

**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 September 26, 2015

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-10948

**Office Depot, Inc.**

(Exact name of registrant as specified in its charter)

**Office DEPOT.**

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**6600 North Military Trail; Boca Raton, Florida**  
(Address of principal executive offices)

**59-2661354**  
(I.R.S. Employer  
Identification No.)

**33496**  
(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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer  Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

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

The number of shares outstanding of the registrant's common stock, as of the latest practicable date: At September 26, 2015, there were 548,727,485 outstanding shares of Office Depot, Inc. Common Stock, \$0.01 par value.

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

[CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS \(Unaudited\)](#) 3

[CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS \(Unaudited\)](#) 4

[CONDENSED CONSOLIDATED BALANCE SHEETS \(Unaudited\)](#) 5

[CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS \(Unaudited\)](#) 6

[NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS \(Unaudited\)](#) 7

[Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations](#) 21

[Item 3. Quantitative and Qualitative Disclosures About Market Risk](#) 32

[Item 4. Controls and Procedures](#) 32

[PART II. OTHER INFORMATION](#) 33

[Item 1. Legal Proceedings](#) 33

[Item 2. Unregistered Sales of Equity Securities and Use of Proceeds](#) 34

[Item 6. Exhibits](#) 35

[SIGNATURES](#) 36

EX 31.1

EX 31.2

EX 32

EX 101

**OFFICE DEPOT, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
**(In millions, except per share amounts)**  
**(Unaudited)**

	13 Weeks Ended		39 Weeks Ended	
	September 26, 2015	September 27, 2014	September 26, 2015	September 27, 2014
Sales	\$ 3,690	\$ 4,069	\$ 11,007	\$ 12,263
Cost of goods sold and occupancy costs	2,754	3,082	8,319	9,378
Gross profit	936	987	2,688	2,885
Selling, general and administrative expenses	773	859	2,316	2,665
Asset impairments	1	6	10	77
Merger, restructuring, and other operating expenses, net	111	72	274	276
Legal accrual	—	1	—	81
Operating income (loss)	51	49	88	(214)
Other income (expense):				
Interest income	6	6	18	18
Interest expense	(22)	(25)	(71)	(65)
Other income (expense), net	(1)	1	1	(1)
Income (loss) before income taxes	34	31	36	(262)
Income tax expense	28	2	43	6
Net income (loss)	6	29	(7)	(268)
Less: Results attributable to the noncontrolling interests	—	—	—	2
Net income (loss) attributable to Office Depot, Inc.	\$ 6	\$ 29	\$ (7)	\$ (270)
Basic and diluted earnings (loss) per share	\$ 0.01	\$ 0.05	\$ (0.01)	\$ (0.51)

*This report should be read in conjunction with the Notes to Condensed Consolidated Financial Statements herein and the Notes to Consolidated Financial Statements in the Office Depot, Inc. Form 10-K filed February 24, 2015 (the "2014 Form 10-K").*

**OFFICE DEPOT, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**  
**(In millions)**  
**(Unaudited)**

	13 Weeks Ended		39 Weeks Ended	
	September 26, 2015	September 27, 2014	September 26, 2015	September 27, 2014
Net income (loss)	\$ 6	\$ 29	\$ (7)	\$ (268)
Other comprehensive loss, net of tax where applicable:				
Foreign currency translation adjustments	(22)	(55)	(73)	(46)
Total other comprehensive loss, net of tax, where applicable	(22)	(55)	(73)	(46)
Comprehensive loss	(16)	(26)	(80)	(314)
Comprehensive income attributable to the noncontrolling interests	—	—	—	2
Comprehensive loss attributable to Office Depot, Inc.	<u>\$ (16)</u>	<u>\$ (26)</u>	<u>\$ (80)</u>	<u>\$ (316)</u>

*This report should be read in conjunction with the Notes to Condensed Consolidated Financial Statements herein and the Notes to Consolidated Financial Statements in the 2014 Form 10-K.*

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

	September 26, 2015	December 27, 2014
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 958	\$ 1,071
Receivables, net	1,231	1,264
Inventories	1,586	1,638
Prepaid expenses and other current assets	250	245
Total current assets	4,025	4,218
Property and equipment, net	816	963
Goodwill	396	391
Other intangible assets, net	58	72
Timber notes receivable	910	926
Deferred income taxes	21	32
Other assets	233	242
Total assets	<u>\$ 6,459</u>	<u>\$ 6,844</u>
<b>Liabilities and stockholders' equity</b>		
Current liabilities:		
Trade accounts payable	\$ 1,241	\$ 1,340
Accrued expenses and other current liabilities	1,337	1,517
Income taxes payable	18	4
Short-term borrowings and current maturities of long-term debt	56	32
Total current liabilities	2,652	2,893
Deferred income taxes and other long-term liabilities	580	621
Pension and postretirement obligations, net	180	196
Long-term debt, net of current maturities	643	674
Non-recourse debt	824	839
Total liabilities	<u>4,879</u>	<u>5,223</u>
Commitments and contingencies		
Stockholders' equity:		
Common stock—authorized 800,000,000 shares of \$.01 par value; issued shares – 554,642,753 in September 2015 and 551,097,537 in December 2014	6	6
Additional paid-in capital	2,595	2,556
Accumulated other comprehensive income	34	107
Accumulated deficit	(997)	(990)
Treasury stock, at cost – 5,915,268 shares in 2015 and 2014	(58)	(58)
Total equity	<u>1,580</u>	<u>1,621</u>
Total liabilities and stockholders' equity	<u>\$ 6,459</u>	<u>\$ 6,844</u>

*This report should be read in conjunction with the Notes to Condensed Consolidated Financial Statements herein and the Notes to Consolidated Financial Statements in the 2014 Form 10-K.*

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

	39 Weeks Ended	
	September 26, 2015	September 27, 2014
<b>Cash flows from operating activities:</b>		
Net loss	\$ (7)	\$ (268)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	220	233
Charges for losses on inventories and receivables	46	55
Asset impairments	10	77
Loss on disposition of joint venture	—	2
Changes in working capital and other	(269)	(64)
Net cash provided by operating activities	<u>—</u>	<u>35</u>
<b>Cash flows from investing activities:</b>		
Capital expenditures	(123)	(90)
Restricted cash	—	(4)
Proceeds from sale of joint venture, net	—	43
Acquisition, net of cash acquired	(9)	—
Proceeds from sale of available for sale securities	—	43
Proceeds from assets sold and other	65	9
Net cash provided by (used in) investing activities	<u>(67)</u>	<u>1</u>
<b>Cash flows from financing activities:</b>		
Net proceeds on employee share-based transactions	7	4
Net payments on long and short-term borrowings	(23)	(14)
Debt related fees	(1)	—
Net cash used in financing activities	<u>(17)</u>	<u>(10)</u>
<b>Effect of exchange rate changes on cash and cash equivalents</b>		
Net increase (decrease) in cash and cash equivalents	(29)	(16)
Cash and cash equivalents of consolidated joint venture held for sale at beginning of period	—	7
Cash and cash equivalents at beginning of period	1,071	948
Cash and cash equivalents at end of period	<u>\$ 958</u>	<u>\$ 965</u>

*This report should be read in conjunction with the Notes to Condensed Consolidated Financial Statements herein and the Notes to Consolidated Financial Statements in the 2014 Form 10-K.*

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

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Presentation:** Office Depot, Inc., including consolidated subsidiaries (“Office Depot” or the “Company”), is a global supplier of office products and services. The Company currently operates under the Office Depot® and OfficeMax® banners and utilizes proprietary company and product brand names. The Company’s common stock is traded on the NASDAQ Global Select Market under the ticker symbol ODP. As of September 26, 2015, the Company sold to customers throughout North America, Europe, and Asia/Pacific through three reportable segments (or “Divisions”): North American Retail Division, North American Business Solutions Division and International Division. Refer to Note 12 for further Division information.

The Condensed Consolidated Financial Statements as of September 26, 2015 and for the 13-week and 39-week periods ended September 26, 2015 (also referred to as “the third quarter of 2015” and “the year-to-date 2015”) and September 27, 2014 (also referred to as “the third quarter of 2014” and “the year-to-date 2014”) are unaudited. However, in management’s opinion, these financial statements reflect all adjustments of a normal recurring nature necessary to provide a fair presentation of the Company’s financial position, results of operations and cash flows for the periods presented.

The Company has prepared the Condensed Consolidated Financial Statements included herein pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”). Some information and note disclosures, which would normally be included in comprehensive annual financial statements prepared in accordance with accounting principles generally accepted in the United States, have been condensed or omitted pursuant to those SEC rules and regulations. For a better understanding of the Company and its Condensed Consolidated Financial Statements, we recommend reading these Condensed Consolidated Financial Statements in conjunction with the audited financial statements which are included in the 2014 Form 10-K. These interim results are not necessarily indicative of the results that should be expected for the full year.

**Cash Management:** The cash management process generally utilizes zero balance accounts which provide for the settlement of the related disbursement and cash concentration accounts on a daily basis. Trade accounts payable and Accrued expenses and other current liabilities as of September 26, 2015 and December 27, 2014 included \$53 million and \$91 million, respectively, of amounts not yet presented for payment drawn in excess of disbursement account book balances, after considering offset provisions.

At September 26, 2015, cash and cash equivalents held outside the United States amounted to \$206 million.

**Receivables under Factoring Agreement:** The Company sells selected accounts receivables on a non-recourse basis to an unrelated financial institution under a factoring agreement in France. The Company accounts for this transaction as a sale of receivables, removes receivables sold from its financial statements, and records cash proceeds when received by the Company as cash provided by operating activities in the Statements of Cash Flows. The financial institution makes available 80% of the face value of the receivables to the Company and retains the remaining 20% as a guarantee until the receipt of the proceeds associated with the factored invoices.

In the third quarter and year-to-date 2015, the Company withdrew \$76 million and \$255 million, respectively, from amounts available under the factoring arrangement. Receivables sold for which the Company did not obtain cash directly from the financial institution are included in Receivables and amount to \$10 million and \$6 million as of September 26, 2015 and December 27, 2014, respectively. Retention guarantee amounts of \$9 million and \$11 million are included in Prepaid expenses and other current assets as of September 26, 2015 and December 27, 2014, respectively.

**New Accounting Standards:** In May 2014, the Financial Accounting Standards Board (“FASB”) issued an accounting standards update that supersedes most current revenue recognition guidance and modifies the accounting for certain costs associated with revenue generation. The core principle of this guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance provides a number of steps to apply to achieve that principle and requires additional disclosures. The standard was originally to be effective for the Company’s first quarter of 2017. In July 2015, the FASB approved a one year extension to the required implementation date but also permits companies to adopt the standard at the original effective date of 2017. Adoption before the original effective date of 2017 is not permitted. Implementation may be either through retrospective application to each period of the two years preceding the date of adoption or through prospective application with a cumulative effect adjustment upon adoption. The Company is assessing what impacts this new standard will have on its Consolidated Financial Statements.

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

In April 2015, the FASB issued a new standard that will require debt issuance costs to be presented as a reduction of the related liability rather than as an asset. The standard is effective for the Company's first quarter of 2016 and will require prior periods to be adjusted. Early adoption is allowed. As of September 26, 2015, deferred costs of \$3 million relate to the Senior Secured Notes and will be reclassified in 2016 to reduce the carrying value of the debt and \$7 million relate to the Amended Credit Facility (as defined in Note 5), which has no outstanding borrowings and the debt issuance costs will remain classified as an asset.

In April 2015, the FASB issued a new standard that will allow companies a choice between measuring pension plan assets and liabilities based on the calendar year end date or, for companies with alternative year end dates (e.g., 52-53 week fiscal year), measurement closest to the calendar end date. The choice must be applied to all of a company's pension plans. It is effective for the Company in the first quarter of 2016; early adoption is allowed. The Company is evaluating this measurement option.

