OFFICE DEPOT INC
Form 10-K
February 28, 2012
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-K

(Mark One)

x **Annual Report Pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934**
For the fiscal year ended December 31, 2011

or

¨ **Transition Report Pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934**
For the transition period from ________________ to ________________

Commission file number 1-10948

Office Depot, Inc.

(Exact name of registrant as specified in its charter)

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

(561) 438-4800

(Registrant s telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value $0.01 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ¨ No x

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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

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

The aggregate market value of voting stock held by non-affiliates of the registrant as of June 25, 2011 (based on the closing market price on the Composite Tape on June 24, 2011) was approximately $1,155,715,383 (determined by subtracting from the number of shares outstanding on that date the number of shares held by affiliates of Office Depot, Inc.).

The number of shares outstanding of the registrant s common stock, as of the latest practicable date: At February 15, 2012, there were 280,853,676 outstanding shares of Office Depot, Inc. Common Stock, $0.01 par value.

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PART I

Item 1. Business.

Office Depot, Inc. is a global supplier of office products and services. The company was incorporated in Delaware in 1986 with the opening of our first retail store in Fort Lauderdale, Florida. In fiscal year 2011, we sold $11.5 billion of products and services to consumers and businesses of all sizes through our three business segments: North American Retail Division, North American Business Solutions Division and International Division. Sales are processed through multiple channels, consisting of office supply stores, a contract sales force, an outbound telephone account management sales force, internet sites, direct marketing catalogs and call centers, all supported by our network of supply chain facilities and delivery operations.

Additional information regarding our business segments is presented below and in Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) and, along with financial information about geographic areas, in Note O Segment Information of Notes to Consolidated Financial Statements located elsewhere in this Annual Report on Form 10-K.

North American Retail Division

Our North American Retail Division sells a broad assortment of merchandise through our chain of office supply stores throughout the United States. We currently offer general office supplies, computer supplies, business machines and related supplies, and office furniture from national brands as well as our own brands. See the Merchandising section below for additional product information. Our stores also contain a Copy & Print Depot™ offering printing, reproduction, mailing, shipping, and other services and we maintain nationwide availability of a PC support and network installation service that provides our customers with in-home, in-office and in-store support for their technology needs.

Our retail stores are designed to provide a positive shopping experience for the customer. We strive to optimize visual presentation, product placement, shelf capacity and in-stock positions. Our goal is to maintain sufficient inventory in the stores to satisfy current and near-term customer needs, while controlling the overall working capital invested in inventory.

We generally lease our retail stores in facilities that currently average over 20,000 square feet. In recent years, however, our new, relocated, and remodeled stores have been targeted to be approximately 5,000 to 15,000 square feet, depending on the needs in the local market. At the end of 2011, we had eight locations in the smaller store formats of approximately 5,000 square feet. These stores carry approximately 4,800 to 5,000 stock keeping units, or SKUs, providing substantial product offerings to our customers, while lowering our facility and inventory costs.

At the end of 2011, our North American Retail Division operated 1,131 office supply stores throughout the U.S. The largest concentration of our retail stores is in California, Texas and Florida, but we have broad representation across North America. The count of open stores may include locations temporarily closed for remodels or other factors. Store opening and closing activity for the last three years has been as follows:

	Open at Beginning of Period	Opened	Closed	Open at End of Period	Relocated
2009	1,267	6	121	1,152	6
2010	1,152	17	22	1,147	6
2011	**1,147**	**9**	**25**	**1,131**	**15**

In recent years we have consolidated our supply chain network to utilize existing distribution centers (DCs) to meet the needs of both our retail stores and our North American Business Solutions customers. See the North American supply chain discussion below for additional information.

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North American Business Solutions Division

Our North American Business Solutions Division sells nationally branded and our own brand office supplies, technology products, furniture and services by means of a dedicated sales force, through catalogs and electronically through our internet sites. We strive to ensure that our customers needs are satisfied through various channel offerings. Our direct business is tailored to serve small- to medium-sized customers. Our direct customers can order products from our catalogs, by phone or through our public web sites (www.officedepot.com), including our public web site devoted to technology products (www.techdepot.com).

