
UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark One)

- Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended March 27, 2004

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

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

59-2663954

(I.R.S. Employer Identification No.)

2200 Old Germantown Road; Delray Beach, Florida

(Address of principal executive offices)

33445

(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 No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes No

The registrant had 312,872,071 shares of common stock outstanding as of April 15, 2004.

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 March 27, 2004	As of December 27, 2003
Assets		
Current assets:		
Cash and cash equivalents	\$ 974,287	\$ 790,889
Short-term investments	100,958	100,234
Receivables, net	1,094,310	1,112,417
Merchandise inventories, net	1,182,769	1,336,341
Deferred income taxes	177,980	169,542
Prepaid expenses and other current assets	80,693	67,305
Total current assets	3,610,997	3,576,728
Property and equipment, net	1,256,517	1,244,295
Goodwill	1,002,254	1,004,122
Other assets	340,185	320,097
Total assets	\$6,209,953	\$6,145,242
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$1,200,532	\$1,323,179
Accrued expenses and other current liabilities	819,701	809,073
Income taxes payable	175,307	132,085
Current maturities of long-term debt	13,561	12,916
Total current liabilities	2,209,101	2,277,253
Deferred income taxes and other long-term liabilities	251,941	244,600
Long-term debt, net of current maturities	846,098	829,302
Commitments and contingencies		
Stockholders' equity:		
Common stock — authorized 800,000,000 shares of \$.01 par value; issued 400,592,769 in 2004 and 398,822,742 in 2003	4,006	3,988
Additional paid-in capital	1,199,016	1,175,497
Unamortized value of long-term incentive stock grants	(1,880)	(1,362)
Accumulated other comprehensive income	185,125	214,764
Retained earnings	2,420,301	2,304,737
Treasury stock, at cost — 88,641,700 shares in 2004 and 88,628,803 in 2003	(903,755)	(903,537)
Total stockholders' equity	2,902,813	2,794,087
Total liabilities and stockholders' equity	\$6,209,953	\$6,145,242

The accompanying notes are an integral part of these statements.

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

	13 Weeks Ended	
	March 27, 2004	March 29, 2003
Sales	\$3,605,153	\$3,055,869
Cost of goods sold and occupancy costs	2,469,161	2,096,891
Gross profit	1,135,992	958,978
Store and warehouse operating and selling expenses	790,047	671,164
General and administrative expenses	165,956	125,274
Other operating expenses	4,532	1,235
	960,535	797,673
Operating profit	175,457	161,305
Other income (expense):		
Interest income	3,456	5,350
Interest expense	(17,284)	(11,738)
Miscellaneous income, net	4,650	2,560
Earnings from continuing operations before income taxes and cumulative effect of accounting change	166,279	157,477
Income taxes	50,715	53,542
Earnings from continuing operations before cumulative effect of accounting change	115,564	103,935
Discontinued operations, net	—	1,153
Cumulative effect of accounting change, net	—	(25,892)
Net earnings	\$ 115,564	\$ 79,196
Earnings per share from continuing operations before cumulative effect of accounting change:		
Basic	\$ 0.37	\$ 0.34
Diluted	0.37	0.33
Cumulative effect of accounting change:		
Basic	—	(0.08)
Diluted	—	(0.08)
Net earnings per share:		
Basic	\$ 0.37	\$ 0.26
Diluted	0.37	0.25

The accompanying notes are an integral part of these statements.

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

	13 Weeks Ended	
	March 27, 2004	March 29, 2003
Cash flow from operating activities:		
Net earnings	\$ 115,564	\$ 79,196
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Cumulative effect of accounting change, net	—	25,892
Depreciation and amortization	66,803	53,256
Charges for losses on inventories and receivables	35,823	31,129
Changes in working capital and other	37,093	(93,880)
Net cash provided by operating activities	<u>255,283</u>	<u>95,593</u>
Cash flows from investing activities:		
Capital expenditures	(70,213)	(38,544)
Net deposit on asset group purchase	(15,100)	—
Proceeds from disposition of assets	2,160	36,470
Sale of short-term securities	—	4,653
Net cash (used in) provided by investing activities	<u>(83,153)</u>	<u>2,579</u>
Cash flows from financing activities:		
Proceeds from exercise of stock options and sale of stock under employee stock purchase plans	21,780	2,248
Net payments on long- and short-term borrowings	(2,604)	(2,683)
Net cash provided by (used in) financing activities	<u>19,176</u>	<u>(435)</u>
Effect of exchange rate changes on cash and cash equivalents		
Net increase in cash and cash equivalents	(7,908)	4,038
Net increase in cash and cash equivalents	183,398	101,775
Cash and cash equivalents at beginning of period	790,889	877,088
Cash and cash equivalents at end of period	<u>\$974,287</u>	<u>\$978,863</u>
Supplemental disclosure of other cash flow activities:		
Interest paid	\$ 29,592	\$ 10,835
Income taxes paid	21,977	22,947
Supplemental disclosure of non-cash investing and financing activities:		
Assets acquired under capital leases	\$ 15,288	\$ 13

The accompanying notes are an integral part of these statements.

OFFICE DEPOT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note A – Basis of Presentation

Office Depot, Inc., including consolidated subsidiaries (the “Company”), 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, 2003 has been derived from audited financial statements at that date. The condensed interim financial statements as of March 27, 2004 and for the 13-week periods ending March 27, 2004 (also referred to as “the first quarter of 2004”) and March 29, 2003 (also referred to as “the first quarter of 2003”) are unaudited. However, in our opinion, these financial statements reflect all adjustments (consisting only of normal, recurring items) necessary to provide a fair presentation of our financial position, results of operations and cash flows for the periods presented. Certain prior year amounts have been reclassified to conform to the current year’s presentation.

These interim results are not necessarily indicative of the results that should be expected for the full year. For a better understanding of the Company and its financial statements, we recommend reading these condensed interim financial statements in conjunction with the Company’s audited financial statements for the year ended December 27, 2003, which are included in our 2003 Annual Report on Form 10-K, filed on February 26, 2004.

In January 2003, the Company sold its Australian business and reported the after-tax gain of \$1.2 million as discontinued operations. This gain was subsequently reduced to \$0.2 million during 2003 for resolution of sale-date estimates.

At the start of fiscal year 2003, we adopted Emerging Issues Task Force (“EITF”) Issue No. 02-16, *Accounting by a Reseller for Cash Consideration Received from a Vendor*. The adoption of the accounting change at the beginning of the year resulted in a \$25.9 million after-tax charge, or \$0.08 per share, reflecting the cumulative effect of adoption.

Note B – Accounting for Stock-Based Compensation

The Company accounts for its stock-based compensation plans under Accounting Principles Board (“APB”) Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations. The pro forma information below is based on provisions of Statement of Financial Accounting Standard (“FAS”) No. 123, *Accounting for Stock-Based Compensation*, as amended by FAS 148, *Accounting for Stock-Based Compensation – Transition and Disclosure*.

(In thousands, except per share amounts)	First Quarter	
	2004	2003
Net earnings as reported	\$115,564	\$79,196
Stock based employee compensation cost included in net earnings as reported, net of tax	89	132
Compensation expense under FAS 123, net of tax	(4,706)	(4,891)
Pro forma net earnings	\$110,947	\$74,437
Net earnings per share – Basic		
As reported	\$ 0.37	\$ 0.26
Pro forma	0.36	0.24
Net earnings per share – Diluted		
As reported	\$ 0.37	\$ 0.25
Pro forma	0.35	0.24

Note C – Comprehensive Income

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

(In thousands)	First Quarter	
	2004	2003
Net earnings	\$115,564	\$79,196
Other comprehensive income (loss):		
Foreign currency translation adjustments, net	(28,908)	15,721
Amortization of gain on cash flow hedge	(415)	—
Unrealized losses on available-for-sale securities	(316)	—
Total comprehensive income	\$ 85,924	\$94,917

Note D – Asset Purchase

On March 3, 2004, the Company announced an agreement with Toys “R” Us, Inc. under which the Company will acquire 124 of the former Kids “R” Us stores for \$197 million in cash plus the assumption of lease payments and other obligations. The transaction includes properties owned by Toys “R” Us, Inc. as well as stores with ground or operating leases and is expected to close in phases over the next several months, beginning in May 2004.

The Company plans to convert 50 to 60 of these stores to Office Depot retail stores and intends to sell the remaining properties. On March 23, 2004, the Company reached an agreement with PETCO Animal Supplies, Inc. under which PETCO will acquire 20 locations for approximately \$45 million in cash plus the assumption of lease obligations on leased properties.

Note E – Earnings Per Share (“EPS”)

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

(In thousands, except share amounts)	First Quarter	
	2004	2003
Basic:		
Weighted average number of common shares outstanding	310,261	307,973
Diluted:		
Net earnings	\$ 115,564	\$ 103,935
Weighted average number of common shares outstanding	310,261	307,973
Shares issued upon assumed exercise of dilutive stock options	4,497	3,247
Shares used in computing diluted EPS	314,758	311,220

Options to purchase approximately 12.2 million shares of common stock were not included in our computation of diluted earnings per share for the first quarter of 2004 because their weighted average effect would have been anti-dilutive.

Note F – Segment Information

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

(In thousands)	Sales	
	First Quarter	
	2004	2003
North American Retail Division	\$ 1,604,575	\$ 1,529,790
Business Services Group	1,026,387	1,024,266
International Division	974,777	502,537
Total reportable segments	3,605,739	3,056,593
Eliminations	(586)	(724)
Total	\$ 3,605,153	\$ 3,055,869
	Segment Operating Profit	
	First Quarter	
	2004	2003
North American Retail Division	\$ 112,286	\$ 118,154
Business Services Group	96,821	97,045
International Division	137,104	72,690
Total reportable segments	346,211	287,889
Eliminations	(266)	(75)
Total	\$ 345,945	\$ 287,814

A reconciliation of the measure of segment operating profit to consolidated earnings from continuing operations before income taxes and cumulative effect of accounting change is as follows:

	First Quarter	
	2004	2003
Total segment operating profit	\$ 345,945	\$ 287,814
General and administrative expenses	(165,956)	(125,274)
Interest income	3,456	5,350
Interest expense	(17,284)	(11,738)
Other, net	118	1,325
Earnings from continuing operations before income taxes and cumulative effect of accounting change	<u>\$ 166,279</u>	<u>\$ 157,477</u>

We have been reviewing the composition of general and administrative expenses and assessing the costs and benefits of additional allocations to the operating units. We have not yet concluded this analysis.

	Total Assets		Goodwill	
	March 27, 2004	December 27, 2003	March 27, 2004	December 27, 2003
North American Retail Division	\$1,456,546	\$1,551,734	\$ 1,711	\$ 1,739
Business Services Group	970,450	988,753	229,950	229,950
International Division	2,245,028	2,255,846	770,593	772,433
Total from reportable segments	4,672,024	4,796,333	1,002,254	1,004,122
Other	1,537,929	1,348,909	—	—
Total	<u>\$6,209,953</u>	<u>\$6,145,242</u>	<u>\$1,002,254</u>	<u>\$1,004,122</u>

Note G – Pension Disclosures

The Company assumed two defined benefit pension plans in connection with the acquisition of Guilbert in 2003. Net period pension costs for the first quarter of 2004 for these plans was approximately \$2.7 million and include service costs of \$2.2 million and interest costs of \$2.1 million, offset by expected return on plan assets of \$1.6 million. Approximately \$1.6 million was funded during the first quarter.

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

GENERAL

Office Depot, Inc., together with our subsidiaries, is a global supplier of office products and services. We sell to consumers and businesses of all sizes through our three business segments: North American Retail Division, Business Services Group ("BSG"), and International Division.

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is intended to provide information to assist you in better understanding and evaluating our financial condition and results of operations. We recommend that you read this MD&A in conjunction with our condensed consolidated financial statements included in Item 1 of this Quarterly Report on Form 10-Q, as well as our 2003 Annual Report on Form 10-K.

This MD&A contains significant amounts of forward-looking information. Without limitation, when we use the words "believe," "estimate," "plan," "expect," "intend," "anticipate," "continue," "may," "project," "probably," "should" and similar expressions in this Quarterly Report on Form 10-Q, we are identifying forward-looking statements. Our Cautionary Statements, which you will find immediately following this MD&A and following the MD&A in our 2003 Annual Report on Form 10-K, apply to these forward-looking statements.

RESULTS OF OPERATIONS

Results for the first quarter of 2004 reflect a return to positive comparable sales in our North American Retail Division for the first time in 16 quarters. Based upon our initiatives to date and our planned merchandising strategies, we expect positive comps to continue throughout 2004. The first quarter comparison to last year was also affected by the addition of Guilbert operations from last year's acquisition completed in the second quarter and positive foreign currency effects. Overall, improvements in gross margins reflect the increased contribution from International operations which have higher margins partially offset by growth in lower-margin technology sales in the U.S..

At the start of fiscal year 2003, we adopted Emerging Issues Task Force ("EITF") Issue No. 02-16, *Accounting by a Reseller for Cash Consideration Received from a Vendor*. The adoption of the accounting change at the beginning of the year resulted in a \$25.9 million after-tax charge, or \$0.08 per share, reflecting the cumulative effect of adoption.