**NOTE 2. ACQUISITION AND DISPOSITIONS**

*Staples Acquisition*

On February 4, 2015, Staples, Inc. ("Staples") and the Company announced that the companies have entered into a definitive merger agreement (the "Staples Merger Agreement"), under which Staples will acquire all of the outstanding shares of Office Depot and the Company will become a wholly owned subsidiary of Staples (the "Staples Acquisition"). The Company will survive the Staples Acquisition as a wholly owned subsidiary of Staples. Under the terms of the Staples Merger Agreement, Office Depot shareholders will receive, for each Office Depot share held by such shareholders, \$7.25 in cash and 0.2188 of a share in Staples common stock at closing (the "Merger Consideration"). Each employee share-based award outstanding at the date of the Staples Merger Agreement will vest upon the effective date of the Staples Acquisition. Upon the effective date of the Staples Acquisition, employee share-based awards subsequently granted in 2015 will be converted into a contingent right to receive the cash equivalent of the Merger Consideration subject to the same terms and conditions of the corresponding award; provided that performance and vesting periods shall be reduced in duration. The Staples Merger Agreement includes representations, warranties and conditions, including breakup fees payable or receivable under certain conditions if the transaction fails to close. Under the Staples Merger Agreement, the Senior Secured Notes will be discharged, redeemed or defeased at the Effective Time of the Staples Acquisition.

The transaction has been approved by both companies' Boards of Directors and was approved by Office Depot shareholders at the Company's Annual Meeting of Stockholders held on June 19, 2015. The completion of the Staples Acquisition is subject to customary closing conditions including, among others, regulatory approvals under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, the New Zealand Overseas Investment Act of 2005, as amended, and under the antitrust and competition laws of the European Union and Canada. The Company and Staples have received antitrust clearance for the transaction from regulators in Australia, New Zealand and China.

On September 25, 2015, the European Commission announced that it has opened a Phase II review of the Staples Acquisition under the EU Merger Regulation, which currently provides the European Commission until February 10, 2016 to issue its decision. On October 12, 2015, Staples and Office Depot mutually agreed with the United States Federal Trade Commission (the "FTC") to extend the review period for the Staples Acquisition. Under the terms of the agreement, the FTC has agreed to issue its decision regarding the transaction by December 8, 2015. In light of the timing agreement with the FTC and the Phase II review in Europe, the closing could be delayed until early 2016.

Refer to the Company's definitive proxy statement filed May 18, 2015 for additional information on the transaction. Also, refer to Note 3 for expenses incurred during the third quarter and year-to-date 2015 related to the Staples Acquisition.

*Other*

During the first quarter of 2015, the Company acquired an interior furniture business for \$9 million. The business supports the contract channel of the North American Business Solutions Division. Fair value of assets acquired and liabilities assumed are included in the balance sheet since acquisition and include certain amortizing intangible assets and tax-deductible goodwill. Supplemental pro forma financial information is not provided based on materiality considerations.



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

*Consolidated joint venture sold*

In August 2014, the Company completed the sale of its 51% capital stock interest in Grupo OfficeMax S. de R.L. de C.V., the former OfficeMax, Incorporated (“OfficeMax”) business in Mexico, to its joint venture partner. The amounts included in the Condensed Consolidated Statements of Operations for this business are as follows:

<i>(In millions)</i>	2014	
	<u>Third Quarter</u>	<u>Year-to-date</u>
Sales	\$ 28	\$ 155
Income before income taxes	1	6
Income attributable to Office Depot, before income taxes	1	4

*Other assets held for sale*

Owned facilities identified for closure through integration and other activities and that are being actively marketed are accounted for as assets held for sale. As of September 26, 2015 and December 27, 2014, held for sale assets amounted to \$52 million and \$31 million, respectively, and primarily consisted of supply chain facilities. Held for sale assets are presented in Prepaid expenses and other current assets in the Condensed Consolidated Balance Sheets. Refer to Note 3 for further information on Merger, restructuring and other operating expenses, net, including gains realized during the third quarter and year-to-date 2015 related to disposition of held for sale assets.

**NOTE 3. MERGER, RESTRUCTURING, AND OTHER ACCRUALS**

In recent years, the Company has taken actions to adapt to changing and competitive conditions. These actions include closing facilities, consolidating functional activities, eliminating redundant positions, disposing of businesses and assets, and taking actions to improve process efficiencies. In 2013, the OfficeMax merger (the “Merger”) was completed and integration activities similar to the actions described above began. The Company also assumed certain restructuring liabilities previously recorded by OfficeMax. In mid-2014, the Company’s real estate strategy (the “Real Estate Strategy”) identified at least 400 retail stores for closure through 2016 along with planned changes to the supply chain. Also in 2014, the European restructuring plan was approved by the Company to realign the organization from a geographic-focus to a business channel-focus (the “European restructuring plan”). In 2015, the Staples Acquisition was announced. Significant expenses have been recognized associated with these activities, as discussed below.

**Merger, restructuring, and other operating expenses, net**

The Company presents Merger, restructuring and other operating expenses, net on a separate line in the Condensed Consolidated Statements of Operations to identify these activities apart from the expenses incurred to sell to and service its customers. These expenses are not included in the determination of Division operating income. The table below and narrative that follows summarize the major components of Merger, restructuring and other operating expenses, net.

<i>(In millions)</i>	<u>Third Quarter</u>		<u>Year-to-Date</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
<b>Merger related expenses</b>				
Severance, retention, and relocation	\$ 4	\$ 17	\$ 15	\$136
Transaction and integration	16	33	69	92
Facility closure, contract termination and other costs, net	18	5	32	14
<b>Total Merger related expenses</b>	<u>38</u>	<u>55</u>	<u>116</u>	<u>242</u>
<b>International restructuring and certain other expenses</b>				
Severance and retention	20	10	45	20
Integration	1	2	5	7
Other related expenses	6	5	13	7
<b>Total International restructuring and certain other expenses</b>	<u>27</u>	<u>17</u>	<u>63</u>	<u>34</u>
<b>Staples Acquisition expenses</b>	<u>46</u>	<u>—</u>	<u>95</u>	<u>—</u>
<b>Total Merger, restructuring and other operating expenses, net</b>	<u>\$111</u>	<u>\$ 72</u>	<u>\$274</u>	<u>\$276</u>

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

*Merger related expenses* – Severance, retention, and relocation reflect expenses incurred for the integration of staff functions. Since the second quarter of 2014, the Real Estate Strategy has been sufficiently developed to provide a basis for estimating termination benefits for certain retail and supply chain closures. Such benefits are being accrued through the anticipated facility closure date. Because the specific identity of retail locations to be closed is subject to change as implementation of the Real Estate Strategy progresses, estimates are used for the store closure severance accrual. The calculation considers factors such as the expected timing of store closures, terms of existing severance plans, expected employee turnover and attrition. As the integration progresses and additional decisions about the identity and timing of closures are made, more current information will be available and assumptions used in estimating the termination benefits accrual may change.

*Transaction and integration expenses* include integration-related professional fees, incremental temporary contract labor, salary and benefits for employees dedicated to the Merger activity, travel costs, non-capitalizable software integration costs, and other direct costs to combine the companies. Such costs are being recognized as incurred.

*Facility closure, contract termination and other costs, net* primarily relate to facility closure accruals, contract termination cost, gains and losses on asset dispositions, and accelerated depreciation. Facility closure expenses include amounts incurred by the Company to close retail stores in the United States as part of the Real Estate Strategy, as well as supply chain facilities. The Company expects to close approximately 180 retail stores in 2015 and more than 50 additional stores in 2016. The specific sites to close over this period may be influenced by real estate and other market conditions and, therefore, a reasonable estimate of future facility closure accruals cannot be made at this time. During the third quarter and year-to-date 2015, the Company recognized gains of \$6 million and \$25 million, respectively, from the sale of warehouse facilities that had been classified as assets held for sale. The gains are included in Merger, restructuring and other operating expenses, net, as the dispositions were part of the supply chain integration associated with the Merger.

*International restructuring and certain other expenses* – Expenses in 2015 include charges related to the European restructuring plan, including severance and retention, professional integration fees, facility closure and other restructuring costs. Both the 2015 and 2014 periods also include charges related to international organizational changes and facility closures which were started prior to the European restructuring plan. The remaining \$18 million of severance related to the European restructuring plan (at current exchange rates) is expected to be accrued over the remainder of 2015.

*Staples Acquisition expenses* – Expenses recognized in the third quarter and year-to-date 2015 include retention accruals of \$29 million and \$64 million, respectively, and transaction costs and costs associated with regulatory filings of \$17 million and \$31 million, respectively. The retention amounts will be paid regardless of whether the transaction is approved.

Asset impairments are not included in the table above. Refer to Note 10 for further information.

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

**Merger and restructuring accruals**

Of the total \$274 million Merger, restructuring and other expenses recognized in the year-to-date 2015 Condensed Consolidated Statements of Operations, \$189 million relates to Merger and restructuring balance sheet accruals and are included as Charges incurred in the table below. The remaining \$85 million is excluded from the table below because these items are expensed as incurred, non-cash, or otherwise not associated with Merger and restructuring balance sheet accounts.

<i>(In millions)</i>	<u>Beginning Balance</u>	<u>Charges Incurred</u>	<u>Cash Payments</u>	<u>Currency, Lease Accretion and Other Adjustments</u>	<u>Ending Balance</u>
2015					
Termination benefits					
Merger related accruals	\$ 31	\$ 16	\$ (28)	\$ (1)	\$ 18
European restructuring plan	26	37	(25)	(2)	36
Other restructuring accruals	8	6	(12)	(1)	1
	<u>65</u>	<u>59</u>	<u>(65)</u>	<u>(4)</u>	<u>55</u>
Lease and contract obligations, accruals for facilities closures and other costs					
Merger related accruals	71	51	(49)	(2)	71
European restructuring plan	—	9	(2)	—	7
Other restructuring accruals	35	5	(13)	3	30
Acquired entity accruals	36	1	(12)	2	27
Staples Acquisition related accruals	—	64	—	—	64
	<u>142</u>	<u>130</u>	<u>(76)</u>	<u>3</u>	<u>199</u>
Total	<u>\$ 207</u>	<u>\$ 189</u>	<u>\$ (141)</u>	<u>\$ (1)</u>	<u>\$ 254</u>

The \$85 million not included in the balance sheet accrual table is comprised of \$69 million Merger transaction and integration expenses, \$31 million Staples Acquisition transaction expenses, \$6 million International restructuring integration expenses, and \$4 million primarily related to fixed assets and rent expenses, partially offset by the \$25 million gain on the disposition in the first and third quarters of 2015 of the warehouse facilities associated with the supply chain integration.

**NOTE 4. INVESTMENTS**
**Boise Cascade Holdings, LLC and Boise Cascade Company Common Stock**

The Company had an investment of approximately 20% of the voting equity securities of Boise Cascade Holdings, L.L.C. (“Boise Cascade Holdings”), a building products company that originated in connection with the OfficeMax sale of its paper, forest products and timberland assets in 2004. In 2013, Boise Cascade Holdings owned common stock of Boise Cascade Company (“Boise Cascade”), a publicly traded entity, which gave the Company the indirect ownership interest of approximately 4% of the shares of Boise Cascade. During the first quarter of 2014, Boise Cascade Holdings distributed to its shareholders all of the Boise Cascade common stock it held. The Company received 1.6 million shares in this distribution, which the Company fully disposed of in open market transactions through June 28, 2014 for total cash proceeds of \$43 million. The related loss on disposal is included in Other income (expense), net in the Condensed Consolidated Statements of Operations. During the third quarter of 2014, the Company received an additional \$1 million of cash in conjunction with the dissolution of Boise Cascade Holdings.