We use catalogs and the internet to market directly to both existing and prospective customers. Large catalogs with our full listing of products are typically distributed annually and supplemented periodically with focused offerings. Prospecting catalogs with special offers designed to attract new customers also are mailed at certain intervals. In addition, specialty and promotional catalogs may be delivered more frequently to selected customers based on their past or potential future purchases. We also produce a Green Book® catalog, which features products that are recyclable, energy efficient, or otherwise have a reduced impact on the environment. We continually evaluate our catalog offerings for efficiency and effectiveness at generating incremental revenues. Products purchased through our catalogs and over the internet are fulfilled through our North American Supply Chain from DCs throughout the U.S. and occasionally through wholesalers.

Our contract business employs a dedicated sales force that services the office supply needs of predominantly medium-sized to large customers. We believe sales representatives contribute to customer loyalty by building relationships with customers and providing information, business tools and problem-solving solutions to them. We offer contract customers the convenience of shopping on dedicated web sites and in our retail locations, while honoring their contract pricing in lieu of retail pricing. We also use an inside sales organization that is staffed by Office Depot employees who support select existing and new small business customers who prefer or require a more personalized experience, primarily by telephone. This function, previously outsourced, was brought back in house at our new inside sales office in Austin, Texas in 2012. Sales to our contract customers that are fulfilled at retail locations are included in the results of our North American Retail Division. Part of our contract business is with various local, state and national governmental agencies. We also enter into agreements with consortiums of governmental and non-profit entities for non-exclusive buying arrangements.

North American Supply Chain

The company operates a network of DCs, crossdock, and combination facilities across the United States. In prior years, retail stores were largely replenished through our crossdock flow-through facilities where bulk merchandise was sorted for distribution and shipped to the requesting stores about three times per week. Based on our supply chain consolidation, we closed six crossdock facilities in 2009, three in 2010, and one during 2011. The crossdock function has been transitioned to the existing DCs within the same market. These combination facilities, which share real estate, technology, labor costs and inventory, satisfy the needs of both retail stores and delivery customers. Costs are allocated to the North American Retail Division and North American Business Solutions Division based on the relative services provided. Benefits of this consolidation include improved inventory management and greater operational efficiency, as well as improved service.

Crossdock facility activity for the last three years has been as follows:

	Open at Beginning of Period	Opened	Closed	Open at End of Period
2009	12		6	6
2010	6		3	3
2011	**3**		**1**	**2**

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DC activity for the last three years has been as follows:

	Open at Beginning of Period	Opened/ Acquired	Closed/ Sold	Open at End of Period
2009	20		5	15
2010	15	1	3	13
2011	**13**			**13**

Inventory is held in our DCs at levels we believe sufficient to meet current and anticipated customer needs. We utilize processes to evaluate the appropriate timing and quantity of reordering with the objective of controlling our investment in inventory, while at the same time ensuring customer satisfaction. Certain purchases are sent directly from the manufacturer to our customers. Some supply chain facilities and some retail locations also house sales offices and administrative offices supporting our contract business.

Our out-bound delivery and our inbound direct import operations are currently provided by third-party carriers.

Because sales and marketing efforts have similarities between the North American Business Solutions Division and the International Division, those topics are addressed separately after the three segment discussions, though they are integral to understanding the processes and management of these Divisions. Also, the Merchandising section below provides additional product information.

International Division

As of December 31, 2011, Office Depot sold to customers in 60 countries throughout North America, Europe, Asia and Latin America. We operate wholly-owned entities, majority-owned entities or participate in other ventures covering 41 countries and have alliances in an additional 19 countries. The Merchandising section below provides information on product offerings throughout the company. International Division operates separate regional headquarters for Europe in The Netherlands and for Asia in Hong Kong.

Our International Division sells office products and services through direct mail catalogs, contract sales forces, internet sites and retail stores, using a mix of company-owned operations, joint ventures, licensing and franchise agreements, alliances and other arrangements. We maintain DCs and call centers throughout Europe and Asia to support these operations. Currently, we have catalog offerings in 13 countries outside of North America and operate more than 40 separate public web sites in the International Division. At the end of 2011, the International Division operated, through wholly-owned or majority-owned entities, 131 retail stores in France, Hungary, South Korea and Sweden. In addition, we participate under licensing and merchandise arrangements in South Korea, Thailand, Israel, Japan and the Middle East. Following a strategic review of the business in late 2008, we closed our retail operations in Japan during 2009. During 2010, we sold the remaining operating entity in Japan as well as the operating entity in Israel and entered into Office Depot licensing agreements with the respective buyers for continued presence in those markets. During 2011, we acquired additional operations in Sweden, adding customers to both the contract and retail distribution channels.