Overall

(\$ in millions)	First Quarter			
	2004		2003	
Sales	\$3,605.2	100.0%	\$3,055.9	100.0%
Cost of goods sold and occupancy costs	2,469.2	68.5%	2,096.9	68.6%
Gross profit	1,136.0	31.5%	959.0	31.4%
Store and warehouse operating and selling expenses	790.1	21.9%	671.2	22.0%
Segment operating profit	345.9	9.6%	287.8	9.4%
General and administrative expenses	165.9	4.6%	125.3	4.1%
Other operating expenses, net	4.5	0.1%	1.2	0.0%
Operating profit	\$ 175.5	4.9%	\$ 161.3	5.3%

The table above provides a subtotal for segment operating profit. We use this measure of performance to assess the operations of each business unit; and we believe it is useful to investors because it reflects each segment's direct activity. Our general and administrative expenses primarily consist of personnel and related costs associated with global support functions. Because these functions support all segments of our business, we do not consider these costs in determining our segment profitability. We have been reviewing the composition of these costs and analyzing the costs and benefits of additional allocations to the operating units. We have not yet concluded this analysis. Other companies may charge more or less general and administrative expenses to their segments, and our results therefore may not be comparable to similarly titled measures used by other entities. Our measure of segment operating profit should not be considered as an alternative to operating income or net earnings determined in accordance with accounting principles generally accepted in the United States of America.

North American Retail Division

(\$ in millions)	First Quarter			
	2004		2003	
Sales	\$1,604.6	100.0%	\$1,529.8	100.0%
Cost of goods sold and occupancy costs	1,176.6	73.3%	1,113.5	72.8%
Gross profit	428.0	26.7%	416.3	27.2%
Store and warehouse operating and selling expenses	315.7	19.7%	298.1	19.5%
Segment operating profit	\$ 112.3	7.0%	\$ 118.2	7.7%

Total sales increased 5% and comparable store sales in the 859 store locations in the U.S. and Canada that have been open for more than one year increased 3% in the first quarter of 2004. The increase in comparable sales was primarily attributable to increased sales of technology products, a direct result of various technology merchandising initiatives launched in the fourth quarter of 2003. Comparable sales of core office supplies and ink and toner also increased during the period, but at a lower rate. Additionally, recent initiatives to increase furniture sales resulted in positive comparable sales of furniture, but offsetting declines in other product groups pushed the overall furniture and other category slightly negative. The number of comparable transactions decreased in our retail stores while average transaction size increased.

Gross profit benefited from top line sales growth as compared to the first quarter of 2003. Increases in sales of technology products, which generally have lower margins, adversely affected gross profit as a percentage of sales during the quarter. Gross margin percentages in core office supply categories increased on a year-over-year basis.

Store payroll expenses experienced significant leverage from increased sales. However, these savings were more than offset by planned higher advertising expenses compared to the same period in the prior year as well as costs associated with the planned closure of three stores.

During the first quarter, the Company opened three new retail stores, closed three stores, and relocated three stores, bringing the total stores operated throughout the United States and Canada to 900. The North American Retail Division also sells through non-traditional locations such as military bases and grocery store locations. The number of non-traditional locations totaled 20 for the first quarter of 2004 and 7 for the same period in 2003.

The Company announced plans to acquire and open approximately 50 to 60 locations from Toys “R” Us. This purchase will be completed in phases, beginning in May 2004. Including the locations relating to this acquisition, the Company plans to open a total of 80 to 100 new stores during 2004, with openings to be concentrated in the second half of the year.

Business Services Group

(\$ in millions)	First Quarter			
	2004		2003	
Sales	\$1,026.4	100.0%	\$1,024.2	100.0%
Cost of goods sold and occupancy costs	694.2	67.6%	691.2	67.5%
Gross profit	332.2	32.4%	333.0	32.5%
Store and warehouse operating and selling expenses	235.4	23.0%	236.0	23.0%
Segment operating profit	\$ 96.8	9.4%	\$ 97.0	9.5%

Overall Business Services Group sales for the first quarter of 2004 were essentially flat compared to the prior period. BSG sales in the first quarter of 2004 include a 3% growth in the contract business, driven by growth in the large customer segment, offset by lower catalog sales. Within contract and commercial, domestic e-commerce sales grew 11% for the period. Sales of supplies and furniture increased slightly, while sales of technology decreased.

Both gross profit and total store and warehouse operating and selling expenses were essentially unchanged in the first quarter of 2004 compared to the prior period. Store and warehouse operating and selling expenses in the first quarter of 2004 reflect higher selling expenses offset by warehouse cost efficiencies and transportation optimization efforts.

International Division

(\$ in millions)	First Quarter			
	2004		2003	
Sales	\$974.8	100.0%	\$502.5	100.0%
Cost of goods sold and occupancy costs	598.8	61.4%	292.5	58.2%
Gross profit	376.0	38.6%	210.0	41.8%
Store and warehouse operating and selling expenses	238.9	24.5%	137.3	27.3%
Segment operating profit	\$137.1	14.1%	\$ 72.7	14.5%

Sales in the International Division increased 94% (78% in local currency) for the first quarter of 2004, compared to the same period in the prior year. The increase reflects revenue of \$375.1 million from Guilbert, a contract business we acquired in June 2003, and changes in exchange rates that increased sales reported in U.S. dollars by \$80.8 million. All countries showed revenue growth in local currencies, except Germany, the Netherlands and Japan. European retail operations experienced positive comparable store sales during the first quarter and positive comps are expected to continue during 2004. Comparable contract and catalog sales in Europe were also positive for the quarter.

Gross profit as a percentage of sales decreased in the first quarter of 2004, reflecting a higher mix of lower margin contract sales, partially offset by better buying and increased purchasing discounts following the Company’s Guilbert acquisition. The increase in total store and warehouse operating and selling expenses reflect the addition of Guilbert operations. However, selling and warehouse

expenses as a percent of sales declined compared to the prior year from planned cost reductions and leverage from higher sales volume. Segment operating profit was positively impacted by foreign exchange rates during the first quarter by \$12.8 million, when translated into U.S. dollars.

Corporate and Other

Income and expenses not allocated to our business segments consist of general and administrative expenses, interest income and expense, income taxes and inter-segment transactions.

Other Operating Expenses: First quarter 2004 costs relating to Guilbert integration activities totaled approximately \$3.4 million. Other expenses primarily relate to pre-opening activities.

General and Administrative Expenses: As a percentage of sales, general and administrative (“G&A”) expenses increased in the first quarter of 2004 to 4.6% compared to 4.1% for the same period last year. The increase reflects G&A costs in our acquired Guilbert operations, as well as the impact of translating international general and administrative expenses at weaker U.S. dollar rates, higher employee-related expenses, and the settlement of certain outstanding litigation. As noted in our 2003 Annual Report on Form 10-K, other companies may charge more or less of their general and administrative costs to their segments, and comparisons to their operations could be affected. We have been reviewing the composition of these costs and analyzing the costs and benefits of additional allocations to the operating units. We have not yet concluded this analysis.

Interest Income and Expense: The decrease in interest income during the first quarter of 2004 compared to the same quarter last year reflects a lower domestic interest earned on our cash, coupled with a lower cash balance held in Europe, which earned a higher return in 2003. The increase in interest expense reflects the impact of additional interest relating to our issuance of \$400 million of Notes in August 2003.

Income Taxes: The effective income tax rate has declined to 30.5% this quarter. This decline in the rate is attributable to a shift in the mix of domestic and international income, which have different effective tax rates.

LIQUIDITY AND CAPITAL RESOURCES

During the first quarter of 2004, cash provided by operating activities totaled \$255.3 million compared to \$95.6 million during the same period last year. This change primarily reflects the Guilbert business, acquired in June 2003, and a lower rate of payments on trade and other payables in 2004, as well as the benefit of added cash flow provided by our international business.

Cash used in investing activities was \$83.2 million in the first quarter of 2004 compared to cash provided of \$2.6 million in the same period last year. The increased spending in 2004 is primarily a result of higher capital expenditures and deposits made in connection with our acquisition of certain Kids "R" Us properties. Capital expenditures in the first quarter of 2004 reflect payments to acquire land for our corporate center, the opening of three new office supply stores, and three relocations in North America, as well as continued spending on corporate information technology. Investing activities in 2003 include cash proceeds from the sale of our Australian business.

As mentioned above, the Company has agreed to acquire 124 of the former Kids "R" Us stores for \$197 million in cash plus the assumption of lease payments and other obligations. Of the total properties acquired, the Company plans to convert 50 to 60 of these stores to Office Depot retail stores and intends to sell or sublet the remaining properties. This transaction is expected to close in phases over the next several months, beginning in May 2004. On March 23, 2004, the Company reached an agreement with PETCO Animal Supplies, Inc. under which PETCO will acquire 20 locations for approximately \$45 million in cash plus the assumption of lease obligations on leased properties.

In April 2004, the Company announced an agreement to acquire the business of Elso Iroda Superstore Kft, which has been operating Office Depot retail stores and direct sales businesses in Hungary under license from Office Depot. The Company currently operates three retail stores, a distribution center and Internet sales facility in Hungary and will open a fourth retail store later this year. The business is projected to generate \$25 million (U.S. dollars) in sales during 2004, and will be reported in the International Division.

The purchase price of Guilbert is subject to an upward adjustment of 40 million euro, payable in Office Depot common stock or cash, if Office Depot stock closes above \$20 per share for five consecutive days over an 18-month period following the closing date of the acquisition.

Cash provided by financing activities was \$19.2 million in the first quarter of 2004 compared to a use of \$0.4 million during the same period in 2003. The increase in 2004 is a result of increased exercises of stock options. Payments on capital leases did not change significantly between periods.

At March 27, 2004, we had approximately \$425.7 million of available credit under our revolving credit facility and letters of credit outstanding totaling \$72.8 million. Our current revolving credit agreement matures on April 24, 2005. We are currently in negotiations with lenders to replace, expand, and extend the existing agreement.

CRITICAL ACCOUNTING POLICIES

Our condensed 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 and a description of accounting policies that are considered critical may be found in our 2003 Annual Report on Form 10-K, filed on February 26, 2004, in the Notes to the Consolidated Financial Statements, Note A, and the Critical Accounting Policies section.

CAUTIONARY STATEMENTS for Purposes of the “Safe Harbor” Provisions of the Private Securities Litigation Reform Act of 1995

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

This Quarterly Report on Form 10-Q contains both historical information and other information that you may use to infer future performance. Examples of historical information include our quarterly financial statements and the commentary on past performance contained in our MD&A. While we have specifically identified certain information as being forward-looking in the context of its presentation, we caution you that, with the exception of information that is clearly historical, all the information contained in this Quarterly Report on Form 10-Q should be considered to be “forward-looking statements” as referred to in the Act. Without limiting the generality of the preceding sentence, any time we use the words “estimate,” “plan,” “probably,” “should,” “may,” “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.

Forward-looking information involves risks and uncertainties, including certain matters that we discuss in more detail below and in our 2003 Annual Report on Form 10-K filed with the Securities and Exchange Commission. This information 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 Quarterly Report. In particular, the factors we discuss in our 2003 Annual Report on Form 10-K could affect our actual results and could cause our actual results during the remainder of 2004 and in future years to differ materially from those expressed in any forward-looking statement made by us in this Quarterly Report on Form 10-Q. Those Cautionary Statements contained in our 2003 Annual Report on Form 10-K are incorporated herein by this reference to them.

Item 3 QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risks

Refer to the disclosure in our 2003 Annual Report on Form 10-K. We do not believe that the risk we face related to interest rate changes is materially different than it was at the date of the Annual Report. During the first quarter of 2004, and through the date of this filing, the Company has entered into a series of interest rate swap agreements that effectively convert \$400 million of fixed-rate debt into variable rates.

Foreign Exchange Rate Risks

Refer to the disclosure in our 2003 Annual Report on Form 10-K. The acquisition of Guilbert S.A. in June 2003 has increased our operations in countries with euro and British pound functional currencies, when compared to the first quarter of 2003. Accordingly, a greater percentage of the Company's reported results of operations is subject to changes in foreign currency exchange rates. Similar to our previously existing business in Europe, the Guilbert operations generally are conducted in the relevant local currency and Office Depot's overall foreign currency transaction exposure has not changed materially.

Item 4. CONTROLS AND PROCEDURES

- (a) **Disclosure Controls and Procedures.** The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this report. Based on such evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, the Company's disclosure controls and procedures are effective.
- (b) **Internal Control Over Financial Reporting.** There have not been any changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1 LEGAL PROCEEDINGS

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

Item 6 EXHIBITS AND REPORTS ON FORM 8-K

a) Exhibits

10.1	Purchase and Sale Agreement, by and between Office Depot, Inc. and Toys “R” Us, Inc. and its affiliated companies
31.1	Section 302 Certification of CEO
31.2	Section 302 Certification of CFO
32.1	Section 906 Certifications

b) Reports on Form 8-K

1. Form 8-K filed on March 3, 2004 announcing the acquisition of 124 Kids “R” Us retail store locations from Toys “R” Us, Inc.
2. Form 8-K filed on March 12, 2004 announcing certain executive management changes.
3. Form 8-K filed on April 9, 2004 announcing the acquisition of the Hungarian company, Elso Iroda Superstore Kft, which has been operating Office Depot retail stores and direct sales businesses in Hungary under license from Office Depot.

SIGNATURES

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

OFFICE DEPOT, INC.
(Registrant)

Date: April 22, 2004

By: /s/ Bruce Nelson

Bruce Nelson
Chief Executive Officer

Date: April 22, 2004

By: /s/ Charles E. Brown

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

Date: April 22, 2004

By: /s/ James A. Walker

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

PURCHASE AND SALE AGREEMENT

THIS PURCHASE AND SALE AGREEMENT (this "AGREEMENT") made as of this _____ day of March, 2004, between OFFICE DEPOT, INC., a Delaware corporation, having an address at 2200 Old Germantown Road, Delray Beach, Florida 33445 ("PURCHASER") and TOYS "R" US, INC., a Delaware corporation, and its affiliated companies identified on EXHIBIT A-5 annexed hereto, each having an office at One Geoffrey Way, Wayne, New Jersey 07470 (collectively, "SELLER").