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

**NOTE 5. DEBT**

**Amended Credit Facility**

Based on the September borrowing base certificate, at September 26, 2015, the Company had approximately \$1.2 billion of available credit under the asset-based, multi-currency revolving credit facility (the “Amended Credit Facility”) provided by the Amended and Restated Credit Agreement entered into in May 2011, as amended effective February 2012, March 2013, November 2013 and May 2015. In May 2015, the Amended Credit Facility maturity date was extended from May 25, 2016 to May 25, 2017. As of September 26, 2015, letters of credit outstanding under the Amended Credit Facility totaled \$86 million. There were no borrowings under the Amended Credit Facility in the third quarter of 2015.

**Other**

Under the Staples Merger Agreement, the Senior Secured Notes will be discharged, redeemed or defeased at the Effective Time of the Staples Acquisition.

The Company was in compliance with all applicable financial covenants at September 26, 2015.

**NOTE 6. INCOME TAXES**

For the third quarter of 2015, the Company’s effective tax rate was primarily impacted by valuation allowances, which limited the recognition of deferred tax benefits for pretax losses in certain tax jurisdictions while income tax expense was recognized in tax jurisdictions with pretax earnings. The effective tax rate was also impacted by nondeductible foreign interest and other nondeductible expenses. Due to the Company’s valuation allowances, interim income tax reporting is likely to result in significant variability of the effective tax rate throughout the course of the year. Changes in pretax income projections and the mix of income across jurisdictions could also impact the effective tax rate each quarter.

The Company has significant deferred tax assets in the U.S. and in certain foreign jurisdictions against which valuation allowances have been established to reduce such deferred tax assets to the amount that is more likely than not to be realized. As of the third quarter of 2015, valuation allowances remain in the U.S. and certain foreign jurisdictions where the Company believes it is necessary to see further positive evidence, such as sustained achievement of cumulative profits, before these valuation allowances can be released. Given the current earnings trend in the U.S., sufficient positive evidence may become available for the Company to release all or a portion of the U.S. valuation allowance in a future period. Of the \$488 million U.S. valuation allowance estimated to remain at year-end 2015, it is reasonably possible that \$260-\$350 million may be released in 2016, which would result in a non-cash income tax benefit in the period of release. In addition, if positive evidence develops the Company may also release valuation allowances in certain foreign jurisdictions in 2016, which would result in an income tax benefit of \$3 million in the period of release. However, the exact timing and amount of the valuation allowance releases are subject to change based on the level of profitability actually achieved in future periods. The Company will continue to assess the realizability of its deferred tax assets.

The Company files a U.S. federal income tax return and other income tax returns in various states and foreign jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal and state and local income tax examinations for years before 2014 and 2009, respectively. During the third quarter of 2015, the Internal Revenue Service (“IRS”) examination of the OfficeMax 2012 U.S. federal income tax return concluded, which resulted in a \$6 million decrease in tax credit carryforwards. Such decrease had no impact on income tax expense due to an offsetting change in valuation allowance. The acquired OfficeMax U.S. consolidated group is no longer subject to U.S. federal and state and local income tax examinations for years before 2013 and 2006, respectively. The U.S. federal income tax returns for 2014 and 2015 are currently under review. Generally, the Company is subject to routine examination for years 2008 and forward in its international tax jurisdictions.

It is reasonably possible that certain tax positions will be resolved within the next 12 months, which would decrease the Company’s balance of unrecognized tax benefits by \$5 million but would not affect the effective tax rate due to an offsetting change in valuation allowance. Additionally, the Company anticipates that it is reasonably possible that new issues will be raised or resolved by tax authorities that may require changes to the balance of unrecognized tax benefits; however, an estimate of such changes cannot be reasonably made.

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

**NOTE 7. STOCKHOLDERS' EQUITY**

The following table reflects the changes in stockholders' equity.

<i>(In millions)</i>	
Stockholders' equity at December 27, 2014	\$1,621
Net loss	(7)
Other comprehensive loss	(73)
Share transactions under employee-related plans	7
Amortization of long-term incentive stock grants	32
Stockholders' equity at September 26, 2015	<u>\$1,580</u>

Accumulated other comprehensive income (loss) activity, net of tax, where applicable, is provided in the following table:

<i>(In millions)</i>	<b>Foreign Currency Translation Adjustments</b>	<b>Change in Deferred Pension</b>	<b>Total</b>
Balance at December 27, 2014	\$ 186	\$ (79)	\$107
Other comprehensive loss activity before reclassifications	(73)	—	(73)
Reclassifications from Accumulated other comprehensive income (loss) to net loss			
Three month period ended March 28, 2015	(1)	—	(1)
Three month period ended June 27, 2015	—	—	—
Three month period ended September 26, 2015	1	—	1
Net other comprehensive loss	(73)	—	(73)
Balance at September 26, 2015	<u>\$ 113</u>	<u>\$ (79)</u>	<u>\$ 34</u>

As a result of valuation allowances in the U.S. and several international taxing jurisdictions, items other than deferred pension amounts generally have little or no tax impact. The component balances are net of immaterial tax impacts, where applicable.

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

**NOTE 8. EARNINGS PER SHARE**

The following table represents the calculation of net earnings (loss) per common share (“EPS”):

<i>(In millions, except per share amounts)</i>	<u>Third Quarter</u>		<u>Year-to-Date</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
<b>Basic Earnings Per Share</b>				
Numerator:				
Net income (loss) attributable to Office Depot, Inc.	\$ 6	\$ 29	\$ (7)	\$ (270)
Denominator:				
Weighted-average shares outstanding	548	536	546	534
Basic earnings (loss) per share	\$0.01	\$0.05	\$(0.01)	\$(0.51)
<b>Diluted Earnings Per Share</b>				
Numerator:				
Net income (loss) attributable to Office Depot, Inc.	\$ 6	\$ 29	\$ (7)	\$ (270)
Denominator:				
Weighted-average shares outstanding	548	536	546	534
Effect of dilutive securities:				
Stock options and restricted stock	<u>8</u>	<u>9</u>	<u>—</u>	<u>—</u>
Diluted weighted-average shares outstanding	556	545	546	534
Diluted earnings (loss) per share	\$0.01	\$0.05	\$(0.01)	\$(0.51)

Potentially dilutive stock options and restricted stock representing 9 million and 8 million shares for the year-to-date 2015 and 2014, respectively, were excluded from the diluted loss per share calculation because of the net loss in the periods.

Awards of options and nonvested shares representing 3 million and less than 1 million additional shares of common stock were outstanding for the third quarter and year-to-date 2015, respectively, and 9 million and 10 million for the third quarter and year-to-date 2014, respectively, but were not included in the computation of diluted weighted-average shares outstanding because their effect would have been antidilutive. For the periods presented, no tax benefits have been assumed in the weighted average share calculation in jurisdictions with valuation allowances.

**NOTE 9. EMPLOYEE BENEFIT PLANS**

**Pension and Other Postretirement Benefit Plans – North America**

The components of net periodic pension benefit for the Company’s North American pension plans are as follows:

<i>(In millions)</i>	<u>Third Quarter</u>		<u>Year-to-Date</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Service cost	\$ 1	\$ 1	\$ 3	\$ 3
Interest cost	11	13	34	39
Expected return on plan assets	<u>(14)</u>	<u>(16)</u>	<u>(42)</u>	<u>(47)</u>
Net periodic pension benefit	<u>\$ (2)</u>	<u>\$ (2)</u>	<u>\$ (5)</u>	<u>\$ (5)</u>

Net periodic cost for the Company’s North American other postretirement plans were less than \$1 million.

In the year-to-date 2015, \$8 million of cash contributions were made to the North American pension plans. The Company expects to make additional cash contributions of \$1 million to the North American pension plans in 2015.

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

**Pension Plan – Europe**

The components of net periodic pension benefit for the Company's European pension plan are as follows:

<i>(In millions)</i>	Third Quarter		Year-to-Date	
	2015	2014	2015	2014
Service cost	\$—	\$—	\$—	\$—
Interest cost	2	3	6	8
Expected return on plan assets	(3)	(4)	(10)	(11)
Net periodic pension benefit	\$ (1)	\$ (1)	\$ (4)	\$ (3)

The Company's European pension plan is in a net asset position. There are no funding requirements while this plan has an asset surplus.

Net periodic pension benefits for the North American and European pension and other postretirement benefit plans are recorded in Selling, general and administrative expenses in the Condensed Consolidated Statements of Operations.

**NOTE 10. DERIVATIVE INSTRUMENTS AND FAIR VALUE MEASUREMENTS****Derivative Instruments and Hedging Activities**

As a global supplier of office products and services the Company is exposed to risks associated with changes in foreign currency exchange rates, fuel and other commodity prices and interest rates. Depending on the exposure, settlement timeframe and other factors, the Company may enter into derivative transactions to mitigate those risks. Financial instruments authorized under the Company's established risk management policy include spot trades, swaps, options, caps, collars, forwards and futures. Use of derivative financial instruments for speculative purposes is expressly prohibited by the Company's policies. The Company may designate and account for such qualifying arrangements as hedges or reflect current mark-to-market impacts of non-qualifying economic hedge arrangements currently in earnings. As of September 26, 2015, the foreign exchange and fuel contracts extend through January 2016.

The fair values of the Company's foreign currency contracts and fuel contracts are the amounts receivable or payable to terminate the agreements at the reporting date, taking into account current interest rates, exchange rates and commodity prices. The values are based on market-based inputs or unobservable inputs that are corroborated by market data. At September 26, 2015 and December 27, 2014, Accrued expenses and other liabilities in the Condensed Consolidated Balance Sheets include \$5 million and \$6 million, respectively, related to derivative fuel and foreign exchange contracts payable; no significant amounts were recorded in accumulated other comprehensive income.

**Financial Instruments**

The Company measures fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In developing its fair value estimates, the Company uses the following hierarchy:

- Level 1: Quoted prices in active markets for identical assets or liabilities.
- Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.
- Level 3: Significant unobservable inputs that are not corroborated by market data. Generally, these fair value measures are model-based valuation techniques such as discounted cash flows or option pricing models using the Company's own estimates and assumptions or those expected to be used by market participants.

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

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

The following table presents information about financial instruments at the balance sheet dates indicated.

<i>(In millions)</i>	September 26, 2015		December 27, 2014	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Financial assets</b>				
Timber notes receivable	\$ 910	\$ 919	\$ 926	\$930
<b>Financial liabilities</b>				
Recourse debt				
9.75% senior secured notes, due 2019	250	265	250	280
7.35% debentures, due 2016	18	18	18	18
Revenue bonds, due in varying amounts periodically through 2029	186	182	186	185
American & Foreign Power Company, Inc. 5% debentures, due 2030	14	13	14	13
Non-recourse debt	824	835	839	845

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

- **Timber notes receivable:** Fair value is determined as the present value of expected future cash flows discounted at the current interest rate for loans of similar terms with comparable credit risk (Level 2 measure).
- **Recourse debt:** Recourse debt for which there were no transactions on the measurement date was valued based on quoted market prices near the measurement date when available or by discounting the future cash flows of each instrument using rates based on the most recently observable trade or using rates currently offered to the Company for similar debt instruments of comparable maturities (Level 2 measure).
- **Non-recourse debt:** Fair value is estimated by discounting the future cash flows of the instrument at rates currently available to the Company for similar instruments of comparable maturities (Level 2 measure).

**Fair Value Estimates Used in Impairment Analyses**

North American Retail Division

As a result of declining sales in recent periods, the Company conducts a detailed quarterly store impairment analysis. The analysis uses input from retail store operations and the Company's accounting and finance personnel that organizationally report to the Chief Financial Officer. These projections are based on management's estimates of store-level sales, gross margins, direct expenses, projected store closures, exercise of future lease renewal options, and favorable lease values, where applicable. The resulting cash flows, by their nature, include judgments about how current initiatives will impact future performance. If the anticipated cash flows of a store cannot support the carrying value of its assets, the retail store operating assets, as well as the related favorable lease intangible assets, are impaired and written down to their estimated fair value using a discounted cash flow approach (Level 3 measure).