Since 1994, we have participated in a joint venture selling office products and services in Mexico and Central and South America. In recent years, this venture, Office Depot de Mexico, has grown in size and scope and now includes 232 retail locations in Mexico, Colombia, Costa Rica, El Salvador, Guatemala, Honduras, and Panama, as well as call centers and DCs to support the delivery business in certain areas. Because we participate equally in this business with a partner, we account for the activity under the equity method and venture sales of approximately $1,139 million in 2011 are neither reflected in our revenues nor in our consolidated retail comparable store statistics. Our portion of venture results is included in Miscellaneous income, net in the Consolidated Statements of Operations.

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During 2010, we entered into an amended shareholders agreement related to our venture in India such that control and ownership is now equally shared. Accordingly, we deconsolidated the assets and liabilities of this entity from the 2010 year end balance sheet and now account for this investment under the equity method.

Including company-owned operations, joint ventures, licensing and franchise agreements we sell office products through 546 retail stores outside the U.S.

International Division store and DC operations are summarized below (includes only wholly-owned and majority-owned entities):

	Office Supply Stores			
	Open at Beginning of Period	Opened/ Acquired	Closed/ Deconsolidated	Open at End of Period
2009	162	4	29	137
2010	137	7	47[1]	97
2011	**97**	**43**[2]	**9**	**131**

(1) 45 of these stores relate to the deconsolidation of Office Depot Israel.

(2) 40 of these stores relate to the acquisition of an entity in Sweden.

	Distribution Centers			
	Open at Beginning of Period	Opened/ Acquired	Closed/ Deconsolidated	Open at End of Period
2009	43	1	5	39
2010	39	1	14[3]	26
2011	**26**	**1**		**27**

(3) 10 of these locations relate to the deconsolidation of Office Depot India.

Merchandising

Our merchandising strategy is to meet our customers needs by offering a broad selection of nationally branded office products, as well as our own brand products and services. Our selection of own brand products has increased in breadth and level of sophistication over time. We currently offer general office supplies, computer supplies, business machines and related supplies, and office furniture under various labels, including Office Depot®, Viking Office Products®, Foray®, and Ativa®.

Total company sales by product group were as follows:

	2011	2010	2009
Supplies	**65.1%**	65.2%	66.4%
Technology	**21.9%**	22.4%	22.2%
Furniture and other	**13.0%**	12.4%	11.4%

	100.0%	100.0%	100.0%

Note: Prior year values have been updated to conform to current year presentation.

We classify our products into three categories: (1) supplies, (2) technology, and (3) furniture and other. The supplies category includes products such as paper, binders, writing instruments, school supplies, and ink and toner. The technology category includes products such as desktop and laptop computers, monitors, printers, cables, software, digital cameras, telephones, and wireless communications products. The furniture and other category includes products such as desks, chairs, luggage, sales in our copy and print centers, and other miscellaneous items.

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We buy substantially all of our merchandise directly from manufacturers and other primary suppliers, including direct sourcing of our own brand products from domestic and offshore sources. We also enter into arrangements with vendors that can lower our unit product costs if certain volume thresholds or other criteria are met. For additional discussion regarding these arrangements, see the Critical Accounting Policies section of MD&A.

We operate separate merchandising functions in North America, Europe and Asia as well as in our joint ventures. Each group is responsible for selecting, purchasing and pricing merchandise as well as managing the product life cycle of our inventory. In recent years, we have increasingly used global offerings across all regions to further reduce our product cost while maintaining product quality.

We operate global sourcing offices in Shenzhen and Hangzhou, China, which allows us to take more direct control of our product sourcing, logistics and quality assurance. These offices consolidate our purchasing power with Asian factories and, in turn, help us to increase the scope of our own brand offerings.

Sales and Marketing

Our marketing programs are designed to attract new customers and to drive frequency of customer visits to our stores and web sites. We regularly advertise in major newspapers in most of our North American markets. We also advertise through local and national radio, network and cable television advertising campaigns, and direct marketing efforts, such as the internet and social networking.