PRELIMINARY STATEMENT

A. Seller is the owner of the subdivided real property identified on EXHIBIT A-1.1 attached hereto and hereby made a part hereof (individually an "OWNED PROPERTY" and collectively, the "OWNED PROPERTIES"), together with the improvements thereon. Purchaser desires to purchase the Owned Properties from Seller.

B. Seller is also the owner of the real property identified on EXHIBIT A-1.2 attached hereto and hereby made a part hereof. Purchaser desires to purchase a portion of the real property identified on EXHIBIT A-1.2, which portion shall be established in accordance with Section 2.4 hereof, conditioned upon Seller successfully subdividing the real property identified on EXHIBIT A-1.2. (Such portions are herein individually called a "SIDE BY SIDE OWNED PROPERTY" and collectively, the "SIDE BY SIDE OWNED PROPERTIES").

C. Seller is the lessee or sublessee of the real property identified on EXHIBIT A-2.1 attached hereto and hereby made a part hereof, together with the improvements thereon (individually a "LEASED PROPERTY" and collectively, the "LEASED PROPERTIES"), pursuant to the leases and ancillary documents set forth on EXHIBIT A-2.1 for each Leased Property (individually an "A-2.1 LEASE" and collectively, the "A-2.1 LEASES"). Purchaser desires to acquire by assignment all of Seller's leasehold estate, right, title and interest in and to the Leased Properties under the A-2.1 Leases.

D. Seller is also the lessee or sublessee of the real property identified on EXHIBIT A-2.2 attached hereto and hereby made a part hereof, together with the improvements thereon, pursuant to the leases and ancillary documents set forth on EXHIBIT A-2.2 (individually, an "A-2.2 LEASE" and collectively, the "A-2.2 LEASES"). Purchaser desires to take an assignment of the A-2.2 Leases with respect to a portion of the real property described on EXHIBIT A-2.2, which portion shall be established in accordance with Section 2.4 hereof, conditioned upon Seller successfully bifurcating the A-2.2 Leases in accordance with Section 2.4 hereof. (Such portions are herein individually called a "SIDE BY SIDE LEASED PROPERTY" and collectively the "SIDE BY SIDE LEASED Properties").

E. Seller is also the lessee or sublessee of the real property identified on EXHIBIT A-3 attached hereto and hereby made a part hereof, together with the improvements thereon (individually a "RENTAL RATE PROPERTY" and collectively, the "RENTAL RATE PROPERTIES"), pursuant to the leases and ancillary documents set forth on EXHIBIT A-3 for each Rental Rate Property (individually an "A-3 LEASE" and collectively, the "A-3 LEASES"). (The A-2.1 Leases, the A-2.2 Leases and the A-3 Leases are sometimes herein individually referred to as a "LEASE" and collectively referred to as the "LEASES".)

NOW, THEREFORE, Seller and Purchaser hereby covenant and agree as follows:

ARTICLE 1. DEFINITIONS

1.1 For purposes of this Agreement, unless the context shall otherwise indicate, the terms set forth below shall be defined as follows:

(a) "ENCUMBRANCES" -shall mean, subject to Section 4.3 hereof, taxes and assessments which are a lien but not yet due and payable (subject to proration in accordance with Section 5.4 hereof); any applicable laws, rules, regulations, statutes, ordinances, orders or other legal requirements affecting the "Properties" (hereinafter defined), including, without limitation, those relating to zoning and land use; liens, mortgages, deeds of trust or other instruments to secure debt and judgments ("MONETARY ENCUMBRANCES"); easements, encumbrances, matters, exceptions and state of facts affecting the Properties, of record or disclosed to Purchaser, or which would be revealed to Purchaser by a current survey or inspection of the Properties or of "Seller's Records" (hereinafter defined) relating thereto; and the terms, covenants, restrictions and conditions set forth in the Leases.

(b) "PROPERTIES" - shall mean collectively the Owned Properties, the Side by Side Owned Properties, the Leased Properties, the Side by Side Leased Properties and the Rental Rate Properties. "SIDE BY SIDE PROPERTY" shall mean, individually and collectively, the Side by Side Owned Properties and the Side By Side Leased Properties. The term "PROPERTY" shall mean individually, each of the Owned Properties, Side by Side Owned Properties, Leased Properties, Side by Side Leased Properties and Rental Rate Properties.

(c) "CLOSING" - shall mean the date provided in Section 5.1 or such other date as the parties may mutually designate for delivery of the deeds to the Owned Properties (and any Side By Side Owned Properties which become subdivided), Pre-Paid Leases (or under the circumstances described in Section 2.3(c), a "Building Lease", hereinafter defined) for the Side by Side Owned Properties, and delivery of the "Assignment and Assumption Agreement"

(hereinafter defined) for the Leased Properties and the Rental Rate Properties (and any Side By Side Leased Properties, the leases for which have been bifurcated), and Pre-Paid Subleases for the Side by Side Leased Properties and the payment of the "Consideration" (hereinafter defined).

(d) "GOVERNING AGREEMENTS" - shall mean the Encumbrances and such other documents, instruments and agreements contained in Seller's Records, or delivered to Purchaser in accordance with the terms of this Agreement.

(e) "MAXIMUM EXPENDITURE" - With respect to any Owned Property Leased Property, Side by Side Owned Property or Side by Side Leased Property which is not subject to the rights of a third party to acquire Seller's interest therein (a "RECAPTURE RIGHT"), "MAXIMUM EXPENDITURE" shall mean the sum of Two Million One Hundred Fifty-Three Thousand Three Hundred Seventy Dollars (\$2,153,370.00). With respect to any Owned Property, Leased Property, Side by Side Owned Property or Side by Side Leased Property which is subject to a Recapture Right which requires payment by a third party to Seller upon the exercise of such Recapture Right ("RECAPTURE PAYMENT") which exceeds the sum of Two Million One Hundred Fifty-Three Thousand Three Hundred Seventy Dollars (\$2,153,370.00), "MAXIMUM EXPENDITURE" shall mean (x) Two Million One Hundred Fifty-Three Thousand Three Hundred Seventy Dollars (\$2,153,370.00), less (y) the positive difference between the Recapture Payment less Two Million One Hundred Fifty-Three Thousand Three Hundred Seventy Dollars (\$2,153,370.00). If the resulting difference is a negative amount, then the Maximum Expenditure as to that Property shall be zero. With respect to any Owned Property, Leased Property, Side by Side Owned Property or Side by Side Leased Property which is subject to a Recapture Right which requires a Recapture Payment less than Two Million One Hundred Fifty-Three Thousand Three Hundred Seventy Dollars (\$2,153,370.00), "MAXIMUM EXPENDITURE" shall mean the sum of Two Million One Hundred Fifty-Three Thousand Three Hundred Seventy Dollars (\$2,153,370.00). With respect to any Rental Rate Property, "MAXIMUM EXPENDITURE" shall mean fifty percent (50%) of the positive difference between the net current value of the rental payable by Purchaser to Seller for the remainder of the currently existing term of the applicable Lease, less the net current value of the rental payable by Seller as lessee or sublessee for the remainder of the currently existing term of the applicable Lease. "NET CURRENT VALUE" shall be determined by discounting at a discount rate equal to eight percent (8%) per annum.

(f) "EXPENDITURE OBLIGATIONS" shall mean only those amounts expended by Seller in the performance of its obligations with respect to a Property under Section 4.1(b) (other than for discharge of Monetary Encumbrances), Section 4.2(b) and obtaining the documents required to be delivered at Closing pursuant to paragraphs (j), (k), (l), (m), (n), (o) and (p) of Section 5.2 of this Agreement. In addition, with respect to Rental Rate Properties only, Expenditure Obligations for a Property shall also include those amounts expended by Seller in performance of its obligations under Section 2.3(a) of this Agreement.

ARTICLE 2. PURCHASE AND SALE.

2.1 Seller agrees to sell and convey the Owned Properties and the Side by Side Owned Properties (or, in certain events more fully set forth hereinafter, lease the Side by Side Owned Properties), to convey by assignment all of Seller's leasehold (or subleasehold) estate, right, title and interest in and to the Leased Properties and the Side by Side Leased Properties (or, in certain events more fully set forth hereinafter, sublease the Side by Side Leased Properties) and to assign and convey Seller's leasehold estate, right, title and interest in and to the Rental Rate Properties to Purchaser (or, with respect to the Virginia Beach, Virginia Rental Rate Property, convey a subleasehold estate pursuant to a Building Lease with Purchaser), and Purchaser agrees to purchase the Owned Properties (or lease as to the Side by Side Owned Properties), to assume (or sublease as to the Side by Side Leased Properties) Seller's leasehold (or subleasehold) estate, right, title, interest and obligations under the A-2.1 Leases and A-2.2 Leases, and to assume Seller's leasehold (or subleasehold) estate, right, title, interest and obligations under the A-3 Leases (except with respect to the Virginia Beach, Virginia Rental Rate Property, as set forth above) for the Consideration on the terms and conditions hereinafter set forth. Said sales and conveyances, leases, subleases and assignments shall include all of the Seller's right, title and interest in and to all improvements (including, without limiting the generality of the foregoing, leasehold improvements) fixtures and equipment of every kind and description attached to, erected upon, situated in or upon, forming a part of, or appurtenant to each of the Owned Properties, the Side by Side Owned Properties, the Leased Properties, the Side by Side Leased Properties and the Rental Rate Properties.

2.2 The aggregate consideration to be paid by Purchaser to Seller at Closing for the Owned Properties and the Leased Properties (the "CONSIDERATION") shall be One Hundred Ninety-Seven Million Three Hundred Thousand Dollars (\$197,300,000.00), payable as follows:

(a) Within three (3) business days after Purchaser receives this Agreement fully executed by Seller and Purchaser, Purchaser shall deposit with the title insurance company designated by Purchaser (the "TITLE COMPANY") the sum of Nineteen Million Seven Hundred Thirty Thousand Dollars (\$19,730,000.00) (as reduced by application to the Consideration at Closing in accordance with Section 5.1 hereof, the "DEPOSIT"), to be held in escrow by the Title Company pursuant to conditions reasonably established and agreed upon by the parties and disbursed in accordance with the terms of this Agreement. The Deposit shall be applied to the Consideration at Closing unless required to be otherwise delivered to Purchaser or Seller pursuant to the terms of this Agreement. Except as otherwise provided in this Agreement, the Deposit, together with interest accrued thereon, shall be non-refundable, and, unless applied to the Consideration or required to be delivered to Purchaser pursuant to the terms of this Agreement, shall become the sole and exclusive property of Seller. The Deposit shall be held in an interest bearing account of a federally insured

banking institution. All interest earned on the Deposit shall either (i) at the time of Closing, be delivered to Seller and credited toward the Consideration or (ii) paid to Purchaser if this Agreement terminates and, in accordance with the terms of this Agreement, the Deposit is refunded to Purchaser, or (iii) paid to Seller if this Agreement terminates and, in accordance with the terms of this Agreement, the Deposit is paid to Seller.

(b) The balance of the Consideration shall be paid by Purchaser to Seller at Closing by wire transfer of immediately available funds.

2.3 (a) If this Agreement is terminated with respect to any Owned Property, Side by Side Owned Property, Leased Property or Side by Side Leased Property, the Consideration shall be reduced by the sum of Two Million One Hundred Fifty-Three Thousand Three Hundred Seventy Dollars (\$2,153,370.00) for each such Property.

(b) If this Agreement is terminated with respect to less than five (5) of the Rental Rate Properties, there shall be no adjustment in the Consideration. If this Agreement is terminated with respect to five (5) or more, but less than eleven (11) of the Rental Rate Properties, the Consideration shall be reduced by One Million Eight Hundred Thirty-Three Thousand Three Hundred Thirty-Three Dollars (\$1,883,333.00). If this Agreement is terminated with respect to eleven (11) or more, but less than seventeen (17) of the Rental Rate Properties, the Consideration shall be reduced by an additional One Million Eight Hundred Thirty-Three Thousand Three Hundred Thirty-Three Dollars (\$1,883,333.00). If this Agreement is terminated with respect to seventeen (17) or more of the Rental Rate Properties, the Consideration shall be reduced by an additional One Million Eight Hundred Thirty-Three Thousand Three Hundred Thirty-Three Dollars (\$1,883,333.00). Notwithstanding the foregoing, if prior to the date of final Closing under this Agreement (i) Purchaser obtains, or Seller obtains for the benefit of Purchaser, a restrictive covenant, for a period of not less than ten (10) years, against use of a Rental Rate Property with respect to which this Agreement has been terminated for an Office Supply Use (as defined in Section 4.3(a) hereof), such Rental Rate Property shall not be included for purposes of determining any reduction in the Consideration in accordance with this Section 2.3(b), or (ii) Purchaser obtains, or Seller obtains for the benefit of Purchaser, a right of first refusal, reasonably satisfactory to Purchaser, to enter into a direct lease between Purchaser and the owner or underlying lessee of such Rental Rate Property with respect to which this Agreement has been terminated for the first occupancy of such Rental Rate Property after termination of the applicable A-3 Lease, such Rental Rate Property shall not be included for purposes of determining any reduction in the Consideration in accordance with this Section 2.3(b), or (iii) if Seller, at or prior to Closing, and prior to conveyance of Seller's right, title and interest as lessee or sublessee under such A-3 Lease to a third party, executes and records, a restrictive covenant, for the then remaining term of the applicable A-3 Lease, as same may be extended (but in no event exceeding ten (10) years), against use of a Rental Rate Property with respect to which this Agreement has been terminated for an Office Supply Use (but with respect to which Seller

remains lessee), such Rental Rate Property shall not be included for purposes of determining any reduction in the Consideration in accordance with this Section 2.3(b), or (iv) Purchaser, prior to the date of final Closing under this Agreement, enters into an agreement for use or occupancy of a Rental Rate Property with respect to which this Agreement has been terminated, such Rental Rate Property shall not be included for purposes of determining any reduction in the Consideration in accordance with this Section 2.3(b). If this Agreement is terminated with respect to a Rental Rate Property Seller agrees to use good faith efforts to obtain, prior to date of the final Closing under this Agreement, either the restrictive covenant described in clause (i) above, or the right of first refusal described in clause (ii) above.