The Company recognized store asset impairment charges of \$1 million and \$9 million, in the third quarter and year-to-date of 2015, respectively and \$6 million and \$25 million in the third quarter and year-to-date 2014, respectively. In addition, the charges in the year-to-date 2015 and the third quarter 2014 include approximately \$1 million impairment of favorable lease intangible asset values following the identification of closing locations where future intangible asset recovery was considered unlikely.



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

The third quarter of 2015 analysis incorporated the assessment of which stores are anticipated to be closed through 2016, as well as projected cash flows through the base lease period for stores identified for ongoing operations. The projections assumed declining sales in future periods. Gross margin assumptions have been held constant at current actual levels and operating costs have been assumed to be consistent with recent actual results and planned activities. For the third quarter 2015 impairment analysis, identified locations were reduced to estimated fair value of \$1 million based on their projected cash flows, discounted at 13% or estimated salvage value of \$2 million, as appropriate. Assets added to previously impaired locations, whether for Division-wide enhancements or specific location betterment, are capitalized and subsequently tested for impairment. A 100 basis point decrease in next year forecasted sales combined with a 50 basis point decrease in next year gross margin would have increased the impairment by less than \$1 million. A 100 basis point decrease in sales for all future periods would increase the impairment by approximately \$1 million. Further, an incremental 6% increase in payroll costs above the historical growth rate would increase the impairment by \$5 million.

The Company will continue to evaluate initiatives to improve performance and lower operating costs. To the extent that forward-looking sales and operating assumptions are not achieved and are subsequently reduced, or in certain circumstances, even if store performance is as anticipated, additional impairment charges may result. However, at the end of the third quarter of 2015, the impairment analysis reflects the Company's best estimate of future performance.

Other assets

Other asset impairment charges for the year-to-date 2014 include \$12 million following a decision to convert certain websites to a common platform. The impairment amount was based on a cash flow analysis over the remaining use period. The year-to-date 2014 also includes an additional \$28 million charge related to the abandonment of a software implementation project in Europe and \$13 million for the write off of capitalized software following certain information technology platform decisions related to the Merger. These charges are included in the Asset impairments line in the Condensed Consolidated Statements of Operations.

**NOTE 11. COMMITMENTS AND CONTINGENCIES**

**Legal Matters**

The Company is involved in litigation arising in the normal course of business. While, from time to time, claims are asserted that make demands for a large sum of money (including, from time to time, actions which are asserted to be maintainable as class action suits), the Company does not believe that contingent liabilities related to these matters (including the matters discussed below), either individually or in the aggregate, will materially affect the Company's financial position, results of operations or cash flows.

On February 4, 2015, Staples and Office Depot entered into the Staples Merger Agreement under which the companies would combine in a stock and cash transaction. Beginning on February 9, 2015, a number of putative class action lawsuits were filed by purported Office Depot stockholders in the Court of Chancery of the State of Delaware ("Court") challenging the transaction and alleging that the defendant companies—Office Depot, Staples, Merger Sub, and Starboard Value LP— and individual members of Office Depot's Board of Directors violated applicable laws by breaching their fiduciary duties and/or aiding and abetting such breaches. The plaintiffs sought, among other things, injunctive relief and rescission, as well as fees and costs. The Court subsequently consolidated all nine of the Delaware cases and named Jamison Miller and Steve Renous as lead plaintiffs. The consolidated case is named *In re Office Depot, Inc. Stockholders Litigation Consolidated*, C.A. No. 10655-CB. After limited discovery, the plaintiffs and defendants agreed on certain additional disclosures to the Company's definitive proxy statement filed on May 18, 2015, which were made in a Form 8-K filing on June 5, 2015, and the plaintiffs withdrew from the calendar their planned motion to preliminarily enjoin the stockholder vote on the merger. On September 18, 2015, the Delaware Court of Chancery approved a stipulation under which lead plaintiffs voluntarily dismissed the action with prejudice as to themselves and without prejudice as to the putative class members. The Court retained jurisdiction solely for the purpose of adjudicating lead plaintiffs' counsel's anticipated application for an award of attorneys' fees and reimbursement expenses in connection with the disclosures in the June 5, 2015 Form 8-K. The Company subsequently agreed to pay \$0.5 million to lead plaintiffs' counsel for attorneys' fees and expenses in full satisfaction of their claim for attorneys' fees and expenses in the action. Additionally, in February 2015, two lawsuits were filed in Palm Beach County Circuit Court, namely *Keny Petit-Frere v. Office Depot, Inc., et al.* and *John Sweatman v. Office Depot, Inc., et al.* making the same allegations as in the Delaware actions. The lawsuits generally sought injunctive relief enjoining the consummation of the transaction, rescission of the transaction in the event it is consummated, damages, fees, costs, and other remedies. Office Depot filed a motion to dismiss the Florida lawsuits for improper venue, and that motion was granted on May 15, 2015.

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

In addition, in the ordinary course of business, sales to and transactions with government customers may be subject to lawsuits, investigations, audits and review by governmental authorities and regulatory agencies, with which the Company cooperates. Many of these lawsuits, investigations, audits and reviews are resolved without material impact to the Company. While claims in these matters may at times assert large demands, the Company does not believe that contingent liabilities related to these matters, either individually or in the aggregate, will materially affect its financial position, results of operations or cash flows.

In addition to the foregoing, *Heitzenrater v. OfficeMax North America, Inc., et al.* was filed in the United States District Court for the Western District of New York in September 2012 as a putative class action alleging violations of the Fair Labor Standards Act and New York Labor Law. The complaint alleges that OfficeMax misclassified its assistant store managers (“ASMs”) as exempt employees. The Company believes that adequate provisions have been made for probable losses and such amounts are not material. However, in light of the early stage of the case and the inherent uncertainty of litigation, the Company is unable to estimate a reasonably possible range of loss in the matter. OfficeMax intends to vigorously defend itself in this lawsuit. Further, *Kyle Rivet v. Office Depot, Inc., formerly known as Constance Gibbons v. Office Depot, Inc.*, a putative class action that was instituted in May 2012, is pending in the United States District Court for the District of New Jersey. The complaint alleges that Office Depot’s use of the fluctuating workweek (FWW) method of pay was unlawful because Office Depot failed to pay a fixed weekly salary and failed to provide its ASMs with a clear and mutual understanding notification that they would receive a fixed weekly salary for all hours worked. The plaintiffs in both complaints seek unpaid overtime, punitive damages, and attorneys’ fees. The Company believes in this case that adequate provisions have been made for probable losses and such amounts are not material. However, in light of the early stage of the case and the inherent uncertainty of litigation, the Company is unable to estimate a reasonably possible range of loss in these matters. Office Depot intends to vigorously defend itself in these lawsuits.

OfficeMax is named a defendant in a number of lawsuits, claims, and proceedings arising out of the operation of certain paper and forest products assets prior to those assets being sold in 2004, for which OfficeMax agreed to retain responsibility. Also, as part of that sale, OfficeMax agreed to retain responsibility for all pending or threatened proceedings and future proceedings alleging asbestos-related injuries arising out of the operation of the paper and forest products assets prior to the closing of the sale. The Company has made provision for losses with respect to the pending proceedings. Additionally, as of September 26, 2015, our estimate of the range of reasonably possible losses for environmental liabilities with respect to certain sites where hazardous substances or other contaminants are or may be located was approximately \$10 million to \$25 million. The Company regularly monitors its estimated exposure to these liabilities. As additional information becomes known, these estimates may change, however, the Company does not believe any of these OfficeMax retained proceedings are material to the Company’s business.

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

**NOTE 12. DIVISION INFORMATION**

The Company has three reportable segments: North American Retail Division, North American Business Solutions Division, and International Division. The North American Retail Division includes retail stores in the United States, including Puerto Rico and the U.S. Virgin Islands, which offer office supplies, technology products and solutions, business machines and related supplies, facilities products, and office furniture. Most stores also have a copy and print center offering printing, reproduction, mailing and shipping. The North American Business Solutions Division sells office supply products and services in Canada and the United States, including Puerto Rico and the U.S. Virgin Islands. North American Business Solutions Division customers are served through dedicated sales forces, through catalogs, telesales, and electronically through its Internet sites. The International Division sells office products and services through direct mail catalogs, contract sales forces, Internet sites, and retail stores in Europe and Asia/Pacific.

The former OfficeMax business in Mexico is presented as Other. The integration of this business into the International Division was suspended in the second quarter of 2014 due to its sale, and it was managed and reported independently of the Company's other international businesses, through the date of the sale.

The office supply products and services offered across all operating segments are similar. Division operating income is determined based on the measure of performance reported internally to manage the business and for resource allocation. This measure charges to the respective Divisions those expenses considered directly or closely related to their operations and allocates support costs. Certain operating expenses and credits are not allocated to the Divisions including Asset impairments and Merger, restructuring and other operating expenses, net, as well as expenses and credits retained at the Corporate level, including certain management costs and legacy pension and environmental matters. Other companies may charge more or less of these items to their segments and results may not be comparable to similarly titled measures used by other entities.

The following is a summary of Sales and Division operating income by each of the Divisions, reconciled to consolidated totals.

<i>(In millions)</i>	Sales			
	Third Quarter		Year-to-Date	
	2015	2014	2015	2014
North American Retail Division	\$1,604	\$1,722	\$ 4,599	\$ 4,989
North American Business Solutions Division	1,438	1,522	4,348	4,554
International Division	648	797	2,060	2,565
Other	—	28	—	155
Total	<u>\$3,690</u>	<u>\$4,069</u>	<u>\$11,007</u>	<u>\$12,263</u>

<i>(In millions)</i>	Division Operating Income			
	Third Quarter		Year-to-Date	
	2015	2014	2015	2014
North American Retail Division	\$ 120	\$ 79	\$ 248	\$ 110
North American Business Solutions Division	66	67	186	165
International Division	1	10	17	25
Total	<u>\$ 187</u>	<u>\$ 156</u>	<u>\$ 451</u>	<u>\$ 300</u>

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

A reconciliation of the measure of Division operating income to Consolidated income (loss) before income taxes is as follows:

<i>(In millions)</i>	<u>Third Quarter</u>		<u>Year-to-Date</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Total Division operating income	\$ 187	\$156	\$ 451	\$ 300
Add/(subtract):				
Other operating income	—	1	—	8
Asset impairments	(1)	(6)	(10)	(77)
Merger, restructuring, and other operating expenses, net	(111)	(72)	(274)	(276)
Legal accrual	—	(1)	—	(81)
Unallocated expenses	(24)	(29)	(79)	(88)
Interest income	6	6	18	18
Interest expense	(22)	(25)	(71)	(65)
Other income (expense), net	(1)	1	1	(1)
Income (loss) before income taxes	<u>\$ 34</u>	<u>\$ 31</u>	<u>\$ 36</u>	<u>\$(262)</u>

The gross amount of goodwill and the amount of accumulated impairment losses as of September 26, 2015 and December 27, 2014 are provided in the following table:

<i>(In millions)</i>	<u>North American Retail Division</u>	<u>North American Business Solutions Division</u>	<u>International Division</u>	<u>Total</u>
	Goodwill	\$ 80	\$ 647	\$ 922
Accumulated impairment losses	(2)	(349)	(907)	(1,258)
Balance as of December 27, 2014	78	298	15	391
Additions	—	5	—	5
Balance as of September 26, 2015	<u>\$ 78</u>	<u>\$ 303</u>	<u>\$ 15</u>	<u>\$ 396</u>

Refer to Note 2 for additional information on goodwill associated with the first quarter 2015 additions.