We offer customer loyalty programs that provide customers with rewards that can be applied against future Office Depot purchases or other incentives. These programs have provided us with valuable information enabling us to market more effectively to our customers. These programs may change in popularity in the future, and we may make alterations to them from time to time.

We perform periodic competitive pricing analyses to monitor each market, and prices are adjusted as necessary to adhere to our pricing philosophy and further our competitive positioning. We generally expect our everyday prices to be highly competitive with other resellers of office products.

We acquire new customers by selectively mailing specially designed catalogs and by making on-premises sales calls to prospective customers. We also make outbound sales calls using dedicated agents through our telephone account management program. We obtain the names of prospective customers in new and existing markets through the purchase of selected lists from outside marketing information services and other sources as well as through the use of a proprietary mailing list system. We also acquire customers through e-mail marketing campaigns and online affiliates. We are an official sponsor of NASCAR® and are currently designated NASCAR® s official office products partner. No single customer in any of our segments accounts for more than 10% of our total sales.

We consider our business to be only somewhat seasonal, with sales generally trending lower in the second quarter, following the back-to-business sales cycle in the first quarter and preceding the back-to-school sales cycle in the third quarter and the holiday sales cycle in the fourth quarter. Certain working capital components may build and recede during the year reflecting established selling cycles. Business cycles can and have impacted our operations and financial position when compared to other periods.

Copy and Print

Our North American retail stores contain a Copy & Print Depot™ offering printing, reproduction, mailing, shipping, and other services. This includes Xerox Certified Print Specialist associates to assist with digital imaging and printing and shipping services through UPS and the U.S. Postal Service. In addition to the in-store locations, we operate nine regional print facilities, which support copy and print orders taken in our North American Retail and North American Business Solutions Divisions. We also offer copy and print services to our customers in Europe through our e-commerce business.

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Intellectual Property

We hold trademark registrations domestically and worldwide and have numerous other applications pending worldwide for the names Office Depot , Viking , Ativa , Foray , Realspace , and others. We consider the trademark for the Office Depot name the most significant trademark h by us because of its impact on market awareness across all of our businesses and on customers identification with us. As with all domestic trademarks, our trademark registrations in the United States are for a ten year period and are renewable every ten years, prior to their respective expirations, as long as the trademarks are used in the regular course of trade.

Industry and Competition

We operate in a highly competitive environment in all three of our segments. We believe that we compete favorably on the basis of price, service, relationships and selection. We compete with office supply stores, wholesale clubs, discount stores, mass merchandisers, food and drug stores, computer and electronics superstores, internet-based companies and direct marketing companies. These companies, in varying degrees, compete with us in substantially all of our current markets.

Other office supply retail companies market similarly to us in terms of store format, pricing strategy, product selection and product availability in the markets where we operate, primarily those in the U.S. We anticipate that in the future we will face increased competition from these chains.

Internationally, we compete on a similar basis to North America. Outside of the U.S., we sell through contract and catalog channels in 17 countries and operate retail stores in four countries through wholly-owned or majority-owned entities. Additionally, our International Division provides office products and services in 41 countries through joint ventures, licensing and franchise agreements, cross-border transactions, alliances and other arrangements.

Employees

As of January 28, 2012, we had approximately 39,000 employees worldwide. Our workforce is largely non-union and our labor relations are generally good. In certain international locations, changes in staffing or work arrangements may need approval of local works councils or other bodies.

Environmental Activities

As both a significant user and seller of paper products, we have developed environmental practices that are values-based and market-driven. Our environmental initiatives center on three guiding principles: (1) recycling and pollution reduction; (2) sustainable forest management; and (3) issue awareness and market development for environmentally preferable products. We offer thousands of different products containing recycled content, including from 35% to 100% post-consumer waste content paper and technology recycling services in our retail stores.

Office Depot continues to implement environmental programs in line with our stated environmental vision to increasingly buy green, be green and sell green including environmental sensitivity in our packaging, operations and sales offerings. Our Green retail store prototype design is based on our Austin, Texas store, which received a Leadership in Energy and Environmental Design (LEED) Gold Certification from the U.S. Green Building Council in December 2008. In 2010, it awarded our global headquarters in Boca Raton, Florida a LEED Gold Certification under the Operations and Maintenance rating system and we were the first office supplies retailer with a headquarters building certified under any of the LEED rating systems. Additional information on our green product offerings can be found at www.officedepot.com/buygreen.