(c) If Seller is prohibited by any state, county, municipal or other governmental statute, ordinance, rule or regulation from conveying leasehold title to the building existing thereon and at least the land thereunder with respect to any Side by Side Owned Property which has not been legally subdivided prior to Closing, the Consideration shall be reduced by the sum of Two Million One Hundred Fifty-Three Thousand Three Hundred Seventy Dollars (\$2,153,370.00) for each such Side by Side Owned Property, and Seller and Purchaser shall, at Closing, execute and deliver a "Building Lease" in the form annexed hereto as EXHIBIT G. The fixed rent payable under the Building Lease for any Side by Side Owned Property shall be the amount of Two Hundred Fifteen Thousand Three Hundred Seventy Dollars (\$215,370.00) per annum which shall be increased by ten percent (10%) every ten (10) years. The Building Lease may be terminated by the tenant thereunder as of the date of the next increase in fixed rent by giving at least one hundred eighty (180) days prior notice of termination. If, subsequent to Closing, the Side by Side Owned Property is subdivided pursuant to the provisions of the Building Lease then such Side by Side Owned Property shall be conveyed to Purchaser in accordance with the terms of this Agreement for the Purchase Price of Two Million One Hundred Fifty Three Thousand Three Hundred Seventy Dollars (\$2,153,370.00) less the total of fixed rent previously paid under the Building Lease.

2.4 Within fifteen (15) days after the Execution Date, Purchaser and Seller shall mutually and reasonably agree upon subdivision lines establishing the Side by Side Properties (the "LOT LINES"), which shall, in each instance, include the building constructed on such Side by Side Property, the loading dock and appurtenant facilities thereto and land sufficient for the operation of Purchaser's retail business thereon and the continued operation of Seller's retail business on the remaining portion of such property owned by Seller. If, in Seller's reasonable judgment, the platting or subdivision required to legally separate any Side by Side Owned Property from adjacent property owned by Seller is not obtainable in a timely manner prior to Closing except as provided to the contrary in Section 2.3(c) above, Seller and Purchaser shall, at Closing, enter into a "Pre-Paid Lease" in the form annexed hereto as EXHIBIT D so as to convey to Purchaser leasehold title to any Side by Side Owned Properties which are not

legally subdivided from adjacent property owned by Seller. If any Lease for a Side by Side Leased Property cannot be reasonably bifurcated in a manner reasonably acceptable to Seller and Purchaser in a timely manner prior to Closing, except as provided to the contrary in Section 2.3(c) above, Seller and Purchaser shall, at Closing, enter into a "Pre-Paid Sublease" in the form annexed hereto as EXHIBIT E, so as to convey to Purchaser subleasehold title to any Side by Side Leased Properties the Leases for which are not capable of being bifurcated in a manner reasonably acceptable to Seller and Purchaser.

2.5 If Seller is unable to obtain a recognition agreement as required by Section 5.2(p) with respect to any Side by Side Leased Property (the Lease for which has not yet been bifurcated and therefore is not being assigned to Purchaser), Purchaser may elect to terminate this Agreement with respect to the subject Side by Side Leased Property, or proceed to Closing with respect to the subject Side by Side Leased Property without the benefit of a recognition agreement, in which event a portion of the Consideration in the amount of Two Million One Hundred Fifty-Three Thousand Seven Hundred Dollars (\$2,153,700.00) for each such Side by Side Leased Property shall be paid to Seller, commencing on the date of Closing for such Side By Side Leased Property, in equal monthly installments over the then current term of the applicable A-2.2 Lease, which obligation shall survive Closing.

ARTICLE 3. REPRESENTATIONS.

3.1 Seller represents, warrants and covenants to Purchaser that the following statements are now, and will, in all material respects (except as modified by the performance of Seller's obligations under this Agreement) on the date of Closing be, true and accurate:

(a) Each Seller is a corporation or limited liability company, as indicated, organized and existing under the laws of the State set forth on EXHIBIT A-5 annexed hereto and, collectively, hold title to the entire leasehold and fee estates being conveyed hereunder. Each Seller has the full capacity, right, power and authority to execute, deliver and perform this Agreement and all documents to be executed by such Seller pursuant hereto, and all required actions and approvals therefor have been, or prior to the date of Closing will be, duly taken and obtained. The individuals signing this Agreement and all other documents executed or to be executed pursuant hereto on behalf of Seller are and shall be duly authorized to sign the same on Seller's behalf and to bind Seller thereto. The provisions hereof shall survive Closing.

(b) This Agreement and all documents to be executed pursuant hereto by Seller are and shall be binding upon and enforceable against Seller in accordance with their respective terms. The provisions hereof shall survive Closing.

(c) Seller has not (i) made a general assignment for the benefit of creditors, (ii) filed any involuntary petition in bankruptcy or suffered the filing of any involuntary petition by Seller's creditors, (iii) suffered the appointment of a receiver to take possession of all or substantially all of Seller's assets, (iv) suffered the attachment or other judicial seizure of all, or substantially all, of Seller's assets, (v) admitted in writing its inability to pay its debts as they come due, or (vi) made an offer of settlement, extension or compromise to its creditors generally, and has no intention to do so in the foreseeable future.

(d) With the exception of this Agreement, and any other rights granted under the Governing Agreements, there is no outstanding option or right to purchase any of the Properties, or any part thereof.

(e) Seller has not received any notices of violations of law or municipal ordinances, laws governing "Hazardous Substances" (as defined in Section 14.1), orders or requirements noted in or issued by any governmental department having authority with respect to the Properties, other than those contained in Seller's Records, if any, or of which Seller has otherwise notified Purchaser in writing not less than fifteen (15) days prior to the "Environmental Investigation Deadline" (as hereinafter defined).

(f) Until the Closing, Seller agrees to maintain the Properties and all mechanical equipment used in the operation of the Properties so that the Properties shall be in the same condition at the Closing as they were on the date of execution and delivery of this Agreement by Purchaser and Seller (the "EXECUTION DATE"), except for normal use, wear and tear, the effects of fires or other casualty and the acts of governmental authority.

(g) Seller has not received notice of any takings or condemnations, actions, suits or proceedings pending or threatened against or affecting Seller or the Properties, at law or in equity, or before any federal, state or municipal governmental or quasi-governmental department, commission, board, bureau, body, authority, official, agency or instrumentality which, if determined adversely to Seller, would materially adversely affect the Properties or the operation thereof.

(h) As of the Execution Date, Seller has made and/or shall make available originals or true copies of all leases, subleases, title documents, surveys, environmental reports and other documents in Seller's possession or control relating to the Properties ("SELLER'S RECORDS"). The provisions hereof shall survive Closing.

(i) Seller has not received notice of any application for any zoning change or pending zoning ordinance amendment which would materially adversely affect any of the Properties, except as contained in Seller's Records.

(j) To the best of Seller's knowledge, the Properties and the present use and condition thereof do not violate any applicable deed restrictions or other covenants, restrictions or agreements, site plan approvals, zoning regulations or subdivision regulations applicable to the Properties, as modified by any duly issued variances.

(k) Intentionally Omitted.

(l) Seller has no knowledge of any material physical defect with respect to the buildings located on the Properties, except as set forth on Schedule 1 annexed hereto.

(m) Seller has no knowledge of any assessments that are liens against the Properties which are not shown in the official records of the taxing authorities of the jurisdiction in which the Properties are located, except as set forth on Schedule 2 annexed hereto; and Seller has not been notified of any possible future improvements that might create an assessment against any part of the Properties, except as set forth on Schedule 2 annexed hereto.

(n) To the best of Seller's knowledge, no part of the Properties have been used by Seller for storage or disposal (whether pursuant to law or otherwise) of any Hazardous Substances and Seller has no knowledge that any part of the Properties have been contaminated by Hazardous Substances, except as disclosed by Seller's Records.

(o) Neither the execution and delivery of this Agreement, nor the consummation of the transactions contemplated herein, will violate any provision of the certificate of incorporation or by-laws of Seller or any law, rule, regulation, writ, judgment, injunction, decree, determination, award or other order of any court, government, or governmental agency or instrumentality, domestic or foreign, or conflict with or result in any breach of any of the terms of or the creation or imposition of any mortgage, deed of trust, pledge, lien, security interest or other charge or encumbrance of any nature pursuant to the terms of any contract or agreement to which Seller is a party or by which Seller or any of the assets of Seller is bound.

(p) Except as disclosed by the Governing Agreements, the Properties are free of any right of possession or claim of right of possession of any party other than Seller. Seller will not further sell, encumber, convey, assign, pledge, lease or contract to sell, convey, assign, pledge, encumber or lease all or any part of the Properties, nor restrict the use of all or any part of the Properties, nor take or cause or allow to be taken any action in conflict with this Agreement at any time between the Execution Date and (i) Closing, or (ii) the earlier termination of this Agreement pursuant to its terms.

The foregoing representations and warranties, whether stated to be to Seller's knowledge, to the best of Seller's knowledge or otherwise, are limited to the actual current knowledge, as of the Execution Date, without duty of

investigation or inquiry, of (x) David Picot, - Seller's Vice President of Real Estate, Design and Construction, (y) Chris Kay -Seller's Executive Vice President - Operations, (z) Michael Tumolo -Seller's Vice President - Real Estate Counsel, (xx) Craig McLaughlin -Seller's Director of Asset Management, and (yy) Dan Abel and Bill Palkewick - each a Director of Real Estate for Seller, without imputation of knowledge of matters not within the actual current knowledge of such person.

3.2 Purchaser acknowledges that, except as expressly set forth in Section 3.1, Seller has not made and does not make any representations or warranties, expressed or implied, concerning the Properties which have induced Purchaser to execute this Agreement, including, without limitation, as to the physical condition, income, rents, leases, expenses, operations, value of the Properties, adequacy or fitness for use or any other matter or thing affecting or related to the Properties or this transaction that might be pertinent in considering the acquisition of the Properties, or Seller's estate, right, title and interest therein. Seller shall not be liable or bound by any express or implied warranties, guaranties, promises, statements, representations or information pertaining to the Properties, made or furnished by any real estate broker, agent, employee, servant, officer, director, partner, shareholder or other person representing or purporting to represent Seller, unless such warranties, guaranties, promises, statements, representations or information are set forth in this Agreement.

3.3 Purchaser represents to Seller that the following statements are now, and will on the date of Closing be, true and accurate:

(a) Purchaser is a corporation organized and existing under the laws of the State of Delaware and has the full capacity, right, power and authority to execute, deliver and perform this Agreement and all documents to be executed by Purchaser pursuant hereto, and all required actions and approvals therefor have been, or prior to the date of Closing will be, duly taken and obtained. The individuals signing this Agreement and all other documents executed or to be executed pursuant hereto on behalf of Purchaser are and shall be duly authorized to sign the same on Purchaser's behalf and to bind Purchaser thereto.

(b) This Agreement and all documents to be executed pursuant hereto by Purchaser are and shall be binding upon and enforceable against Purchaser in accordance with their respective terms.

(c) The execution and performance of this Agreement by Purchaser will not violate its certificate of incorporation or governing documents, or any other agreement to which Purchaser is a party.

(d) Purchaser has not (i) made a general assignment for the benefit of creditors, (ii) filed any involuntary petition in bankruptcy or suffered the filing of any involuntary petition by Purchaser's creditors, (iii) suffered the appointment of a receiver to take possession of all or

substantially all of Purchaser's assets, (iv) suffered the attachment or other judicial seizure of all, or substantially all, of Purchaser's assets, (v) admitted in writing its inability to pay its debts as they come due, or (vi) made an offer of settlement, extension or compromise to its creditors generally, and has no intention to do so in the foreseeable future.

ARTICLE 4. "AS IS" PURCHASE.

4.1 (a) Purchaser shall have the right, until April 15, 2004 (the "TITLE REVIEW PERIOD"), to (i) examine title to, and surveys of, each of the Properties and to (ii) investigate other issues for the purpose of discovering matters which in Purchaser's reasonable opinion, would materially interfere with the operation of the Property for a retail business such as, but not limited to those relating to parking and/or access (individually an "OTHER MATTER" and collectively, "OTHER MATTERS").