## **Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.**

### **Acquisition by Staples**

On February 4, 2015, Staples, Inc. (“Staples”) and the Company announced that the companies have entered into a definitive merger agreement (the “Staples Merger Agreement”), under which Staples will acquire all of the outstanding shares of Office Depot and the Company will become a wholly owned subsidiary of Staples (the “Staples Acquisition”). The Company will survive the Staples Acquisition as a wholly owned subsidiary of Staples. Under the terms of the Staples Merger Agreement, Office Depot shareholders will receive, for each Office Depot share held by such shareholders, \$7.25 in cash and 0.2188 of a share in Staples common stock at closing (the “Merger Consideration”). Each employee share-based award outstanding at the date of the Staples Merger Agreement will vest upon the effective date of the Staples Acquisition. Upon the effective date of the Staples Acquisition, employee share-based awards subsequently granted in 2015 will be converted into a contingent right to receive the cash equivalent of the Merger Consideration subject to the same terms and conditions of the corresponding award; provided that performance and vesting periods shall be reduced in duration. The Staples Merger Agreement includes representations, warranties and conditions, including breakup fees payable or receivable under certain conditions if the transaction fails to close. Under the Staples Merger Agreement, the Senior Secured Notes will be discharged, redeemed or defeased at the Effective Time of the Staples Acquisition. Refer to Liquidity and Capital Resources for additional information.

The transaction has been approved by both companies’ Boards of Directors and was approved by Office Depot shareholders at the Company’s Annual Meeting of Stockholders held on June 19, 2015. The completion of the Staples Acquisition is subject to customary closing conditions including, among others, regulatory approvals under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, the New Zealand Overseas Investment Act of 2005, as amended, and under the antitrust and competition laws of the European Union and Canada. The Company and Staples have received antitrust clearance for the transaction from regulators in Australia, New Zealand and China.

On September 25, 2015, the European Commission announced that it has opened a Phase II review of the Staples Acquisition under the EU Merger Regulation, which currently provides the European Commission until February 10, 2016 to issue its decision. On October 12, 2015, Staples and Office Depot mutually agreed with the United States Federal Trade Commission (the “FTC”) to extend the review period for the Staples Acquisition. Under the terms of the agreement, the FTC has agreed to issue its decision regarding the transaction by December 8, 2015. In light of the timing agreement with the FTC and the Phase II review in Europe, the closing could be delayed until early 2016.

Refer to the Company’s definitive proxy statement filed May 18, 2015 for additional information on the transaction. Also, refer to Note 3 for expenses incurred during the third quarter and year-to-date 2015 related to the Staples Acquisition.

## **RESULTS OF OPERATIONS**

### **OVERVIEW**

Office Depot, Inc., together with its subsidiaries (“Office Depot” or the “Company”), is a global supplier of office products and services to consumers and businesses of all sizes. We sell to customers throughout North America, Europe, and Asia/Pacific through three reportable segments (or “Divisions”): North American Retail Division, North American Business Solutions Division and International Division. The North American Retail Division includes our retail stores in the United States, including Puerto Rico and the U.S. Virgin Islands, which offer office supplies, technology products and solutions, business machines and related supplies, facilities products, and office furniture. Most stores also have a copy and print center offering printing, reproduction, mailing and shipping services. The North American Business Solutions Division sells office supply products and services in Canada and the United States, including Puerto Rico and the U.S. Virgin Islands. North American Business Solutions Division customers are served through dedicated sales forces, catalogs, telesales, and electronically through our Internet sites. Our International Division sells office products and services through direct mail catalogs, contract sales forces, Internet sites, and retail stores in Europe and Asia/Pacific. The former OfficeMax, Incorporated (“OfficeMax”) business in Mexico is presented as an Other segment. The integration of this business, into the International Division was suspended in the second quarter of 2014 due to the sale and it was managed and reported independently of the Company’s other international businesses, through the date of the sale.

Management’s Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”) is intended to provide information to assist readers in better understanding and evaluating our financial condition and results of operations. We recommend reading this MD&A in conjunction with our Condensed Consolidated Financial Statements and the Notes to those statements included in Item 1 of this Quarterly Report on Form 10-Q, as well as our 2014 Annual Report on Form 10-K, filed with the U.S. Securities and Exchange Commission (the “SEC”) on February 24, 2015 (the “2014 Form 10-K”).

## Table of Contents

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,” “could,” “will” and similar expressions in this Quarterly Report on Form 10-Q, we are identifying forward-looking statements (as such term is defined in the Private Securities Litigation Reform Act of 1995). Our discussion of Risk Factors, found in Item 1A of our 2014 Form 10-K, and Forward-Looking Statements, found in Part I of our 2014 Form 10-K, apply to these forward-looking statements.

A summary of certain factors impacting results for the 13-week and 39-week periods ended September 26, 2015 (also referred to as “the third quarter of 2015” and “the year-to-date 2015”) and September 27, 2014 (also referred to as “the third quarter of 2014” and “the year-to-date 2014”) is provided below. Additional discussion of the 2015 third quarter and year-to-date results is provided in the narrative that follows this overview.

In mid-2014, the Company’s real estate strategy (the “Real Estate Strategy”) identified at least 400 retail stores for closure through 2016, along with planned changes to the supply chain. Sales reported for the third quarter and year-to-date 2015 compared to the same periods of the prior year were significantly affected by store closures in North America, changes in currency exchange rates abroad, and the sale in August 2014 of the business Grupo OfficeMax S. de R.L. de C.V. (“Grupo OfficeMax”), the former OfficeMax Mexico (identified as “Other” in the table and narrative below).

Sales (In millions)	Third Quarter			Year-to-Date		
	2015	2014	Change	2015	2014	Change
North American Retail Division	\$1,604	\$1,722	(7)%	\$ 4,599	\$ 4,989	(8)%
<i>Change in comparable store sales</i>			3%			— %
North American Business Solutions Division	1,438	1,522	(6)%	4,348	4,554	(5)%
<i>Change in constant currencies</i>			(5)%			(4)%
International Division	648	797	(19)%	2,060	2,565	(20)%
<i>Change in constant currencies</i>			(5)%			(6)%
Other – Grupo OfficeMax	—	28		—	155	
Total	<u>\$3,690</u>	<u>\$4,069</u>	(9)%	<u>\$ 11,007</u>	<u>\$12,263</u>	(10)%

- Gross margin increased 115 basis points in the third quarter of 2015 compared to the same period of 2014, with increases both in North American Retail and North American Business Solutions Divisions and a slight decrease in the International Division. In the year-to-date 2015, gross margin increased 93 basis points, compared to the year-to-date 2014, with increases across all three Divisions. Grupo OfficeMax has been omitted from basis point calculations.
- Total Company Selling, general and administrative expenses decreased in 2015 compared to 2014, reflecting the closure of stores in North America, lower payroll and advertising expenses, operational efficiencies and synergies, the 2014 sale of Grupo OfficeMax, and foreign currency translation effects. As a percentage of sales, total Company Selling, general and administrative expenses decreased in both the third quarter and year-to-date 2015 compared to 2014 by over 10 and 60 basis points, respectively.
- Non-cash asset impairment charges of \$1 million and \$10 million were recorded in the third quarter and year-to-date 2015, respectively. Non-cash asset impairment charges for the third quarter and year-to-date 2014 were \$6 million and \$77 million, respectively. All periods include charges related to underperforming stores in North America. Additionally, the 2014 year-to-date charges include a \$28 million asset impairment related to the abandonment of a software implementation project in Europe and \$26 million related to the write off of capitalized software following certain information technology platform decisions related to the OfficeMax merger (the “Merger”).
- We recognized \$111 million and \$274 million of Merger, restructuring, and other operating expenses, net in the third quarter and year-to-date 2015, respectively, compared to \$72 million and \$276 million in the third quarter and year-to-date 2014, respectively. In the third quarter of 2015, this line item includes \$38 million of expenses related to Merger activities, \$27 million of International restructuring and certain other operating expenses, and \$46 million related to the Staples Acquisition. Additional integration and restructuring expenses are expected to be incurred.

## [Table of Contents](#)

- The effective tax rates of 82% and 119% for the third quarter and year-to-date 2015, respectively, were primarily caused by the net impact of not recognizing deferred tax benefits for pretax losses in certain tax jurisdictions with valuation allowances, and the recognition of income tax expense in tax jurisdictions with pretax earnings. Because of the valuation allowances and changes in the mix of earnings among jurisdictions and during interim periods, the Company continues to experience significant effective tax rate volatility within the year and across years. Given the current earnings trend in the U.S., sufficient positive evidence may become available for the Company to release all or a portion of the U.S. valuation allowance in a future period. Of the \$488 million U.S. valuation allowance estimated to remain at year-end 2015, it is reasonably possible that \$260-\$350 million may be released in 2016, which would result in a non-cash income tax benefit in the period of release. However, the exact timing and amount of a valuation allowance release is subject to change based on the level of profitability actually achieved in future periods.
- Earnings per share was \$0.01 in the third quarter of 2015 compared to \$0.05 in the third quarter of 2014. Loss per share was \$(0.01) in the year-to-date 2015 compared to \$(0.51) per share in the year-to-date 2014.
- At September 26, 2015, we had \$958 million in cash and cash equivalents and \$1.2 billion available under the Amended Credit Agreement. Cash provided by operating activities was less than \$1 million for the year-to-date 2015, compared to cash provided by operating activities of \$35 million in the same period of the prior year.

## OPERATING RESULTS

Discussion of additional income and expense items, including material charges and credits and changes in interest and income taxes follows our review of segment results.

In the Division tables that follow, the changes in Sales for 2014 reflect the impact of adding the OfficeMax business in late 2003.

### NORTH AMERICAN RETAIL DIVISION

<i>(In millions)</i>	Third Quarter		Year-to-Date	
	2015	2014	2015	2014
Sales	\$1,604	\$1,722	\$4,599	\$4,989
% change	(7)%	53%	(8)%	55%
Division operating income	\$ 120	\$ 79	\$ 248	\$ 110
% of sales	7%	5%	5%	2%
Comparable store sales increase (decline)	3%	(3)%	— %	(3)%

Sales in our North American Retail Division decreased 7% in the third quarter of 2015 compared to sales in the same period last year. The decrease resulted primarily from store closures associated with the Real Estate Strategy. While store closures result in lower sales in the North American Retail Division, they are typically lower performing stores and future Division operating income comparisons may benefit for a period after their closure. Comparable store sales in the third quarter of 2015 increased 3%, reflecting benefits from sales transfer from closed stores and increased operational effectiveness, including a strong back-to-school program. Transaction counts increased and average order value was flat. The increase in comparable store sales reflect increases in supplies, furniture, Copy & Print Depot, ink and toner and declines in computer and related technology products.

Comparable store sales are based on stores that have been open for at least one year. Stores are removed from the comparable sales calculation one month prior to closing, as sales during that period are largely non-comparable clearance activity, and during periods of store remodeling and if significantly downsized. As the Company continues to implement the Real Estate Strategy, current period comparable store sales calculations are positively affected as customers transfer from closed to nearby stores which remain open. The average sales transfer rate achieved to date under the Real Estate Strategy is estimated to be at least 30%.

The North American Retail Division reported operating income of \$120 million in the third quarter of 2015, compared to \$79 million in the same period of prior year. Store closures contributed to declines in occupancy, payroll and other store operating costs. Beyond the impact from store closures, operating costs decreased from lower advertising and payroll expenses. Additionally, Division operating income was favorably affected by an increase in gross margin rates and a favorable legal settlement.

## [Table of Contents](#)

The factors discussed above affecting the third quarter of 2015 are also reflective of those impacting the year-to-date 2015 compared to the same period of 2014. The sales decline reflects the impact of closing stores as outlined in the Real Estate Strategy. The transfer of sales from closing stores to locations that remain open has had a positive impact on comparable store sales. Operating expenses have decreased from the store closures and continued synergy impacts from the Merger. Also, in year-to-date 2015, the Division recognized \$22 million in favorable legal settlements relating to certain product manufacturers' pricing practices.

During the third quarter and year-to-date 2015, the North American Retail Division closed 6 and 125 stores, respectively, ending the period with a store count of 1,620.

The Company expects to close approximately 180 stores in 2015. Consistent with the Real Estate Strategy announced in 2014, more than 50 stores are anticipated to be closed in 2016, bringing the total closures to at least 400 stores over the 2014 to 2016 period. The closures in 2015 and 2016 are expected to result in exit costs associated with facility closures and severance. Charges associated with these decisions will be reported as appropriate in Asset impairments and Merger, restructuring and other operating expenses, net in the Consolidated Statements of Operations. These charges will be reflected in Corporate reporting, and not included in the determination of Division income in future periods.