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Available Information

We maintain a web site at www.officedepot.com. We make available, free of charge, on the Investor Relations section of our web site, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the Exchange Act), as soon as reasonably practicable after we electronically file or furnish such materials to the U.S. Securities and Exchange Commission (SEC). In addition, the public may read and copy any of the materials we file with the SEC at the SEC s Public Reference Room at 100 F Street, NE, Washington DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an internet site that contains reports, proxy and information statements and other information regarding issuers, such as the company, that file electronically with the SEC. The address of that website is www.sec.gov.

Additionally, our corporate governance materials, including governance guidelines; the charters of the Audit, Compensation, Finance, and Corporate Governance and Nominating Committees; and the code of ethical behavior may also be found under the Investor Relations section of our web site at www.officedepot.com.

Executive Officers of the Registrant

Neil R. Austrian 72

Mr. Austrian has been Chairman and Chief Executive Officer since May 23, 2011 and he acted as Interim Chairman and Chief Executive Officer since November 1, 2010. Mr. Austrian has served as a Director since 1998. He also served as our Interim Chair and Chief Executive Officer from October 4, 2004 until March 11, 2005. Mr. Austrian served as President and Chief Operating Officer of the National Football League from April 1991 until December 1999. He was a Managing Director of Dillon, Read & Co. Inc. from October 1987 until March 1991. Mr. Austrian served as a director of Viking Office Products from January 1988 until August 1998 when Office Depot merged with Viking Office Products. He also serves as a director of The DirecTV Group (formerly Hughes Electronics Company).

Michael Allison Age: 54

Mr. Allison was appointed Executive Vice President, Human Resources for Office Depot in July 2011. Mr. Allison joined Office Depot in September 2006 as Vice President, Human Resources. Prior to joining Office Depot, Mr. Allison served as Executive Vice President of Human Resources for Victoria s Secret Direct from February, 2001 to September, 2005. Prior to Victoria s Secret, he was Senior Vice President of Human Resources for Bank One and Senior Vice President and Director of Human Resources for National City Bank.

Farla Efros Age: 39

Ms. Efros was appointed as Executive Vice President and Chief Merchandising Officer for Office Depot in January 2012. Ms. Efros previously served as Interim Head of Merchandising for the company since July 2011. Prior to joining the company, Ms. Efros was a Senior Vice President for Retail Consulting Services at Price Waterhouse Coopers (PwC) from June 2009 to December 2011. Ms. Efros was a Partner with The Partnering Group Inc. from June 1999 to June 2009, where she consulted in the retail and consumer goods industries in key areas such as merchandising and marketing strategy, organization design, category management and assortment optimization, as well as change and transition management.

Elisa Garcia Age: 54

Ms. Garcia was appointed Executive Vice President, General Counsel and Corporate Secretary in July 2007 with overall responsibility for global legal and compliance matters and governmental relations. Prior to joining Office Depot, Ms. Garcia served as Executive Vice President, General Counsel and Corporate Secretary of Domino s Pizza, Inc. from April 2000. Prior to joining Domino s Pizza, Ms. Garcia served as Latin American Regional Counsel for Philip Morris International, and Corporate Counsel for GAF Corporation.

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Mark Hutchens Age: 46

Mr. Hutchens was appointed Senior Vice President and Controller in September 2008. Prior to assuming that position, Mr. Hutchens held the position of Senior Vice President of Finance, International Division since late 2006. Prior to joining the company, Mr. Hutchens served as Assistant Treasurer at Yum! Brands, Inc., from February 2005 to November 2006 and as General Auditor from November 2003 to February 2005. In addition, Mr. Hutchens served in a variety of senior management positions at Yum! from May 1996 to November 2003. Prior to joining Yum! Mr. Hutchens served in various management positions at Ford Motor Company, where he was employed until May 1996.