(b) If Purchaser determines during the Title Review Period that title with respect to a particular Property is not reasonably satisfactory to Purchaser or that Other Matters exist, Purchaser shall give Seller written notice to that effect, together with, as to a title objection, a copy of the document or instrument to which Purchaser objects, prior to the expiration of the Title Review Period. If such notice of objection is not delivered prior to expiration of the Title Review Period, title and Other Matters relating to the particular Properties for which notice of objection is not given shall be deemed approved by Purchaser. Seller shall, at or prior to Closing, pay and discharge of record any mortgages or deeds of trust encumbering the Properties and cure any other Monetary Encumbrances (such other Monetary Encumbrances are hereinafter called "OTHER MONETARY ENCUMBRANCES"), and use "reasonable efforts" to cure or remove at or prior to Closing all other title matters to which Purchaser has objected during the Title Review Period. A title objection shall be deemed "cured" if the Title Company is willing to (i) omit (without further exception or exclusion from coverage, and without additional cost to Purchaser) the objectionable lien, covenant, restriction or encumbrance, or (ii) affirmatively insure on terms reasonably acceptable to Purchaser against collection of a Monetary Encumbrance out of the subject Property, or (iii) affirmatively insure on terms reasonably acceptable to Purchaser against enforcement of the objectionable covenant, restriction or encumbrance against Purchaser or the subject Property. If Seller is unable to cure an Other Monetary Encumbrance then Seller shall be required to pay and discharge same of record. Purchaser and Seller agree that affirmative insurance against enforcement of the terms of a Lease shall not be acceptable to Purchaser. Seller may, at Closing, authorize the Title Company to use a portion of the Consideration to pay Monetary Encumbrances in which event the existence of any such Monetary Encumbrances shall not be deemed objections to title. If Seller is unable, at or prior to Closing, to cure any title objections or Other Matter, Seller is required by the terms of this Agreement to use reasonable efforts to cure, Purchaser may accept title to and may accept Other Matters affecting, the applicable Property as it is and proceed to Closing on the applicable Property without reduction of the Consideration, or terminate this Agreement with respect to the applicable Property and there shall be no further obligations hereunder

with respect to said Property. If Seller does not, at or prior to Closing, (i) satisfy any mortgages or deeds of trust that it is required to satisfy, or (ii) cure or satisfy any Other Monetary Encumbrances that it is required to satisfy, then Purchaser may at Closing satisfy same and deduct the cost thereof from the Consideration. Notwithstanding anything to the contrary, Seller has no obligation to satisfy any mortgages or liens which have not been created by or have not been imposed or filed against Seller. Seller shall also use "reasonable efforts" to correct and cure any Other Matter. Notwithstanding anything to the contrary contained in this Agreement, although certain documents are listed in the Exhibits attached to this Agreement, Purchaser shall not be deemed to have waived its right to object to any matter of title or Other Matters with respect to such documents.

4.2 (a) Seller shall, after the Execution Date, through the date of Closing, make Seller's Records available to Purchaser, at reasonable times, at Seller's offices, on reasonable advance notice from Purchaser to Seller. Purchaser shall have the right to obtain and examine the missing documentation set forth on EXHIBIT F annexed hereto and made a part hereof which has not been disclosed by Purchaser's current title search (the "OMITTED INFORMATION"), and any additional Omitted Information disclosed by Purchaser's examination of title, or by any Omitted Information obtained by Purchaser, or by Purchaser's continuing review of Seller's Records.

(b) If Purchaser determines that the Omitted Information with respect to a particular Property is reasonably unsatisfactory to Purchaser, Purchaser may, within fifteen (15) days after the later of the Execution Date, or the date on which an item of Omitted Information is provided to or obtained by Purchaser, but in no event later than the date of Closing, give Seller written notice to that effect. Purchaser is deemed to have objected to the Omitted Information set forth on EXHIBIT F. If such notice of objection is not delivered prior to the date specified above, the Omitted Information shall be deemed approved by Purchaser. Seller shall use "reasonable efforts" to correct, cure or remove at or prior to Closing any conditions or circumstances disclosed by Omitted Information of which Purchaser has timely given notice to Seller (which cure may include, among other things, the delivery of an estoppel certificate, reasonably acceptable to Purchaser, or other document or instrument at Closing), or (y) agreeing to credit the Consideration at Closing by an amount necessary to cure, correct or remove the specified condition(s). If Seller is unable, at or prior to Closing, to correct, cure or remove any condition or circumstance disclosed by the Omitted Information which is not reasonably satisfactory to Purchaser, Purchaser may proceed to Closing on the applicable Property without reduction of the Consideration, or terminate this Agreement with respect to the applicable Property and there shall be no further obligations hereunder with respect to said Property.

4.3 (a) A matter of title (including, without limitation, matters disclosed by a survey), or an item of Omitted Information will be reasonably unsatisfactory if, and only of, the examination of the Omitted Information or title matter, as applicable, discloses: (i) any matters which would render title unmarketable, (ii) any matters (including, without limitation, exclusives and/or use restrictions) which would materially interfere with Purchaser's use or enjoyment of the particular Property for retail purposes or as an "Office Supply Use" (as hereinafter defined) or the primary use of a "Permitted Designee" (hereinafter defined) designated prior to the date which is ten (10) days after the Execution Date to acquire Purchaser's interest in the subject Property under this Agreement, or (iii) any Omitted Information the nature of which indicates same could materially interfere with Purchaser's use or enjoyment of the particular Property for retail purposes or as an Office Supply Use or the primary use of the Permitted Designee designated prior to the date which is ten (10) days after the Execution Date to acquire Purchaser's interest in the subject Property under this Agreement, (iv) any Monetary Encumbrances which Seller is not required to satisfy, the foreclosure of which, or any underlying leases, the termination of which, would extinguish Purchaser's rights to possession, or (v) any discrepancies between the legal descriptions of any of the Properties annexed hereto and Purchaser's surveys of the Properties and site plans for such Properties. The term "OFFICE SUPPLY USE" as used herein shall mean an office supply superstore (which includes, without limitation, the sale of office supplies; office equipment/technology; office furniture; computer hardware and software; cellular telephones; and photocopy, facsimile, printing, shipping and related services).

(b) Except as otherwise expressly required by this Agreement, in no event shall Seller be required to bring any action or institute any proceeding, or to otherwise incur any costs or expenses in order to attempt to eliminate any matters of title or to otherwise cause title in the Properties to be in accordance with the terms of this Agreement on the date of Closing, or to obtain any Omitted Information, or to cure, correct or remove any condition or circumstance not reasonably acceptable to Purchaser disclosed by any Omitted Information.

(c) Seller agrees, at or prior to Closing, to use good faith to satisfy the conditions precedent to Closing on Seller's part to be performed, including, without limitation, obtaining the documents required to be delivered to Purchaser at Closing.

4.4 For purposes of this Agreement, "reasonable efforts" shall include, without limitation, (i) the payment of money (or offer of payment) and (ii) a requirement that, to the extent Seller has a defensible claim and will not be subject to any sanctions for improper use of the courts, Seller commence and diligently prosecute judicial proceedings (not including appeals); for the purpose of obtaining, in all such instances, delivery of the documents and instruments included within the Expenditure Obligations and the expenditure of money to cure title objections and/or Other Matters. For purposes of this Agreement, "reasonable efforts" shall require the expenditure of up to (but not exceeding), in the aggregate for all Expenditure Obligations as to a Property, the Maximum Expenditure for the subject Property. If, after using "reasonable efforts" to satisfy Seller's obligations under this Agreement with respect to a

Property, the conditions precedent to Purchaser's obligation to proceed to Closing with respect to such Property have not been satisfied or the title objection or Other Matter not cured, Seller may give notice thereof to Purchaser. Within ten (10) business days after receipt of such notice from Seller, Purchaser may (i) advise Seller that Purchaser will proceed to Closing on the applicable Property on the Closing date without reduction of the Consideration, (ii) terminate this Agreement with respect to the applicable Property in which event there shall be no further obligations hereunder with respect to said Property, or (iii) advise Seller that it disputes Seller's contention that it has exercised reasonable efforts. If Purchaser disputes Seller's contention that it has exercised reasonable efforts then the parties will use good faith efforts to resolve said dispute. Seller and Purchaser agree to coordinate their efforts in negotiating with landlords and other third parties having an interest in the subject Properties for the purpose of obtaining the satisfaction of the conditions precedent with respect to Closing. Seller and Purchaser agree that neither party, nor their respective representatives, shall undertake any substantive discussions or negotiations with landlords or other third-parties having an interest in the subject Properties for the purpose of obtaining satisfaction of the conditions precedent to Closing without the participation or prior consent of the other. Each party will advise the other from time to time of the names and contact information for their respective representatives who are authorized to participate in such discussions and negotiations.

4.5 Purchaser and Purchaser's employees, agents, representatives and contractors, shall have the right to enter upon the Properties for purposes of making such surveys, engineering studies, feasibility studies, environmental assessments, general inspections and other customary and reasonable studies, inspections and tests as Purchaser deems necessary, provided all entry shall be at the sole risk and expense of Purchaser and its employees, agents, representatives and contractors, and Purchaser (i) shall defend indemnify and hold Seller harmless from and against any and all claims, actions, losses, costs, damages, expenses (including reasonable attorneys' fees) resulting directly or indirectly from or arising out of Purchaser's entry upon the Properties, the conduct of any tests, studies or other investigations thereon, and/or the acts or omissions of Purchaser, its agents, contractors or employees; provided however, such indemnification shall not serve to relieve Seller of any liability which Seller might otherwise have, by law, arising out of Seller's negligent acts or omissions, (ii) repairs any damage to the Properties resulting from the performance of such tests and investigations; and (iii) procures and continues in force from and after the date of entry upon the Properties or any Property and continuing throughout the term of this license, comprehensive general liability insurance having a combined single limit of liability of Two Million Dollars (\$2,000,000.00) for bodily injury, personal injury and property damage, arising out of any one occurrence. Such insurance policy shall be issued

in the names and for the benefit of Seller and Purchaser, by an insurance company licensed to do business in the State in which the subject Property is located. Purchaser shall deliver to Seller certificates of insurance evidencing such insurance prior to the date Purchaser enters a Property. Notwithstanding the foregoing, provided Purchaser has a net worth of at least One Hundred Million Dollars (\$100,000,000.00), Purchaser may "self insure" the insurance coverages required by this Section 4.5. Upon request, Purchaser shall deliver to Seller a statement of Purchaser's net worth in its last fiscal year as certified by an independent certified public accountant and computed in accordance with generally accepted accounting principles consistently applied. For so long as Purchaser is a publicly traded company, Purchaser's most recent annual report shall be deemed sufficient evidence of Purchaser's net worth. The minimum limits of the insurance coverage to be maintained by Purchaser hereunder shall not limit Purchaser's liability. The term of this license shall commence on the date of receipt by Seller of the insurance certificate required hereinabove, and shall terminate with respect to each Property upon termination of this Agreement with respect to such Property by either party pursuant to any provisions hereof. The indemnification provisions of this Section 4.5 shall survive Closing and/or the earlier termination of this Agreement. Purchaser shall deliver to Seller a copy of any and all tests, studies and reports prepared by or for Purchaser which relate to the physical aspects of the Properties.

4.6 (a) Purchaser may, prior to March 31, 2004 (which date shall be extended to April 15, 2004 with respect to the Properties identified on SCHEDULE 3 annexed hereto), deliver notice to Seller (which notice shall include a copy of any report or study obtained by Purchaser, and, not later than ten (10) days thereafter, a bona fide fixed price bid for correction of the condition from a qualified contractor) ("DEFECT NOTICE") of (i) any heating, ventilating or air conditioning system located on a Property which is not in good working order, (ii) any roof on a building constructed on any Property which is in a state of substantial disrepair, (iii) any asbestos containing materials within the building constructed on any Property which will require removal or remediation in connection with Purchaser's intended alterations to such Property, or (iv) any structural defects of any building constructed on a Property. Except to the extent correction of the condition is the obligation of a lessor or other third-party under the Governing Agreements, Purchaser shall receive a credit against the Consideration equal to the lesser of (x) the amount of the fixed price bid submitted with Purchaser's Defect Notice, or (y) the amount of a bona fide fixed price bid of a qualified contractor obtained by Seller (which may be obtained within the same time period Purchaser is permitted to obtain its bids), provided however, the amount of such credit in connection with removal or remediation of asbestos containing materials shall be further limited to fifty percent (50%) of the incremental additional cost of removal, remediation, transportation and disposal of such asbestos containing materials.

(b) If any violations of governmental codes, rules and regulations with respect to property owned by Seller adjacent to a Side-By-Side Property (i) existing on the Execution Date or (ii) discovered later and which could not have been reasonably discovered during Purchaser's due diligence (but not later than three hundred sixty-five (365) days after Closing of the particular Property) would prohibit the issuance of a building or construction

permit for renovation of the subject Property and have been caused by Seller's acts or omissions, Purchaser may deliver notice to Seller (which notice shall include a copy of the notice of violation, and a bona fide fixed price bid for correction of the condition from a qualified contractor) (also a "DEFECT NOTICE"), and, except to the extent correction of the condition is the obligation of a lessor or other third-party under the Governing Agreements, Purchaser shall receive a credit against, or partial reimbursement of, the Consideration equal to the lesser of (x) the amount of the fixed price bid submitted with Purchaser's Defect Notice, or (y) the amount of a bona fide fixed price bid of a qualified contractor obtained by Seller. Seller's obligations under this Section 4.6(b) shall survive Closing. If Seller is not obligated to cure any such later discovered violation, then Seller shall cure same if Purchaser agrees to pay the reasonable cost thereof.

(c) If the fire suppression system serving a Side by Side Property consists of a single system, Seller, at its sole cost and expense, shall prior to Closing, if practicable under the circumstances, or, promptly after Closing with respect to the subject Property, re-zone the fire suppression system to provide separate protection to such Side by Side Property. Except as hereinafter provided, Seller's obligation with respect to such re-zoning shall be limited to the installation of a dedicated control valve with a flow and tamper switch on the existing riser for the system, and the connection of the existing system serving the Side by Side Property to the newly dedicated control valve. Purchaser shall be solely responsible for any other modifications to the existing system serving the Side by Side Property necessary to meet Purchaser's requirements or the requirements of Applicable Law.

