,000 per preferred share and the conversion rate of $5.00 per common share would allow the two series of preferred stock to be initially convertible into 70 million shares of common stock. Until converted or otherwise redeemed, the preferred stock is recorded outside of permanent equity on the Condensed Consolidated Balance Sheets because certain redemption conditions are not solely within the control of Office Depot as further discussed below. The balance is presented inclusive of accrued dividends and net of approximately $25 million of fees, including issuance costs paid for investment banking, legal and accounting fees, and $3.5 million paid to BC Partners, approximately $2.8 million of which was returned to the investing funds as a portion of a transaction funding fee.

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In compliance with the rules of the New York Stock Exchange (NYSE), Office Depot will seek shareholder approval for (i) the conversion at the option of the holders of the Series A Preferred into shares of our common stock in excess of 19.99% of the shares of our common stock outstanding on June 23, 2009 and (ii) the conversion at the option of the holders of the Series B Preferred into shar