### **NORTH AMERICAN BUSINESS SOLUTIONS DIVISION**

<i>(In millions)</i>	<b>Third Quarter</b>		<b>Year-to-Date</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
Sales	\$1,438	\$1,522	\$4,348	\$4,554
% change	(6)%	88%	(5)%	89%
Division operating income	\$ 66	\$ 67	\$ 186	\$ 165
% of sales	5%	4%	4%	4%

Sales in our North American Business Solutions Division in U.S. dollars decreased 6% in the third quarter of 2015 compared to the same period in the prior year. On a constant currency basis, sales decreased 5%. Sales decreased in both the contract and direct channels.

The decline in the contract channel sales reflects the continued transition out of certain customers that purchased under a legacy OfficeMax buying arrangement with a Minority Women Business Enterprise (a "Tier 1" buying arrangement) that was modified in 2014, the negative impacts from changes in Canadian currency exchange rates, sales disruption related to the pending acquisition by Staples, as well as lower customer order fill rates attributable to Merger integration activities. These factors are expected to have a negative impact on sales for the remainder of 2015. In the direct channel, online sales through officedepot.com increased during the third quarter 2015, reflecting benefits from an enhanced Internet shopping offering and experience. This increase was partially offset by customer attrition from the decommissioning of legacy OfficeMax e-commerce sites that is expected to streamline operations and lower future operating costs. The increased officedepot.com sales were offset by reduced catalog and call center sales. We anticipate this shift to online shopping will continue. On a product category basis for the Division, sales increased in cleaning and breakroom products and declined in core supplies, technology products, furniture and Copy & Print Depot.

Division operating income for the third quarter 2015 was \$66 million, compared to \$67 million in the same period of the prior year. Division operating income as a percentage of sales was higher in the third quarter of 2015 compared to the same period in 2014. The rate improvement reflects an increase in gross margins and a decrease in operating expenses, including lower payroll and advertising expenses. Partially offsetting these benefits, Division operating income was negatively impacted by the sales decline on recovery of fixed operating expenses (the "flow through impact").

The factors discussed above affecting the third quarter of 2015 are also reflective of those impacting the year-to-date 2015 compared to the same period of 2014. The sales decline reflects the impact of customer attrition, changes in foreign currency exchange rates and the closure during the second quarter of 2014 of all 19 stores in Canada (the sales of which were reported in the contract channel). Also, operating expenses have decreased from continued synergy impacts from the Merger and the Canadian store closures.



**INTERNATIONAL DIVISION**

<i>(In millions)</i>	<b>Third Quarter</b>		<b>Year-to-Date</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
Sales	\$648	\$797	\$2,060	\$2,565
% change	(19)%	17%	(20)%	20%
Division operating income (loss)	\$ 1	\$ 10	\$ 17	\$ 25
% of sales	— %	1%	1%	1%

Sales in our International Division in U.S. dollars decreased 19% in the third quarter of 2015 compared to sales in the same period of the prior year. On a constant currency basis, sales decreased 5%. Constant currency sales were lower in the contract and direct channels and higher in the retail channel. The contract channel sales decline reflects competitive factors that contributed to the loss of certain customers earlier in 2015, a decline in orders from existing customers in the larger European markets and disruption related to the pending acquisition by Staples. Sales were also negatively affected by sales force vacancies in certain locations in reaction to the European restructuring plan. These declines were partially offset by sales increases in smaller European markets during the third quarter of 2015. In the direct channel, catalog and call center sales continued to decline across all product categories, partially offset by an increase in online sales. This change in customer buying preference has been ongoing and is expected to continue. Sales in both the contract and direct channels have been negatively affected by competitive pressures, particularly in the ink and toner and paper categories. Retail sales in constant currencies reflect higher sales in Korea and Sweden.

Division operating income totaled \$1 million in the third quarter of 2015 compared to \$10 million in the same period of 2014. The decline in Division operating income reflects the negative flow through impact of lower sales, as well as a lower gross margin rate, including foreign currency transaction impacts related to certain merchandise purchases denominated in U.S. dollars. These factors were partially offset by lower payroll, advertising and supply chain expenses.

The European restructuring plan is expected to be substantially complete by the end of 2015. The Company expects to generate local currency annual cost reduction benefits by the end of 2016 of approximately \$80 million, at current exchange rates. Costs associated with restructuring activities are reported at the Corporate level and discussed in the “International restructuring and certain other operating expenses” section below.

For U.S. reporting, the International Division’s sales are translated into U.S. dollars at average exchange rates experienced during the period. The Division’s reported sales were negatively affected by \$106 million and \$342 million from changes in foreign currency exchange rates in the third quarter and year-to-date 2015, respectively. However, the translation effects from changes in foreign currency exchange rates did not have a significant impact on Division operating income. We analyze our international operations in terms of local currency performance to allow focus on operating trends and results.

The factors discussed above affecting Sales and Division operating income in the third quarter of 2015 are also reflective of those impacting the year-to-date 2015 compared to the same period of 2014.

**OTHER**

<i>(In millions)</i>	<b>2014</b>	
	<b>Third Quarter</b>	<b>Year-to-Date</b>
Sales	\$ 28	\$ 155
Other operating income	\$ 1	\$ 8

With the Merger, we acquired the OfficeMax joint venture business operating in Mexico, Grupo OfficeMax. In August 2014, we completed the sale of our interest in this business to our joint venture partner. In the second quarter of 2014, the integration of this business into the International Division was suspended, and subsequently managed and reported independently of the Company’s other international businesses.

Since the Company controlled the joint venture, the total Grupo OfficeMax results through the date of the sale are included in the Consolidated Statement of Operations, with an apportionment of the period results to the noncontrolling interest based on their ownership percentage.

**CORPORATE**

The line items in our Condensed Consolidated Statements of Operations impacted by these Corporate activities are presented in the table below, followed by a narrative discussion of the significant matters. These activities are managed at the Corporate level and, accordingly, are not included in the determination of Division income for management reporting or external disclosures.

<i>(In millions)</i>	<u>Third Quarter</u>		<u>Year-to-Date</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Asset impairments	\$ 1	\$ 6	\$ 10	\$ 77
Merger, restructuring, and other operating expenses, net	111	72	274	276
Legal accrual	—	1	—	81
Total charges and credits impact on Operating income (loss)	<u>\$ 112</u>	<u>\$ 79</u>	<u>\$ 284</u>	<u>\$ 434</u>

In addition to these charges and credits, certain Selling, general and administrative expenses are not allocated to the Divisions and are managed at the Corporate level. Those expenses are addressed in the section “Unallocated Costs” below.

**Asset Impairments, Merger, Restructuring, Other Charges and Credits**

In recent years, the Company has taken actions to adapt to changing and competitive conditions. These actions include closing facilities, consolidating functional activities, eliminating redundant positions, disposing of businesses and assets, and taking actions to improve process efficiencies. These actions have resulted in significant charges associated with the Merger, Real Estate Strategy, restructuring certain International operations and the Staples Acquisition. These activities are expected to continue in future periods and result in additional charges.

Asset Impairments

We recognized asset impairment charges of \$1 million and \$10 million in the third quarter and year-to-date 2015, respectively, and \$6 million and \$77 million in the third quarter and year-to-date 2014, respectively. The year-to-date 2015 charges include \$9 million impairment of store operating assets, as well as \$1 million impairment of certain favorable lease assets following identification of closing locations where future intangible asset recovery was considered unlikely. The third quarter 2014 charge includes \$5 million store impairments and \$1 million impairment of favorable lease intangible asset values following identification of closing locations where future intangible asset recovery was considered unlikely. The year-to-date 2014 charges include \$24 million store impairments, \$28 million asset impairment related to the abandonment of a software implementation project in Europe, \$25 million related to the write off of capitalized software following certain information technology platform decisions related to the Merger.

The third quarter of 2015 analysis incorporated the assessment of which stores are anticipated to be closed through 2016, as well as projected cash flows through the base lease period for stores identified for ongoing operations. The projections assumed declining sales in future periods. Gross margin assumptions have been held constant at current actual levels and operating costs have been assumed to be consistent with recent actual results and planned activities. For the third quarter 2015 impairment analysis, identified locations were reduced to estimated fair value of \$1 million based on their projected cash flows, discounted at 13% or estimated salvage value of \$2 million, as appropriate. Assets added to previously impaired locations, whether for Division-wide enhancements or specific location betterment, are capitalized and subsequently tested for impairment. A 100 basis point decrease in next year forecasted sales combined with a 50 basis point decrease in next year gross margin would have increased the impairment by less than \$1 million. A 100 basis point decrease in sales for all future periods would increase the impairment by approximately \$1 million. Further, an incremental 6% increase in payroll costs above the historical growth rate would increase the impairment by \$5 million.

The Company will continue to evaluate initiatives to improve performance and lower operating costs. To the extent that forward-looking sales and operating assumptions are not achieved and are subsequently reduced, or in certain circumstances, even if store performance is as anticipated, additional impairment charges may result. However, at the end of the third quarter of 2015, the impairment analysis reflects the Company’s best estimate of future performance.

As implementation of the Retail Strategy progresses, we are likely to experience volatility in results. In addition to charges for severance, and facility closure costs that will be recognized as decisions are made, we may experience volatility from the timing of recognition of impairment charges followed by credits related to capital leases and deferred rent accounts when the leases are terminated or modified.

## [Table of Contents](#)

### *Merger, restructuring and other operating expenses, net*

The table below summarizes the major components of Merger, restructuring and other operating expenses, net.

<i>(In millions)</i>	<u>Third Quarter</u>		<u>Year-to-Date</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
<b>Merger related expenses</b>				
Severance, retention, and relocation	\$ 4	\$ 17	\$ 15	\$136
Transaction and integration	16	33	69	92
Facility closure, contract termination and other costs, net	18	5	32	14
<b>Total Merger related expenses</b>	<b>38</b>	<b>55</b>	<b>116</b>	<b>242</b>
<b>International restructuring and certain other expenses</b>				
Severance and retention	20	10	45	20
Integration	1	2	5	7
Other related expenses	6	5	13	7
<b>Total International restructuring and certain other expenses</b>	<b>27</b>	<b>17</b>	<b>63</b>	<b>34</b>
<b>Staples Acquisition expenses</b>	<b>46</b>	<b>—</b>	<b>95</b>	<b>—</b>
<b>Total Merger, restructuring and other operating expenses, net</b>	<b>\$111</b>	<b>\$ 72</b>	<b>\$274</b>	<b>\$276</b>

#### *Merger related expenses*

Expenses include severance, employee retention, integration-related professional fees, incremental temporary contract labor, salary and benefits for employees dedicated to Merger activity, travel and relocation costs, non-capitalizable software integration costs, facility closure accruals, gains and losses on asset dispositions, accelerated depreciation, and other direct costs to combine the companies. During the third quarter and year-to-date 2015 periods, the Company recognized gains of \$6 million and \$25 million, respectively, relating to the sale of warehouse facilities that had been classified as held for sale. The gains are included in Facility closure, contract termination and other costs, net because the disposition was part of the supply chain integration associated with the Merger. Held for sale assets at September 26, 2015 totaled \$52 million.

It is expected that significant Merger-related expenses will continue to be incurred as the Real Estate Strategy is implemented and other integration activities are completed. Expenses associated with these activities will be recognized in future periods as the related accounting criteria are met.

#### *International restructuring and certain other expenses*

International restructuring and certain other expenses in 2015 include charges related to the European restructuring plan approved in 2014 to realign the organization from a geographic-focus to a business channel-focus (the European restructuring plan). Such expenses include severance, retention, professional integration fees, and facility closure and other restructuring costs. Both the 2015 and 2014 periods include charges related to international organizational changes and facility closures which were started prior to the European restructuring plan. Approximately \$18 million of severance (at current exchange rates) is expected to be accrued over the remainder of 2015.