Michael Newman Age: 55

Mr. Newman was appointed Executive Vice President, Chief Financial Officer in August 2008. Prior to joining Office Depot, Mr. Newman served as Chief Financial Officer of Platinum Research Organization, Inc. from April 2007 through February 2008. Prior to joining Platinum Research Organization, Mr. Newman was employed as an independent consultant since 2005. Mr. Newman also served as Chief Financial Officer of Blackstone Crystal Holdings Capital Partners from 2004 to 2005 and Chief Financial Officer of Radio Shack Corp. from 2001 to 2004. Mr. Newman also held Chief Financial Officer roles at Intimate Brands and Hussmann International (which was acquired by Ingersoll-Rand in 2000). He also spent 17 years at General Electric in a variety of management roles both in the United States and Europe.

Robert J. Moore Age: 54

Mr. Moore was appointed Executive Vice President and Chief Marketing Officer for Office Depot in July of 2011. Mr. Moore joined the company as Interim Head of Marketing in April 2011. Prior to joining Office Depot, he ran his own marketing consulting practice from January 2009 to April 2011, and before that served as President of the U.S. Vision Care business from July 2007 to July 2008 and various senior executive positions since 2002. Mr. Moore s experience also includes Executive Vice President of Marketing for Staples from 1999 to 2001 and Global VP Marketing and Product Design for Ray Ban Sunglass Group from 1996 to 1999.

Kevin Peters Age: 54

Mr. Peters was appointed President, North American in July 2011. He previously served as President of the North American Retail Division since April 2010 and as Executive Vice President, Supply Chain and Information Technology since March 2009. He joined the company in 2007 as Executive Vice President, Supply Chain. Prior to joining the company, Mr. Peters spent five years in management roles at W.W. Grainger, including Senior Vice President, Supply Chain and Merchandising. Prior to W.W. Grainger, Mr. Peters spent 11 years at The Home Depot, serving as Vice President and General Manager, Home Depot Commercial Direct and Vice President Supply Chain and Merchandising.

Steven Schmidt Age: 57

Mr. Schmidt was appointed President, International in November 2011 after serving as Executive Vice President, Corporate Strategy and New Business Development since July 2011 and as President, North American Business Solutions since July 2007. Prior to joining Office Depot, Mr. Schmidt spent 11 years with the ACNielsen Corporation, most recently serving as President and Chief Executive Officer. Prior to joining ACNielsen, Mr. Schmidt spent eight years at the Pillsbury Food Company, serving as President of its Canadian and Southeast Asian operations. He has also held management positions at PepsiCo and Procter & Gamble.

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Item 1A. Risk Factors.

In addition to risks and uncertainties in the ordinary course of business that are common to all businesses, important factors that are specific to our industry and our company could materially impact our future performance and results. We have provided below a list of risk factors that should be reviewed when considering investing in our securities. These are not all the risks we face, and other factors currently considered immaterial or unknown to us may impact our future operations.

Declines in business and consumer spending could adversely affect our business and financial performance Our operating results and performance depend significantly on worldwide economic conditions and their impact on business and consumer spending. The decline in business and consumer spending resulting from the global recession and the deterioration of global credit markets has caused our comparable store sales to continue to decline from prior periods and we have experienced similar declines in most of our other domestic and international businesses. Our business and financial performance may continue to be adversely affected by current and future economic conditions and the level of consumer debt and interest rates, which may cause a continued or further decline in business and consumer spending.

Our business is highly competitive and failure to adequately differentiate ourselves or respond to shifting consumer demands could adversely impact our financial performance The office products market is highly competitive and we compete locally, domestically and internationally with a variety of retailers, distributors and internet operators such as office supply stores, mass merchant retailers, warehouse clubs, computer and electronics stores, local merchants and contract stationers. Many competitors have also increased their presence by broadening their assortments or broadening from retail into the delivery and e-commerce channels, while others have substantially greater financial resources to devote to sourcing, marketing and selling their products. Product pricing is also becoming ever more competitive, particularly among competitors on the internet. In order to achieve and maintain expected profitability levels, we must continue to grow by adding new customers and taking market share from competitors. In addition, consumers are utilizing more technology and purchasing less paper, file storage and similar products. If we are unable to provide technology solutions and services or if we are unable to effectively compete, our sales and financial performance will be negatively impacted.