Anything contained herein to the contrary notwithstanding, in the event that the fire rating for the retail business to be conducted by Purchaser on such Side by Side Property (i) exceeds the fire rating for the retail business conducted by Seller or its affiliates in the property adjacent to such Side by Side Property, and (ii) as a result of such fire rating for Purchaser's business, the fire suppression system serving such Side by Side Property is required to be upgraded and/or a fire-rated wall is required to be installed within the Side by Side Property in order to meet the requirements of Applicable Law (the "UPGRADE WORK"), Purchaser shall deliver notice to Seller, which notice shall include documentation reasonably satisfactory to Seller evidencing the determination of such fire rating and the requirement for performance of the Upgrade Work, together with a bona fide fixed price bid for the performance of the Upgrade Work from a qualified contractor ("UPGRADE NOTICE"). Purchaser shall receive a credit against the Consideration in an amount equal to fifty percent (50%) of the lesser of (x) the amount of the fixed price bid submitted with Purchaser's Upgrade Notice, or (y) the amount of a bona fide fixed price bid for the performance of the Upgrade Work from a qualified contractor obtained by

Seller, provided however, that if the parties have not determined the amount of such credit prior to Closing, then Seller shall pay the amount of such credit to Purchaser from time to time, within ten (10) days after demand, as incurred by Purchaser. The provisions of this Section 4.6(c) shall survive the Closing.

4.7 Seller warrants and represents to Purchaser that it will deliver the Properties to Purchaser on the date of Closing broom clean, but, except as otherwise expressly provided in this Agreement, otherwise "AS-IS" as of the date of Closing. Purchaser acknowledges and agrees that, except as otherwise expressly provided in this Agreement, it is purchasing the Properties "AS-IS" as of the date of Closing and based on its own inspection, investigation and evaluation.

ARTICLE 5. CLOSING.

5.1 An initial "Closing" shall occur at the offices of the Title Company or such other location as shall be mutually agreed upon by Seller and Purchaser on or before April 30, 2004, or such earlier date as agreed to by the parties, provided that the conditions precedent to Closing for Properties are satisfied in accordance with the terms of this Agreement. From time to time, but not more frequently than bi-weekly, after the initial Closing, additional Closings shall occur at the offices of the Title Company or such other location as shall be mutually agreed upon by Seller and Purchaser as conditions precedent to Closing for Properties are satisfied in accordance with the terms of this Agreement. At any Closing of less than all of the Properties, the Consideration (as reduced pursuant to Section 2.3(a) hereof) to be paid at such Closing, and the amount of the Deposit to be applied to the Consideration at such Closing, shall be equal to Two Million, One Hundred Fifty-Three Thousand, Three Hundred Seventy (\$2,153,370.00) Dollars multiplied by the number of Owned Properties, Side by Side Owned Properties, Leased Properties and Side By Side Leased Properties, and the amount of the Deposit to be applied against the consideration shall be Two Hundred Fifteen Thousand, Three Hundred Thirty-Seven (\$215,337.00) Dollars multiplied by the number of Owned Properties, Side by Side Owned Properties, Leased Properties and Side By Side Leased Properties which are the subject of such Closing, plus all interest accrued on the Deposit to the date of Closing. At the last closing of all Properties which are to be conveyed pursuant to the terms of this Agreement, the unpaid Consideration (taking into account reductions of the Consideration contemplated by this Agreement) shall be paid to Seller and the undisbursed remaining balance of the Deposit, together with all undisbursed accrued interest, shall be paid to Purchaser.

5.2 At Closing, and as a condition precedent to Purchaser's obligations which may be waived in writing by Purchaser (and Seller's obligations with respect to the matters in paragraphs (l) and (n) of this Section 5.2) to Close, Seller shall deliver to Purchaser:

(a) a limited warranty deed (or local equivalent) executed in recordable form by Seller, so as to convey to Purchaser fee simple to the Owned Properties and the Side by Side Owned Properties which are or have been legally subdivided from other property owned by Seller, subject to the Encumbrances and

the Restriction set forth on EXHIBIT B-1 hereto; and subject to and together with the benefits and burdens of those matters (including, without limitation, reciprocal easement agreements, subject to the provisions of Article 4).

(b) a "Pre-Paid Lease" in the form annexed hereto as EXHIBIT D, executed by Seller, so as to convey to Purchaser leasehold title to the Side by Side Owned Properties which are not legally subdivided from adjacent property owned by Seller;

(c) the Assignment and Assumption Agreement annexed hereto as EXHIBIT C-1, executed in recordable form by Seller, so as to convey to Purchaser, subject to the Encumbrances and the Restriction set forth on EXHIBIT B-1 hereto, Seller's leasehold (or subleasehold) estate, right, title and interest in and to the Leased Properties and under the A-2.1 Leases and in and to the Side by Side Leased Properties (which have been bifurcated) and under the A-2.2 Leases which are or have been bifurcated from leases for adjacent property leased by Seller;

(d) a "Pre-Paid Sublease" in the form annexed hereto as EXHIBIT E, executed by Seller, so as to convey to Purchaser subleasehold title to any Side by Side Leased Properties the Leases for which have not been bifurcated in a manner reasonably acceptable to Seller and Purchaser from leases for adjacent property leased by Seller;

(e) the Assignment and Assumption Agreement annexed hereto as EXHIBIT C-2, executed in recordable form by Seller, so as to convey to Purchaser Seller's leasehold (or subleasehold) estate, right, title and interest in and to the Rental Rate Properties (other than the Rental Rate Property located in Virginia Beach, VA for which Seller shall deliver a sublease form of the Building Lease) subject to the Encumbrances and the Restriction set forth on EXHIBIT B-1 hereto;

(f) with respect to any Owned Property or Side by Side Owned Property which is adjacent to other property owned by Seller (which is or has been, operated as an integrated retail complex with such Owned Property or Side by Side Owned Property), a Reciprocal Easement Agreement annexed hereto as EXHIBIT I, executed in recordable form by Seller;

(g) executed originals of the Leases and other documents and instruments relating to the Properties ("ANCILLARY DOCUMENTS") in Seller's possession, if available, or, if not available, copies thereof;

(h) physical possession of the Properties, free of all occupants, with Seller's furniture, fixtures, equipment and personal property removed;

(i) a "non-foreign person" affidavit in the form annexed hereto as EXHIBIT J;

(j) an estoppel certificate, executed by the lessor under each Lease, certifying that the Lease is in full force and effect; that the Lease has not been modified (except as set forth on EXHIBIT A-2.1, EXHIBIT A-2.2 or EXHIBIT A-3 attached hereto); the amount and dates to which minimum rent and additional rent have been paid; the commencement and expiration date of the Lease; the number and term of any option(s) to extend the Lease remaining unexercised; that, to such lessor's knowledge, Seller is not in default in the performance of any obligation under the Lease on Seller's part to be performed; that, to such lessor's knowledge, it is not in default in the performance of any obligation under the Lease on the lessor's part to be performed; the use permitted under the Lease; the terms of any existing exclusive use restrictions and/or so called "primary" use restrictions not disclosed or determinable by Seller's Records; and the amount of security deposit (if any), or, if the terms of the applicable Lease specify a form of estoppel certificate, and the lessor does not execute the form of estoppel certificate prescribed above within seven (7) days after its receipt of request therefor, then containing such information as may be required to be provided therein by such Lease or, if such estoppel certificate is not provided by the lessor on or before the date of Closing, despite Seller's request and reasonable efforts to obtain same, a certificate by Seller containing such information based on Seller's knowledge, together with its indemnity against any damages suffered by Purchaser arising from any misrepresentation by Seller in such certificate, which indemnification shall survive for a period of one (1) year after Closing, provided however, Seller's estoppel shall not be sufficient to establish existing exclusive use restrictions not disclosed by Seller's Records (but Seller's estoppel, which is not qualified as being to the best of Seller's knowledge, shall be sufficient to establish so-called "primary" use restrictions), in which event Seller shall obtain a consent as specified by Section 5.2(m), whether or not otherwise required by the terms of the applicable Governing Agreement;

(k) to the extent Purchaser is not the beneficiary of an agreement in effect as of the date of Closing pursuant to which the holder of a mortgage encumbering a Leased Property, Side by Side Leased Property or Rental Rate Property has agreed that in the event of a foreclosure of the mortgage or should such holder obtain title by deed in lieu thereof, or otherwise, that the subject Lease will continue in full force and effect in accordance with the terms and provisions of the Lease, a Subordination, Non-Disturbance and Attornment Agreement, in favor of Purchaser from holders of mortgage(s) encumbering each such Leased Property, Side by Side Leased Property, or Rental Rate Property the foreclosure of which would extinguish Purchaser's rights to possession, substantially in the form of EXHIBIT K annexed hereto, or another form mutually and reasonably acceptable to Purchaser and the holder of such mortgage;

(l) if required, written consents from lessors under each of the applicable Leases to an assignment of the applicable Leases to Purchaser. If, however, Purchaser designates to Seller a "Permitted Designee" (as hereinafter defined) of the applicable Leased Properties, Side by Side Leased Properties or Rental Rate Properties prior to the date which is ten (10) days after the Execution Date) Seller shall obtain written consent from lessors under each of the applicable Leases to an assignment of the applicable Leases to such Permitted Designee;

(m) if required, written consents from lessors and/or third parties under each of the applicable Leases and other Governing Agreements to a change in use of the applicable Owned Properties, Side By Side Owned Properties, Leased Properties, Side by Side Leased Properties or Rental Rate Properties to Purchaser's Intended Use ("PURCHASER'S INTENDED USE" shall mean an Office Supply Use). If, however, Purchaser designates to Seller a Permitted Designee of the applicable Owned Properties, Side By Side Owned Properties, Leased Properties, Side by Side Leased Properties or Rental Rate Properties prior to the date which is ten (10) days after the Execution Date, Seller shall obtain consent from lessor under each of the applicable Leases and/or third parties under the Governing Agreements to a change in use to the primary use of the Permitted Designee;

(n) written waivers of any valid and effective rights of first refusal, rights of offer or repurchase rights affecting any of the Owned Properties or Side by Side Owned Properties, provided however, Seller shall have no obligation to obtain such waiver with respect to any right to repurchase a Property in the event of discontinuance of operations at the subject Property if (i) such right will not accrue within one (1) year after the date of Closing, or (ii) Seller has obtained a written agreement to extend the applicable time period so that such right will not accrue within one (1) year after the date of Closing;

(o) written waivers of any recapture or other termination rights under each of the applicable Leases with respect to the applicable Leased Properties, Side by Side Leased Properties and Rental Rate Properties, provided however, Seller shall have no obligation to obtain such waiver with respect to any right to terminate a Lease or recapture a Property if (i) such right will not accrue within one (1) year after the date of Closing, or (ii) Seller has obtained a written agreement to extend the applicable time period so that such right will not accrue within one (1) year after the date of Closing;

(p) with respect to each Pre-Paid Sublease (and the Rental Rate Property in Virginia Beach, VA) a recognition agreement, executed by the applicable lessor under the Lease (and the lessor under any underlying lease superior to the Lease) in the form prescribed by the terms of the applicable Lease, if any, or substantially in the form annexed hereto as EXHIBIT L, or other form mutually and reasonably acceptable to Purchaser and the lessor under the applicable Lease;

(q) a Bill of Sale, substantially in the form attached hereto as EXHIBIT H, so as to convey to Purchaser all of Seller's right, title and interest in and to any improvements owned by Seller on Properties owned or leased by Seller;

(r) a statement of the then current book value of any improvements, fixtures or equipment owned by Seller on the Properties and conveyed to Purchaser;

(s) Seller's certification that, except as modified by the performance of Seller's obligations under this Agreement, the representations, covenants and warranties made by it herein are true and accurate as of the Closing in all material respects;

(t) with respect to all Properties where Seller or its affiliate owns, leases or subleases space adjacent to the applicable Property, or within the same shopping center as the applicable Property, an agreement, in the form annexed hereto as EXHIBIT B-2; and

(u) subject to Section 2.4 hereof, evidence of Seller's receipt of final subdivision approval from the applicable governmental authority if necessary, to convey fee title to a Side by Side Owned Property to Purchaser;

(v) an affidavit that either Seller has paid for all labor, materials, architectural services, supplies and equipment, and utilities serving the Properties for which a lien could arise, or that no such labor, materials, architectural services, supplies and equipment, and utilities have been provided to the Properties during the applicable period preceding Closing for which a lien could be filed in the event of non-payment;

(w) corporate authority documentation, corporate merger documents, a standard owner's affidavit of title, and such other documentation reasonably requested by the Title Company (not requiring any indemnification or undertaking by Seller) to permit the Title Company to issue a policy of title insurance to Purchaser, subject only to the Encumbrances not objected to by Purchaser (or with respect to which Purchaser has waived, or is deemed to have waived, such objection) pursuant to Section 4.1; and

(x) if Seller is required to remove or remediate Hazardous Substances in accordance with Section 14.2, evidence from applicable governmental authorities or a certification from a licensed, reputable consultant indicating that such Hazardous Substances have been removed or remediated in accordance with Applicable Laws, provided however, if continuing remediation or monitoring is required, Purchaser and Seller shall proceed to Closing and enter into a mutually and reasonably acceptable agreement for establishment of a cash escrow (not exceeding the limits of Seller's obligation under Section 14.2) assuring completion of remediation and/or continued treatment and monitoring until completion;

(y) with respect to any reciprocal easement agreement or similar agreement to which Seller is a party (other than with respect to a Side by Side Owned Property or Side by Side Leased Property) a written notice, if

required or permitted under such agreement, giving notice of the conveyance and designating Purchaser or if requested by Purchaser, a Permitted Designee, as a party thereunder;

(z) with respect to each Side by Side Owned Property and Side by Side Leased Property, Seller shall have caused to be prepared, by a surveyor or civil engineer licensed in the jurisdiction in which the Property is located, a metes and bounds legal description conforming to the Lot Lines; and

(aa) for any Side by Side Owned Property, with respect to which Seller is prohibited by Applicable Law from conveying leasehold title as described in Section 2.3(c), a "Building Lease" in the form annexed hereto as EXHIBIT G, executed by Seller.