#### *Staples Acquisition Expenses*

During the third quarter and year-to-date 2015, the Company incurred \$46 million and \$95 million, respectively, of Staples Acquisition expenses, including retention accruals of \$29 million and \$64 million, respectively, and transaction costs and costs associated with regulatory filings of \$17 million and \$31 million, respectively. The retention amounts will be paid regardless of whether the transaction is approved.

Refer to Notes 2 and 3 of the Notes to the Condensed Consolidated Financial Statements for additional information

## Legal Accrual

In June 2014, the Company participated in a non-binding, voluntary mediation in which the Company negotiated a potential settlement to resolve the Sherwin lawsuit. During the second quarter of 2014, the Company recorded an \$80 million incremental increase to the legal accrual which included the potential settlement, as well as attorneys' fees and other related legal matters. On December 19, 2014, Office Depot and the plaintiffs executed a Settlement Agreement to resolve the lawsuit. Pursuant to the terms of the Settlement Agreement, the Company agreed to pay the plaintiffs \$68 million to settle the matter (the "Settlement Amount"), as well as \$9 million in legal fees, costs, and expenses. In exchange for, and in consideration of, the Company's agreement to pay the Settlement Amount, the plaintiffs agreed to dismiss their action against the Company with prejudice. In February 2015, the court entered orders approving the settlement and dismissing the case with prejudice. The Settlement Amount and the related fees were paid during the second quarter of 2015.

## Unallocated Expenses

The Company allocates to the Divisions functional support costs that are considered to be directly or closely related to segment activity. Those allocated costs are included in the measurement of Division operating income. Other companies may charge more or less of functional support costs to their segments, and our results therefore may not be comparable to similarly titled measures used by other companies. The unallocated costs primarily consist of the buildings used for the Company's corporate headquarters and personnel not directly supporting the Divisions, including certain executive, finance, audit and similar functions. Unallocated costs also include certain pension expense or credit related to the frozen OfficeMax pension and other benefit plans.

Unallocated costs were \$24 million and \$29 million in the third quarter of 2015 and 2014, respectively, and \$79 million and \$88 million in the year-to-date 2015 and 2014, respectively. The decrease in the year-to-date 2015 compared to the same period in 2014 primarily resulted from synergies achieved at the corporate functional level following the Merger.

## Other Income and Expense

<i>(In millions)</i>	<u>Third Quarter</u>		<u>Year-to-Date</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Interest income	\$ 6	\$ 6	\$ 18	\$ 18
Interest expense	(22)	(25)	(71)	(65)
Other income (expense), net	(1)	1	1	(1)

Interest expense in year-to-date 2014 included a \$9 million reversal of previously accrued interest expense on uncertain tax positions following resolution of the related matter. Also, the third quarter and year-to-date 2014 included interest expense on debt held by the joint venture in Mexico that was sold in August 2014.

Other income, net includes gains and losses related to foreign exchange transactions, investment results from deferred compensation plans and, in 2014, losses on sales of the Boise Cascade Company stock received by the Company following the Merger

## Income Taxes

For the third quarter of 2015, the effective tax rate was primarily impacted by valuation allowances, which limited the recognition of deferred tax benefits for pretax losses in certain tax jurisdictions while income tax expense was recognized in tax jurisdictions with pretax earnings. The effective tax rate was also impacted by nondeductible foreign interest and other nondeductible expenses. The increase in the effective tax rate for the third quarter of 2015 from the third quarter of 2014 is primarily related to the U.S. transition from a loss jurisdiction with valuation allowance to a profitable tax-paying jurisdiction with valuation allowance. The increase in the effective tax rate for year-to-date 2015 from the same period in 2014 is primarily attributable to the release of valuation allowance in certain foreign jurisdictions and favorable settlements with certain tax authorities during the second quarter of 2014, which resulted in income tax benefits of \$4 million and \$3 million, respectively. In addition, the effective tax rate for year-to-date 2015 reflects \$3 million of income tax expense related to the establishment of valuation allowance in certain foreign jurisdictions.

Following the recognition of significant valuation allowances in the U.S. and certain foreign jurisdictions in 2009, we have regularly experienced substantial volatility in our effective tax rate in interim periods and across years. Because deferred income tax benefits cannot be recognized in several jurisdictions, changes in the amount, mix, and timing of pretax earnings among jurisdictions can have a significant impact on the overall effective tax rate. This interim and full-year volatility is likely to continue in future periods until the valuation allowances can be released.

## [Table of Contents](#)

We have significant deferred tax assets in the U.S. and in certain foreign jurisdictions against which valuation allowances have been established to reduce such deferred tax assets to the amount that is more likely than not to be realized. As of the third quarter of 2015, valuation allowances remain in the U.S. and certain foreign jurisdictions where we believe it is necessary to see further positive evidence, such as sustained achievement of cumulative profits, before these valuation allowances can be released. Given the current earnings trend in the U.S., sufficient positive evidence may become available for us to release all or a portion of the U.S. valuation allowance in a future period. Of the \$488 million U.S. valuation allowance estimated to remain at year-end 2015, it is reasonably possible that \$260-\$350 million may be released in 2016, which would result in a non-cash income tax benefit in the period of release. In addition, if positive evidence develops the Company may also release valuation allowances in certain foreign jurisdictions in 2016, which would result in an income tax benefit of \$3 million in the period of release. However, the exact timing and amount of the valuation allowance releases are subject to change based on the level of profitability actually achieved in future periods.

During the third quarter of 2015, the Internal Revenue Service (“IRS”) examination of the OfficeMax 2012 U.S. federal income tax return concluded, which resulted in a \$6 million decrease in tax credit carryforwards. Such decrease had no impact on income tax expense due to an offsetting change in valuation allowance. It is reasonably possible that certain tax positions will be resolved within the next 12 months, which would decrease our balance of unrecognized tax benefits by \$5 million but would not affect the effective tax rate due to an offsetting change in valuation allowance. Additionally, we anticipate that it is reasonably possible that new issues will be raised or resolved by tax authorities that may require changes to the balance of unrecognized tax benefits; however, an estimate of such changes cannot be reasonably made.

### **NEW ACCOUNTING STANDARDS**

In May 2014, the Financial Accounting Standards Board (“FASB”) issued an accounting standards update that supersedes most current revenue recognition guidance and modifies the accounting for certain costs associated with revenue generation. The core principle of this guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance provides a number of steps to apply to achieve that principle and requires additional disclosures. The standard was originally to be effective for the Company’s first quarter of 2017. In July 2015, the FASB approved a one year extension to the required implementation date but also permits companies to adopt the standard at the original effective date of 2017. Adoption before the original effective date of 2017 is not permitted. Implementation may be either through retrospective application to each period of the two years preceding the date of adoption or through prospective application with a cumulative effect adjustment upon adoption. The Company is assessing what impacts this new standard will have on its Consolidated Financial Statements.

In April 2015, the FASB issued a new standard that will require debt issuance costs to be presented as a reduction of the related liability rather than as an asset. The standard is effective for the Company’s first quarter of 2016 and will require prior periods to be adjusted. Early adoption is allowed. As of September 26, 2015, deferred costs of \$3 million relate to the Senior Secured Notes and will be reclassified in 2016 to reduce the carrying value of the debt and \$7 million relates to the Amended Credit Facility which has no outstanding borrowings and the debt issuance costs will remain classified as an asset.

In April 2015, the FASB issued a new standard that will allow companies a choice between measuring pension plan assets and liabilities based on the calendar year end date or, for companies with alternative year end dates (e.g., 52-53 week fiscal year), measurement closest to the calendar end date. The choice must be applied to all of a company’s pension plans. It is effective for the Company in the first quarter of 2016; early adoption is allowed. The Company is evaluating this measurement option.

## LIQUIDITY AND CAPITAL RESOURCES

At September 26, 2015, we had \$958 million in cash and equivalents and another \$1.2 billion available under the Amended Credit Facility (as defined in Note 5 of the Condensed Consolidated Financial Statements) based on the September borrowing base certificate, for a total liquidity of approximately \$2.1 billion. We currently believe that our cash on hand, availability of funds under the Amended Credit Facility, and full year cash flows generated from operations will be sufficient to fund our working capital, capital expenditure, debt repayment, Merger and Staples Acquisition requirements for at least the next twelve months.

At September 26, 2015, no amounts were drawn under the Amended Credit Agreement. There were letters of credit outstanding under the Amended Credit Agreement at the end of the third quarter 2015 totaling \$86 million.

We also had short-term borrowings of \$3 million at September 26, 2015, under a local currency credit facility for our international subsidiaries that had an effective interest rate at the end of the third quarter of approximately 5%. The maximum month end amount occurred in June at approximately \$6 million and the maximum monthly average amount occurred in July at approximately \$5 million. These short-term borrowings represent outstanding balances on uncommitted lines of credit, which do not contain financial covenants.

The Company was in compliance with all applicable financial covenants at September 26, 2015.

Since the Merger date, we have incurred significant expenses associated with the Merger and integration actions, including costs associated with the Real Estate Strategy, and we have incurred significant expenses from restructuring activities in Europe. Approximately \$250 million of net Merger integration costs are anticipated for fiscal years 2015 and 2016, including costs related to optimizing the US retail store portfolio. International restructuring expenses are expected to be approximately \$80 million in 2015, consisting of severance and other employee termination benefits, as well as lease obligations and other costs.

For the full year 2015, the Company expects capital expenditures to be approximately \$200 million, including approximately \$80 million related to Merger integration. An additional \$80 million of Merger integration capital spending is anticipated for 2016.

We have entered into the Staples Merger Agreement with Staples and have agreed to pay a fee of \$185 million to Staples if each of the following conditions are met: (i) the Staples Merger Agreement is terminated because the Staples Acquisition is not consummated by February 4, 2016 (the initial end date of November 4, 2015 was automatically extended as permitted in the Staples Merger Agreement), (ii) a third party has made an acquisition proposal before the termination of the Staples Merger Agreement, and (iii) within 12 months of the termination of the Staples Merger Agreement, the Company enters into an alternative transaction. Staples is required to pay Office Depot a termination fee of \$250 million if the Staples Merger Agreement is terminated in certain circumstances relating to the antitrust regulatory review process.

In addition, whether or not the Staples Acquisition is completed, the uncertainty related to the proposed Staples Acquisition could adversely impact our business through several factors, including, but not limited to: (i) our current clients may experience uncertainty associated with the Staples Acquisition and may attempt to negotiate changes in existing business relationships or consider entering into business relationships with parties other than us; (ii) we may face additional challenges in competing for new and renewal business; (iii) vendors or suppliers may seek to modify or terminate their business relationships with us; and (iv) our ability to retain and hire associates.

Reflecting the extended regulatory review, the Company currently estimates it will incur approximately \$120 million of expenses related to the pending acquisition by Staples, primarily employee retention costs and advisory fees, including \$95 million recognized in year-to-date 2015.

## [Table of Contents](#)

### *Cash Flows*

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

<i>(In millions)</i>	<u>Year-to-Date</u>	
	<u>2015</u>	<u>2014</u>
Operating activities	\$—	\$ 35
Investing activities	(67)	1
Financing activities	(17)	(10)

### Operating Activities

During the year-to-date 2015, cash provided by operating activities was less than \$1 million, compared to cash provided of \$35 million during the same period last year. Operating activities reflect outflows related to Merger, restructuring, integration, and Staples acquisition activities in 2015 and 2014.

Changes in net working capital and other operating activities in the third quarter of 2015 resulted in a \$269 million use of cash compared to a use of \$64 million in the year-to-date 2014. The 2015 use of cash in operating activities included \$77 million payment of the legal Settlement Amount and certain of the related fees, the settlement of the 2014 accrued incentive pay, and a net use of cash in integration related activities, including rent and rent-related liabilities and employee termination benefits. Additionally, the 2015 period is impacted by a difference in the timing of changes in inventory when compared to the 2014 period. Working capital is influenced by a number of factors including period end sales, the flow of goods, credit terms, timing of promotions, vendor production planning, new product introductions and working capital management. For our accounting policy on cash management, refer to Note 1 of the Condensed Consolidated Financial Statements.