We do a significant amount of business with government entities and loss of this business could negatively impact our results One of our largest U.S. customer groups consists of various state and local governments, federal, state and local government agencies and non-profit organizations. Contracting with these groups is highly competitive, subject to federal and state procurement laws, requires more restrictive contract terms and can be expensive and time-consuming. Bidding such contracts often requires that we incur significant upfront time and expense without any assurance that we will win a contract. Our ability to compete successfully for and retain business with the federal and various state and local governments is highly dependent on cost-effective performance and is also sensitive to changes in national and international priorities and U.S., state and local government budgets, which in the current economy continue to decrease. We service a substantial amount of government agency business through agreements with consortiums of governmental and non-profit entities. If we are unsuccessful in retaining these customers, or if there is a significant reduction in sales under our large government contracts or if we lose these contracts, it could adversely impact our financial results.

If a significant number of our vendors demand accelerated payments or require cash on delivery such demands could have an adverse impact on our operating cash flow and result in severe stress on our liquidity We purchase products for resale under credit arrangements with our vendors and have been able to negotiate payment terms that are approximately equal in length to the time it takes to sell the vendor s products. In weak global markets, vendors may seek credit insurance to protect against non-payment of amounts due to them. If we continue to experience declining operating performance, and if we experience severe liquidity challenges, vendors may demand that we accelerate our payment for their products. Borrowings under our existing credit facility could reach maximum levels under such circumstances and we would seek alternative liquidity measures but may not be able to meet our obligations as they become due.

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The tightening of the credit markets or a downgrade in our credit ratings could make it more difficult for us to access funds, refinance indebtedness, obtain new funding or issue securities Historically, we have generated positive cash flow from operating activities and have had access to broad financial markets that provide the liquidity we need to operate our business. Together, these sources have been used to fund operating and working capital needs, as well as invest in business expansion through new store openings, capital improvements and acquisitions. Due to the downturn in the global economy our operating results have declined. Further deterioration in our financial results could negatively impact our credit ratings, our liquidity and our access to the capital markets. Certain of our existing indebtedness matures in 2013 and there can be no assurance that we will be able to refinance all or a portion of that indebtedness. If we are able to refinance all or a portion of that indebtedness, the terms of such refinancing will likely be less favorable than the terms of our existing indebtedness.

A default under our credit facility could significantly restrict our access to funding and adversely impact our operations Our asset based credit facility contains a fixed charge coverage ratio covenant that is operative only when borrowing availability is below $125 million or prior to a restricted transaction, such as incurring additional indebtedness, acquisitions, dispositions, dividends, or share repurchases. The agreement also contains representations, warranties, affirmative and negative covenants, and default provisions. A breach of any of these covenants could result in a default under our credit agreement. Upon the occurrence of an event of default under our credit agreement, the lenders could elect to declare all amounts outstanding to be immediately due and payable and terminate all commitments to extend further credit. If the lenders were to accelerate the repayment of borrowings, we may not have sufficient assets to repay our asset based credit facility and our other indebtedness. Also, should there be an event of default, or a need to obtain waivers following an event of default, we may be subject to higher borrowing costs and/or more restrictive covenants in future periods. Acceleration of any obligation under any of our material debt agreements or instruments would permit the holders of our other material debt to accelerate their obligations.

Loss of key personnel or failure to effectively manage and motivate our workforce could negatively impact our sales and profitability We depend on senior management and other key personnel, and the loss of certain personnel could result in the loss of management continuity and institutional knowledge. We depend heavily upon our labor force to identify new customers and provide desired products and personalized customer service to existing customers. Changes in factors, such as overall unemployment levels, local competition for qualified personnel, prevailing wage rates, changes in employment law, as well as rising employee benefits costs, including insurance in the areas in which we operate, could interfere with our ability to adequately provide support to customers and increase our labor costs. We also engage third parties in some of our processes such as delivery and transaction processing who may face similar issues. In addition, we operate in various jurisdictions, each with distinct labor laws and regulations, which increase exposure, complexity and cost of compliance.