5.3 At Closing, Purchaser shall deliver to Seller:

(a) the Consideration to be paid by Purchaser under Article 2, less the Deposit and all interest earned thereon;

(b) a "Pre-Paid Lease" in the form annexed hereto as EXHIBIT D, executed by Purchaser for the Side by Side Owned Properties which are not legally subdivided from adjacent property owned by Seller;

(c) the Assignment and Assumption Agreement annexed hereto as EXHIBIT C-1, executed in recordable form by Purchaser, for the Leased Properties and A-2 Leases which are or have been bifurcated from leases for adjacent property leased by Seller;

(d) a "Pre-Paid Sublease" in the form annexed hereto as EXHIBIT E, executed by Purchaser for the Side by Side Leased Properties the Leases for which have not been bifurcated in a manner reasonably acceptable to Seller and Purchaser from leases for adjacent property leased by Seller;

(e) for any Side by Side Owned Property with respect to which Seller is prohibited by Applicable Law from conveying leasehold title as described in Section 2.3(c), a "Building Lease" in the form annexed hereto as EXHIBIT G executed by Purchaser;

(f) the Assignment and Assumption Agreement annexed hereto as EXHIBIT C-2, executed in recordable form by Purchaser with respect to the Rental Rate Properties (provided however, with respect to the Virginia Beach, VA Rental Rate Property, Purchaser shall deliver a sublease form of the Building Lease executed by Purchaser) subject to the Encumbrances and the Restriction set forth on EXHIBIT B-1 hereto; and

(g) with respect to any Owned Property or Side by Side Owned Property which is or has been legally subdivided from other property owned or leased by Seller adjacent to the subject Property, a Reciprocal Easement Agreement annexed hereto as EXHIBIT I, executed in recordable form by Purchaser.

5.4 The Properties listed on EXHIBIT A-4 are Properties with respect to which (i) the fee title is to be conveyed or the Lease assigned to Purchaser and (ii) there exists a lease, more particularly described on EXHIBIT A-4, to a third party for premises other than the Kids R Us Store (the "THIRD PARTY LEASE"). Purchaser agrees that it shall lease to Seller, at Closing, the premises leased under the Third Party Leases pursuant to the terms of the Pre-Paid Lease annexed hereto as EXHIBIT D with reasonable modifications that are requested by either party to take into account the different circumstances, substituting Purchaser, as landlord, and Seller, as tenant, thereunder, for a term equal to the longer of ten (10) years, or the term of the respective Third Party Lease as same may be renewed by the tenant thereunder pursuant to the provisions of the Third Party Lease. Seller shall not extend the term of any Third Party Lease beyond the term thereof and any existing options. If the Seller party under such Pre-Paid Lease is not Toys "R" Us-Delaware, Inc., Toys "R" Us-Delaware, Inc. will execute and deliver to Purchaser a Guaranty substantially in the form annexed hereto as EXHIBIT N, with such modifications as shall reasonably be required to conform same to the facts and circumstances of such Guaranty.

5.5 The following shall be apportioned between the parties on the basis of a three hundred sixty-five (365) day year, as of the day prior to Closing:

(a) All real, personal property and other taxes, including water and sewer charges, imposed upon the Properties or Seller as owner or lessee of the Properties. If Closing shall occur before the tax rate is fixed for any of such taxes, then the apportionment thereof shall be on the basis of the tax rate for the preceding year applied to the latest valuation and an adjustment shall be made after Closing, if necessary, promptly after the tax rate is determined for the year in which Closing occurs. If as of the date of Closing any one or more of the Properties shall be affected by any special or general assessments (including the amounts of any unpaid installments of each assessment), such assessments shall be paid in full at Closing, unless Purchaser agrees to take subject thereto in which case a credit for such unpaid amount shall be made against the Consideration to be paid at Closing.

(b) All rent, additional rent (other than percentage rent) and other charges payable under the Leases. If Closing shall occur before any component of rent, additional rent or other charges is determinable for the payment period during which the date of Closing shall occur then the apportionment thereof shall be on the basis of the payment thereof for the preceding payment period, and readjusted after Closing between Purchaser and Seller when the actual amount has been determined. Seller and Purchaser shall each pay percentage rent due under a Lease attributable to its own gross sales. If percentage rent is due for the year in which Closing occurs and percentage rent payable under a Lease is based upon gross sales of both Seller and Purchaser, then an adjustment shall be made by the parties after Closing so that Purchaser and Seller shall each pay only its "Percentage Rent Share" (as hereinafter defined). Purchaser's Percentage Rent Share shall be the product

arrived at by multiplying (i) the percentage rent due under the applicable Lease by (ii) a fraction, the numerator of which is the gross sales of Purchaser and the denominator of which is the total gross sales at the applicable Leased Property, Side by Side Leased Property or Rental Rate Property for the reporting period in which Closing occurs. Seller's Percentage Rent Share shall be the difference between the percentage rent due under the applicable Lease and Purchaser's Percentage Rent Share.

(c) The provisions of this Section 5.5 shall survive Closing.

5.6 Purchaser shall pay all normal recording costs. Each party shall be responsible for one-half (1/2) of any tax stamps, realty transfer tax, fee or other similar charge imposed by any applicable governmental statute, rule or regulation by reason of the transfer of title to the Owned Properties and the Side by Side Owned Properties, assignment of the Leases (or recording of an Assignment and Assumption Agreement), execution of a Pre-Paid Lease, Pre-Paid Sublease or Building Lease (or the recording of a memorandum thereof) for each Property. Purchaser and Seller shall each be responsible for their respective legal fees, except as otherwise provided in Section 13.4 hereof.

ARTICLE 6. CONDEMNATION.

6.1 (a) In the event of a taking of a substantial portion of any one or more of the Properties prior to the date of Closing, Purchaser shall have the right, at its option, to either (a) terminate this Agreement with respect to the affected Property by giving Seller written notice to such effect, or (b) proceed to Closing, in which event (i) the Consideration shall be abated by the amount of the condemnation award allowed to Seller (either as owner or lessee in accordance with the terms of the applicable Lease) in respect of the affected Property, or (ii) to the extent the proceeds of any condemnation award have not been collected, the Consideration shall not be abated, but Seller shall assign to Purchaser all of Seller's right, title and interest in and to the condemnation proceeding and/or the condemnation award.

(b) If a Lease is subject to termination by the lessor thereunder by reason of a taking occurring after the Execution Date and prior to Closing, and this Agreement has not been terminated with respect to such Property in accordance with Section 6.1(a), an allocable portion of the Consideration (as determined by Section 2.3(a) hereof) and all Closing documents (including any assignment of the condemnation award pursuant to Section 6.1(a) above) for the subject Property, shall be deposited in escrow with the Title Company and Closing shall be postponed until expiration of such lessor's right to terminate the subject Lease. In the event of termination of a Lease by the

lessor thereunder as a result of a taking of the applicable Property this Agreement shall terminate with respect to the affected Property and the Consideration for such Property shall be released from escrow and returned to Purchaser.

ARTICLE 7. RISK OF LOSS.

7.1 (a) In the event of loss or damage to one or more of the Properties, this Agreement and the Consideration to be paid hereunder shall be unaffected and Seller and Purchaser shall proceed to Closing thereon (subject to Section 7.1(b) below), in which event Seller shall (a) assign to Purchaser and Purchaser shall have the right to make a claim for and to retain any casualty insurance proceeds received or to be received under the casualty insurance policies in effect with respect to the affected Property, and Purchaser shall receive a credit from the Consideration due at Closing for the amount of the deductible on such casualty insurance policy (which includes the amount for which Seller maintains self-insurance) or (b) if with respect to a Leased Property or Rental Rate Property for which the lessor under the Lease maintains insurance and has the obligation to restore the Property, Seller shall use good faith efforts to cause the lessor to restore the applicable Property pursuant to the applicable Lease.

(b) If a Lease is subject to termination by the lessor thereunder by reason of loss or damage to a Property occurring after the Execution Date and prior to Closing, an allocable portion of the Consideration (as determined by Section 2.3(a) hereof) and all Closing documents (including any assignment of casualty insurance proceeds pursuant to Section 7.1(a) above) for the subject Property, shall be deposited in escrow with the Title Company and Closing shall be postponed until expiration of such lessor's right to terminate the subject Lease. In the event of termination of a Lease by the lessor thereunder as a result of loss or damage to the applicable Property this Agreement shall terminate with respect to the affected Property and the Consideration for such Property shall be released from escrow and returned to Purchaser.

ARTICLE 8. BROKERAGE.

8.1 Purchaser and Seller each represent that it has dealt with no broker or brokers with respect to the Properties or the negotiation, execution or delivery of this Agreement, other than DJM Asset Management, LLC. Seller shall pay any brokerage commission payable to DJM Asset Management, LLC in connection with this transaction. Each party shall indemnify, defend and hold each other harmless from and against any claims or demands for brokerage commissions, finder's fees or other compensation resulting from a breach by it of the foregoing representations. The within indemnity shall survive Closing.

ARTICLE 9. REMEDIES

9.1 Notwithstanding any law, rule of court or custom to the contrary, if Seller shall default in any of its obligations to be performed under this Agreement and such default shall continue for thirty (30) days after receipt of

notice thereof by Seller (which thirty (30) day period shall be extended if the default cannot reasonably be cured within said thirty (30) day period, provided Seller is proceeding with due diligence to cure same), Purchaser's sole remedies for Seller's failure to perform its obligations under this Agreement shall be:

(a) the right to terminate this Agreement, whereupon the Deposit and all interest earned thereon shall be refunded to Purchaser, and to seek and collect from Seller an amount equal to the actual, out-of-pocket costs and expenses incurred by Purchaser in connection with this Agreement, and, except with respect to those matters expressly stated to survive termination of this Agreement, neither party shall have any further liability hereunder, or

(b) the right to seek to obtain specific performance of Seller's obligations hereunder, provided that any action for specific performance shall be commenced within three hundred sixty-five (365) days after such default, or

(c) if Seller's default is willful then, in addition to the foregoing, Purchaser may pursue any and all other remedies available to Purchaser at law or in equity.

9.2 IF PURCHASER SHALL DEFAULT IN ANY OF ITS OBLIGATIONS TO BE PERFORMED UNDER THIS AGREEMENT AND SUCH DEFAULT SHALL CONTINUE FOR THIRTY (30) DAYS AFTER RECEIPT OF NOTICE THEREOF BY PURCHASER (WHICH THIRTY (30) DAY PERIOD SHALL BE EXTENDED IF THE DEFAULT CANNOT REASONABLY BE CURED WITHIN SAID THIRTY (30) DAY PERIOD, PROVIDED PURCHASER IS PROCEEDING WITH DUE DILIGENCE TO CURE SAME), SELLER SHALL, AS ITS SOLE AND EXCLUSIVE REMEDY, HAVE THE RIGHT TO TERMINATE THIS AGREEMENT AND RETAIN ALL OR PORTION OF THE DEPOSIT AS LIQUIDATED DAMAGES, AND NOT AS A PENALTY (WHICH LIQUIDATED DAMAGES SHALL BE EQUAL TO THE PRODUCT OF THE DEPOSIT, MULTIPLIED BY A FRACTION, THE NUMERATOR OF WHICH SHALL BE THE CONSIDERATION AS ADJUSTED PURSUANT TO SECTION 2.3 AND THE DENOMINATOR OF WHICH SHALL BE THE CONSIDERATION SET FORTH IN SECTION 2.2(a) HEREOF), AND THEREAFTER, EXCEPT WITH RESPECT TO THOSE MATTERS EXPRESSLY STATED TO SURVIVE TERMINATION OF THIS AGREEMENT, NEITHER PARTY SHALL HAVE ANY FURTHER LIABILITY HEREUNDER. SELLER AND PURCHASER ACKNOWLEDGE AND AGREE THAT THE DAMAGES BY REASON OF PURCHASER'S DEFAULT WILL BE EXTREMELY DIFFICULT AND IMPRACTICABLE TO ASCERTAIN. THEREFORE, SELLER AND PURCHASER AGREE THAT THE DEPOSIT, AS ADJUSTED HEREBY, REPRESENTS A REASONABLE ESTIMATE OF SELLER'S DAMAGES.

Seller's Initials

Purchaser's Initials

ARTICLE 10. SURVIVAL.

10.1 Except as to those matters expressly stated to survive closing of title hereunder, delivery and acceptance of the deed and/or Assignment and Assumption Agreement, Pre-Paid Lease, Building Lease and/or Pre-Paid Sublease at Closing shall be deemed to constitute full compliance by Seller with all of the terms, covenants and conditions on Seller's part to be performed.

10.2 To the extent of any conflict between the terms of this Agreement which survive Closing and the terms of the Pre-Paid Lease, Building Lease or Pre-Paid Sublease or other closing document, the terms of this Agreement shall control.

ARTICLE 11. NOTICES.