The Company expects total Company sales in 2015 to be lower than 2014, primarily due to its decision to close certain stores, negative impact of currency translation, business disruption from the announcement of the pending acquisition by Staples, and continued challenging market conditions.

### Investing Activities

Cash used in investing activities was \$67 million in the year-to-date 2015, compared to cash provided of \$1 million in the same period last year. During the year-to-date 2015, \$123 million was used for capital expenditures and \$9 million was used for acquisition of an interior furniture business. These outflows were partially offset by \$65 million of proceeds from the disposition of assets and other, primarily, the sale of warehouse facilities that previously were classified as held for sale. Additional facility sales are anticipated as the Real Estate Strategy is implemented. The year-to-date 2014 includes \$43 million net proceeds from the disposition of Grupo OfficeMax, \$43 million proceeds from the disposition of Boise Cascade Company common stock received from the Boise Cascade Holdings distribution, offset by capital expenditures of \$90 million. The 2014 period also includes \$9 million from proceeds from assets sold and other.

### Financing Activities

Cash used in financing activities was \$17 million and \$10 million in year-to-date 2015 and 2014, respectively. During the year-to-date 2015, net payments on long- and short term borrowings were \$23 million compared to net payments of \$14 million in the same period last year. Employee share-based transactions resulted in a \$7 million and \$4 million source of cash in the year-to-date 2015 and 2014, respectively.

Under the Staples Merger Agreement, the Senior Secured Notes will be discharged, redeemed or defeased at the Effective Time of the Staples Acquisition. The discharge funding is anticipated to be part of the total Staples Acquisition consideration as part of closing.

## **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 2014 Form 10-K, in Note 1 of the Notes to the Consolidated Financial Statements and the Critical Accounting Policies and Estimates section of the Management's Discussion and Analysis of Financial Condition and Results of Operations.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

At September 26, 2015, there had not been a material change in the interest rate, foreign exchange, and commodities risks information disclosed in the “Market Sensitive Risks and Positions” subsection of the Management’s Discussion and Analysis of Financial Condition and Results of Operations set forth in Item 7 of the Company’s 2014 Form 10-K.

Changes in foreign exchange rates have affected comparison of reported U.S. dollars Division results. Where applicable, changes in U.S. dollars and constant currencies have been reported in Management’s Discussion and Analysis of Financial Condition and Results of Operations.

**Item 4. Controls and Procedures.**

*Evaluation of disclosure controls and procedures*

We maintain controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, as amended (the “Exchange Act”) is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be in this report is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure. Our management recognizes that any controls and procedures, no matter how well designed and operated, can only provide reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the possible controls and procedures. Each reporting period, the Company carries out an evaluation, with the participation of its Chief Executive Officer (“CEO”), and Chief Financial Officer (“CFO”), of the effectiveness of the design and operation of the Company’s disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act.

Based on management’s evaluation, as of September 26, 2015, the Company’s CEO and CFO concluded that the Company’s disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by the Company in reports that the Company files or submits under the Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and that such information is accumulated and communicated to the Company’s management, including the CEO and CFO, to allow timely decisions regarding required disclosures.

*Changes in Internal Control over Financial Reporting*

There has been no change in the Company’s internal control over financial reporting that occurred during the Company’s most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.



## **PART II. OTHER INFORMATION**

### **Item 1. Legal Proceedings.**

The Company is involved in litigation arising in the normal course of business. While, from time to time, claims are asserted that make demands for a large sum of money (including, from time to time, actions which are asserted to be maintainable as class action suits), the Company does not believe that contingent liabilities related to these matters (including the matters discussed below), either individually or in the aggregate, will materially affect the Company's financial position, results of operations or cash flows.

On February 4, 2015, Staples and Office Depot entered into the Staples Merger Agreement under which the companies would combine in a stock and cash transaction. Beginning on February 9, 2015, a number of putative class action lawsuits were filed by purported Office Depot stockholders in the Court of Chancery of the State of Delaware ("Court") challenging the transaction and alleging that the defendant companies—Office Depot, Staples, Merger Sub, and Starboard Value LP—and individual members of Office Depot's Board of Directors violated applicable laws by breaching their fiduciary duties and/or aiding and abetting such breaches. The plaintiffs sought, among other things, injunctive relief and rescission, as well as fees and costs. The Court subsequently consolidated all nine of the Delaware cases and named Jamison Miller and Steve Renous as lead plaintiffs. The consolidated case is named *In re Office Depot, Inc. Stockholders Litigation Consolidated*, C.A. No. 10655-CB. After limited discovery, the plaintiffs and defendants agreed on certain additional disclosures to the Company's definitive proxy statement filed on May 18, 2015, which were made in a Form 8-K filing on June 5, 2015, and the plaintiffs withdrew from the calendar their planned motion to preliminarily enjoin the stockholder vote on the merger. On September 18, 2015, the Delaware Court of Chancery approved a stipulation under which lead plaintiffs voluntarily dismissed the action with prejudice as to themselves and without prejudice as to the putative class members. The Court retained jurisdiction solely for the purpose of adjudicating lead plaintiffs' counsel's anticipated application for an award of attorneys' fees and reimbursement expenses in connection with the disclosures in the June 5, 2015 Form 8-K. The Company subsequently agreed to pay \$0.5 million to plaintiffs' counsel for attorneys' fees and expenses in full satisfaction of their claim for attorneys' fees and expenses in the action. Additionally, in February 2015, two lawsuits were filed in Palm Beach County Circuit Court, namely *Keny Petit-Frere v. Office Depot, Inc., et al.* and *John Sweatman v. Office Depot, Inc., et al.* making the same allegations as in the Delaware actions. The lawsuits generally sought injunctive relief enjoining the consummation of the transaction, rescission of the transaction in the event it is consummated, damages, fees, costs, and other remedies. Office Depot filed a motion to dismiss the Florida lawsuits for improper venue, and that motion was granted on May 15, 2015.

In addition, in the ordinary course of business, sales to and transactions with government customers may be subject to lawsuits, investigations, audits and review by governmental authorities and regulatory agencies, with which the Company cooperates. Many of these lawsuits, investigations, audits and reviews are resolved without material impact to the Company. While claims in these matters may at times assert large demands, the Company does not believe that contingent liabilities related to these matters, either individually or in the aggregate, will materially affect its financial position, results of operations or cash flows.

In addition to the foregoing, *Heitzenrater v. OfficeMax North America, Inc., et al.* was filed in the United States District Court for the Western District of New York in September 2012 as a putative class action alleging violations of the Fair Labor Standards Act and New York Labor Law. The complaint alleges that OfficeMax misclassified its assistant store managers ("ASMs") as exempt employees. The Company believes that adequate provisions have been made for probable losses and such amounts are not material. However, in light of the early stage of the case and the inherent uncertainty of litigation, the Company is unable to estimate a reasonably possible range of loss in the matter. OfficeMax intends to vigorously defend itself in this lawsuit. Further, *Kyle Rivet v. Office Depot, Inc., formerly known as Constance Gibbons v. Office Depot, Inc.*, a putative class action that was instituted in May 2012, is pending in the United States District Court for the District of New Jersey. The complaint alleges that Office Depot's use of the fluctuating workweek (FWW) method of pay was unlawful because Office Depot failed to pay a fixed weekly salary and failed to provide its ASMs with a clear and mutual understanding notification that they would receive a fixed weekly salary for all hours worked. The plaintiffs in both complaints seek unpaid overtime, punitive damages, and attorneys' fees. The Company believes in this case that adequate provisions have been made for probable losses and such amounts are not material. However, in light of the early stage of the case and the inherent uncertainty of litigation, the Company is unable to estimate a reasonably possible range of loss in these matters. Office Depot intends to vigorously defend itself in these lawsuits.

---

## [Table of Contents](#)

OfficeMax is named a defendant in a number of lawsuits, claims, and proceedings arising out of the operation of certain paper and forest products assets prior to those assets being sold in 2004, for which OfficeMax agreed to retain responsibility. Also, as part of that sale, OfficeMax agreed to retain responsibility for all pending or threatened proceedings and future proceedings alleging asbestos-related injuries arising out of the operation of the paper and forest products assets prior to the closing of the sale. The Company has made provision for losses with respect to the pending proceedings. Additionally, as of September 26, 2015, our estimate of the range of reasonably possible losses for environmental liabilities with respect to certain sites where hazardous substances or other contaminants are or may be located was approximately \$10 million to \$25 million. The Company regularly monitors its estimated exposure to these liabilities. As additional information becomes known, these estimates may change, however, the Company does not believe any of these OfficeMax retained proceedings are material to the Company's business.

### **Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

At September 26, 2015, pursuant to an indenture, dated as of March 14, 2012, we have restrictions on the amount of cash dividends we can pay. We have never declared or paid cash dividends on our common stock and do not anticipate declaring or paying any cash dividends on our common stock in the foreseeable future.

---

[Table of Contents](#)

**Item 6. Exhibits.**

Exhibits

31.1	Rule 13a-14(a)/15d-14(a) Certification of CEO
31.2	Rule 13a-14(a)/15d-14(a) Certification of CFO
32	Section 1350 Certification
(101.INS)	XBRL Instance Document
(101.SCH)	XBRL Taxonomy Extension Schema Document
(101.CAL)	XBRL Taxonomy Extension Calculation Linkbase Document
(101.DEF)	XBRL Taxonomy Extension Definition Linkbase Document
(101.LAB)	XBRL Taxonomy Extension Label Linkbase Document
(101.PRE)	XBRL Taxonomy Extension Presentation Linkbase Document

**SIGNATURES**

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

OFFICE DEPOT, INC.  
(Registrant)

Date: November 3, 2015

By: /s/ Roland C. Smith

---

Roland C. Smith  
Chief Executive Officer and  
Chairman, Board of Directors  
(Principal Executive Officer)

Date: November 3, 2015

By: /s/ Stephen E. Hare

---

Stephen E. Hare  
Executive Vice President and  
Chief Financial Officer  
(Principal Financial Officer)

Date: November 3, 2015

By: /s/ Kim Moehler

---

Kim Moehler  
Senior Vice President  
and Chief Accounting Officer  
(Principal Accounting Officer)

**Rule 13a-14(a)/15d-14(a) Certification**

I, Roland C. Smith, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Office Depot, Inc.;
2. Based on my knowledge, this 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) 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
  - d) 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.

/s/ Roland C. Smith

---

Roland C. Smith  
Chief Executive Officer and Chairman, Board of Directors

Date: November 3, 2015

**Rule 13a-14(a)/15d-14(a) Certification**

I, Stephen E. Hare, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Office Depot, Inc.;
2. Based on my knowledge, this 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) 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
  - d) 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.

/s/ Stephen E. Hare

Stephen E. Hare

Executive Vice President and Chief Financial Officer

Date: November 3, 2015

**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 September 26, 2015, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Roland C. Smith, as Chief Executive Officer of the Company, and Stephen E. Hare, 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 each officer's 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/ Roland C. Smith

---

Name: Roland C. Smith  
Title: Chief Executive Officer  
Date: November 3, 2015

/s/ Stephen E. Hare

---

Name: Stephen E. Hare  
Title: Chief Financial Officer  
Date: November 3, 2015

The foregoing certification is being furnished as an exhibit to the Report pursuant to Item 601(b)(32) of Regulation S-K and Section 1350 of Title 18 of the United States Code and, accordingly, is not being filed with the Securities and Exchange Commission as part of the Report and is not to be incorporated by reference into any filing of the Company under the Securities Act of 1933 or the Securities Exchange Act of 1934 (whether made before or after the date of the Report, irrespective of any general incorporation language contained in such filing).