11.1 Subject to the further provisions of this Article 11, whenever it is provided herein that any notice, demand, request, consent, approval or other communication shall or may be given to either of the parties by the other, it shall be in writing and, any law or statute to the contrary notwithstanding, shall not be effective for any purpose unless same shall be given or served by registered or certified mail, postage prepaid, return receipt requested, or by a recognized overnight mail carrier (public or private) addressed as follows, or by personal delivery to the following addresses:

If to Seller: TOYS "R" US, INC.
One Geoffrey Way
Wayne, New Jersey 07470
Attention: Vice President -
Real Estate, Design and Construction

with a copy to: TOYS "R" US, INC.
One Geoffrey Way
Wayne, New Jersey 07470
Attention: Vice President -
Real Estate Counsel

If to Purchaser: OFFICE DEPOT, INC.
2200 Old Germantown Road
Delray Beach, Florida 33445
Attention: Senior Vice President - Real Estate

with a copy to: OFFICE DEPOT, INC.
2200 Old Germantown Road
Delray Beach, Florida 33445
Attention: Real Estate - Legal Department

or at such other address as either party may from time to time designate by notice to the other as herein provided.

11.2 Any notice hereunder shall be deemed to have been given or served on the date on which such notice is delivered to the party intended; delivered to the then designated address of the party intended; rejected at the then designated address of the party intended; or upon inability to deliver because of changed address of which no notice was given. Notices may be given by a party's attorney or other representative.

ARTICLE 12. ASSIGNABILITY.

12.1 This Agreement may not be assigned by Purchaser without Seller's prior consent, provided, however, that Purchaser may (i) designate, without consent by Seller, Office Depot of Texas, L.P., a Delaware limited partnership and/or Office Depot of Indiana, L.P., a Delaware limited partnership as assignee, lessee or purchaser at Closing with respect to any Property, provided Purchaser executes a Guaranty in the form of EXHIBIT N attached hereto, or (ii) designate, without consent by Seller, the entities identified on EXHIBIT M annexed hereto ("PERMITTED DESIGNEES") as assignees, lessees or purchasers at Closing with respect to any Property, so that, in either event, the Deed, Assignment and Assumption Agreement, Pre-Paid Lease, Building Lease or Pre-Paid Sublease, as the case may be, for such Property may be delivered to, or entered into with, Purchaser's designees.

ARTICLE 13. MISCELLANEOUS.

13.1 This Agreement may be executed in counterparts, each of which shall be deemed an original. The signature of a party to any counterpart may be attached to any other counterpart. Any counterpart to which is attached the signatures of all parties shall constitute an original of this Agreement.

13.2 This Agreement, the Preliminary Statement and Exhibits annexed hereto and hereby made a part hereof constitute the entire understanding between the parties hereto and all prior agreements between the parties with respect to the subject matter hereof are deemed to be merged herein.

13.3 This Agreement and the rights and obligations of the parties hereunder shall be governed by and construed, interpreted and enforced in accordance with the internal laws of the State of New Jersey (without giving effect to the principles thereof relating to conflicts of law), except to the

extent the laws of the State where a Property is located are required to apply. Any legal action or proceeding with respect to this Agreement may be brought in the courts of the State of New Jersey or of the United States sitting in the State of New Jersey.

13.4 If either party brings an action at law or in equity to enforce or interpret this Agreement, the prevailing party in such action shall be entitled to recover reasonable attorney's fees and court costs for all stages of litigation, including, but not limited to, appellate proceedings, in addition to any other remedy granted.

13.5 The rule of strict construction shall not apply to this Agreement. This Agreement has been prepared by Seller and its professional advisors and reviewed and modified by Purchaser and its professional advisors. Seller, Purchaser and their separate advisors believe that this Agreement is the product of all of their efforts, that it expresses their agreements, and that it should not be interpreted in favor of or against either Seller or Purchaser merely because of their efforts in preparing it.

13.6 If any clause or provision of this Agreement is held to be illegal, invalid or unenforceable, or the application thereof to any person or circumstance shall to any extent be illegal, invalid or unenforceable, under present or future laws effective during the term hereof or of any provisions hereof which survive Closing, then and in any such event, it is the express intention of the parties hereto that the remainder of this Agreement, or the application of such clause or provision other than to those as to which it is held illegal, invalid or unenforceable, shall not be affected thereby, and each clause or provision of this Agreement and the application thereof shall be legal, valid and enforceable to the fullest extent permitted by law.

13.7 Each party agrees that at any time or from time to time upon written request of the other party, it will execute and deliver all such further documents and do all such other acts and things as may be reasonably required to confirm or consummate the within transaction.

13.8 Seller agrees at all times to reasonably cooperate with Purchaser's efforts to obtain any permits, licenses variances and/or approvals with respect to Purchaser's operation and/or occupation of any Property and to promptly execute and/or file any application, request, consent or other document reasonably requested by Purchaser and/or to appear at any public hearings, if required. Purchaser shall, except as otherwise provided in this Agreement, reimburse Seller any reasonable out-of-pocket costs and expenses incurred by Seller in cooperating with Purchaser in accordance with this Section 13.8. The provisions hereof shall survive Closing.

13.9 This Agreement shall apply to, inure to the benefit of and be binding upon and enforceable against the parties hereto and their respective successors, permitted assigns, heirs, executors, administrators and legal representatives to the same extent as if specified at length throughout this Agreement.

13.10 The term "DAYS" shall be deemed to mean calendar days. If the date for performance of any action or for the expiration of any time period shall fall on a weekend or a holiday honored by the federal government, such date of performance or expiration shall be extended until the next business day.

13.11 The headings inserted at the beginning of each paragraph are for convenience of reference only and shall not limit or otherwise affect or be used in the construction of any of the terms or provisions hereof. The plural shall include the singular and the singular, the plural, wherever the context so requires. The use of any one gender shall include all others.

13.12 This Agreement shall not be modified or amended unless such amendment is set forth in writing and executed by both Seller and Purchaser with the formalities hereof.

13.13 Between the Execution Date and the date of Closing, except as otherwise expressly provided herein, neither Seller nor Purchaser shall (and each party shall cause its respective agents, employees, attorneys and advisors including, without limitation, financial institutions to not) disclose, make known, divulge, disseminate or communicate the Consideration or any of the terms of this Agreement or this transaction or any agreement, document or understanding pertinent to the transaction contemplated by this Agreement or the Properties, except (a) as required by law, (b) to the applicable party's employees and advisors involved in the subject transaction, and (c) by Purchaser, the non-financial terms hereof to Permitted Designees. The provisions of this Section 13.13 shall survive the termination of this Agreement.

13.14 Any public statements, announcements or press releases relating to this Agreement or the transaction contemplated herein shall be jointly prepared by Seller and Purchaser prior to any public statements, announcements or press releases being made.

13.15 The parties hereto acknowledge that Seller may elect to exchange any Property qualifying for tax-free exchange under Section 1031 of the Internal Revenue Code of 1986 (the "CODE"). Purchaser hereby agrees to take such steps as Seller may reasonably require in order to complete a tax-deferred exchange, including, without limitation, paying all or a portion of the Consideration to a third party. In connection herewith, Purchaser shall not be obligated to incur any costs or expenses greater than those Purchaser would have incurred had Seller not elected to effect an exchange. In no event shall Purchaser be obligated to acquire title to any other property, whether by deed, lease or contract right, for the benefit of Seller or its assignee, and in no event shall any such tax-free exchange delay Closing, otherwise adversely affect Purchaser, or be a condition precedent to the Closing.

ARTICLE 14. ENVIRONMENTAL

14.1 DEFINITIONS.

(a) "APPLICABLE LAW" means any and all federal, state, municipal or other governmental statutes, laws, rules, regulations, legally enforceable guidelines and case law.

(b) "DISCHARGED" means released, leaked, discharged or emitted.

(c) "HAZARDOUS SUBSTANCES" means any substance, waste or material defined by Applicable Law as hazardous or toxic, or as pollution, a pollutant, contamination or a contaminant (other than asbestos containing materials which is addressed in Section 4.6(a) hereof).

14.2 Purchaser may, prior to March 31, 2004, deliver notice to Seller (which notice shall include a copy of any report or study obtained by Purchaser) of Hazardous Substances discovered on the Properties in concentrations requiring removal or remediation in accordance with Applicable Laws related to Hazardous Substances. Except to the extent removal or remediation of such Hazardous Substances is the obligation of a lessor or other third-party under the Governing Agreements, Seller shall, prior to Closing, remove or remediate such Hazardous Substances, in accordance with Applicable Law, and in such manner as will not materially interfere with Purchaser's ability to use the subject Property for retail use, provided however, if the cost to remove or remediate Hazardous Substances at any one Property (including any costs or expenses Seller has incurred, or is obligated to incur, to remove or remediate asbestos containing materials in accordance with Section 4.6(a) hereof), is estimated by a qualified environmental engineer, consultant or contractor to cost in excess of Five Hundred Thousand Dollars (\$500,000.00), Seller may, by notice to Purchaser (accompanied by a reasonably detailed estimate from such engineer, consultant or contractor), terminate this Agreement with respect to such Property and neither party shall have any further obligations hereunder with respect to said Property. Purchaser may supersede and void Seller's notice of termination if, within ten (10) days after receipt of Seller's notice of termination, Purchaser agrees in writing, by notice to Seller, that Purchaser shall pay the reasonable costs and expenses of such removal or remediation actually incurred by Seller in excess of Five Hundred Thousand Dollars (\$500,000.00) to Seller from time to time, within ten (10) days after demand, as incurred by Seller. If removal or remediation of such Hazardous Substances is the obligation of a lessor or other third party, Seller will make demand and use good faith efforts to cause such lessor or third party to perform such removal or remediation prior to Closing (however, failure of such lessor or third party to complete such removal or remediation prior to Closing shall not delay Closing hereunder).

14.3 Seller shall indemnify, defend and hold Purchaser and its officers, directors, shareholders, employees and affiliates harmless against any liabilities, losses, claims, expenses or costs (including, without limitation, legal fees) of any nature arising from, or related to, Hazardous Substances discharged on any of the Properties by Seller, its agents, employees or contractors during the time same were owned or operated by Seller or any of its affiliates.

14.4 Seller shall, at Purchaser's option, assign, transfer or otherwise do whatever is necessary to permit Purchaser to enforce any rights which Seller or any of its affiliates has under any of the Leases for any of the Properties which address third-party liability for Hazardous Substances or a violation by third-parties of any Applicable Law related to Hazardous Substances, including, without limitation, the right of Seller or any of its affiliates to enforce any indemnity or any breach of such Leases, including any representations and warranties.

14.5 Notwithstanding anything to the contrary contained herein, the terms of this Article 14 shall survive the Closing or termination of this Agreement.

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[SIGNATURE PAGE ATTACHED TO PURCHASE AND SALE AGREEMENT DATED MARCH ____, 2004
BETWEEN OFFICE DEPOT, INC. AND TOYS "R" US, INC. AND ITS AFFILIATED COMPANIES]

IN WITNESS WHEREOF, the parties have duly executed this Agreement as of
the day and year first above written.

PURCHASER: OFFICE DEPOT, INC.
By: _____
Name: _____
Title: _____

SELLER: TOYS "R" US, INC.
By: _____
Name: _____
Title: _____

TOYS "R" US-PENN, INC. TOYS "R" US-NY LLC
By: Toys "R" Us -Delaware, Inc.
its managing member
By: _____
Name: _____
Title: _____

TOYS "R" US-MASS., INC. TOYS "R" US-TEXAS LLC
By: Toys "R" Us -Delaware, Inc.
its managing member
By: _____
Name: _____
Title: _____

TOYS "R" US-OHIO, INC. TOYS "R" US-DELAWARE, INC.
By: _____
Name: _____
Title: _____

LIST OF EXHIBITS

- Exhibit A-1.1 - Owned Properties
- Exhibit A-1.2 - Side by Side Owned Properties
- Exhibit A-2.1 - Leases and Leased Properties
- Exhibit A-2.2 - Leases and Side by Side Leased Properties
- Exhibit A-3 - Leases and Rental Rate Properties
- Exhibit A-4 - Surplus Property Locations
- Exhibit A-5 - Seller Entities
- Exhibit B-1 - Toys "R" Us Restriction
- Exhibit B-2 - Office Depot Restrictions
- Exhibit C-1 - Assignment and Assumption Agreement (Leased Properties)
- Exhibit C-2 - Assignment and Assumption Agreement (Rental Rate Properties)
- Exhibit D - Pre-Paid Lease
- Exhibit E - Pre-Paid Sublease
- Exhibit F - List of Omitted Information
- Exhibit G - Building Lease
- Exhibit H - Bill of Sale
- Exhibit I - Reciprocal Easement Agreement
- Exhibit J - Non-Foreign Person Affidavit
- Exhibit K - Subordination, Non-disturbance and Attornment Agreement
- Exhibit L - Recognition Agreement
- Exhibit M - Permitted Designees

Exhibit N - Guaranty

LIST OF SCHEDULES

Schedule 1 - Material Physical Defects

Schedule 2 - Assessments

Schedule 3 - Delayed Due Diligence Properties

Exhibits and Schedule omitted - considered confidential and proprietary

Schedule 3-2

CERTIFICATION

I, Bruce Nelson, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Office Depot, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 22, 2004

/s/ Bruce Nelson

Bruce Nelson
Chief Executive Officer

CERTIFICATION

I, Charles E. Brown, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Office Depot, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 22, 2004

/s/ Charles E. Brown

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

Office Depot, Inc.

**Certification of CEO and CFO Pursuant to
18 U.S.C. Section 1350, as Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report on Form 10-Q of Office Depot, Inc. (the "Company") for the quarterly period ended March 27, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Bruce Nelson, as Chief Executive Officer of the Company, and Charles E. Brown, as Chief Financial Officer of the Company, each hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Bruce Nelson

Name: Bruce Nelson
Title: Chief Executive Officer
Date: April 22, 2004

/s/ Charles E. Brown

Name: Charles E. Brown
Title: Chief Financial Officer
Date: April 22, 2004

This certification accompanies the Report pursuant to § 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of §18 of the Securities Exchange Act of 1934, as amended.