Disruption of global sourcing activities or our own brand quality concerns could negatively impact brand reputation and earnings In recent years, we have substantially increased the number and types of products that we sell under our own brands including Office Depot® and other proprietary brands. Sources of supply may prove to be unreliable, or the quality of the globally sourced products may vary from our expectations. Economic and civil unrest in areas of the world where we source such products, as well as import and export, shipping and dockage issues, could adversely impact the availability or cost of such products, or both. Moreover, as we seek indemnities from the manufacturers of these products, the uncertainty of realization of any such indemnity and the lack of understanding of U.S. product liability laws in certain parts of Asia make it more likely that we may have to respond to claims or complaints from our customers. Most of our goods imported to the U.S. arrive from Asia through ports located on the U.S. west coast and we are therefore subject to potential disruption due to labor unrest, security issues or natural disasters affecting any or all of these ports.

Changes in tax laws in any of the multiple jurisdictions in which we operate can cause fluctuations in our overall tax rate impacting our reported earnings Our global tax rate is derived from a combination of applicable tax rates in the various domestic and international jurisdictions in which we operate. Depending upon the sources of our income, any agreements we may have with taxing authorities in various jurisdictions, and the tax filing positions we take in these jurisdictions, our overall tax rate may fluctuate significantly from other companies or even our own past tax rates. At any given point in time, we base our estimate of an annual effective tax rate upon a calculated mix of the tax rates applicable to our company and to estimates of the amount of income likely to be generated in any given geography. The loss of one or more agreements with taxing jurisdictions, a change in the mix of our business from year to year and from country to country, changes in rules related to accounting for income taxes, changes in tax laws in any of the multiple jurisdictions in which we operate or adverse outcomes from the tax audits that regularly are in process in any of the jurisdictions in which we operate could result in an unfavorable change in our overall tax rate.

We are subject to legal proceedings and legal compliance risks We are involved in various legal proceedings, which from time to time may involve class action lawsuits, federal, state and local governmental inquiries, audits and investigations, employment, tort, consumer litigation and intellectual property litigation. At times, such matters may involve directors and/or executive officers. Certain of these legal proceedings, including government investigations, may be a significant distraction to management and could expose our company to significant liability, including damages, fines, penalties, attorneys fees and costs, and non-monetary sanctions, including suspensions and debarments from doing business with certain government agencies, any of which could have a material adverse effect on our business and results of operations.

Failure to successfully manage domestic and international business could have an adverse effect on our operations and financial results Circumstances outside of our control could negatively impact anticipated store openings, joint ventures and franchise arrangements. We cannot provide assurance that our new store openings, including some newly sized or formatted stores or retail concepts, will be successful. There may be unintended consequences of adding joint venture and franchising partners to the Office Depot model, such as the potential for compromised operational control in certain countries and inconsistent international brand image. These arrangements may also add complexity to our processes and may require as yet unforeseen operational adjustments in the future that could adversely impact our operations and financial results.

We face risks associated with international business, such as foreign currency fluctuations, potential unfavorable foreign trade policies or unstable political and economic conditions As of December 31, 2011, we sold to customers in 60 countries throughout North America, Europe, Asia and Latin America. We operate wholly-owned entities, majority-owned entities and participate in joint ventures and alliances globally. Sales from our operations outside the U.S. are denominated in local currency, which must be translated into U.S. dollars for reporting purposes and therefore our consolidated earnings can be significantly impacted by fluctuations in world currency markets. We are required to comply with multiple foreign laws and regulations that may differ substantially from country to country, requiring significant management attention and cost. In addition, the business cultures in certain areas of the world are different than those that prevail in the U.S., and we may be at a competitive disadvantage against other companies that do not have to comply with standards of financial controls, anti-corruption or business integrity that we are committed to maintaining as a U.S. publicly traded company.

Changes in the regulatory environment may increase our expenses and may negatively impact our business We are subject to regulatory requirements relating to our corporate conduct and the conduct of our business, including securities laws, consumer protection and safety laws, advertising regulations, and wage and hour regulations. Certain jurisdictions have taken a particularly aggressive stance with respect to such matters and have implemented new initiatives and reforms, including more stringent disclosure and compliance requirements. To the extent that we are subject to more challenging regulatory environments and enhanced legal and regulatory requirements, such exposure could have a material adverse effect on our business, including the added cost of increased compliance measures that we may determine to be necessary.

Increases in fuel prices could have an adverse impact on our earnings We operate a large network of stores and delivery centers around the globe. As such, we purchase significant amounts of fuel needed to transport

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products to our stores and customers as well as shipping costs to import products from overseas. While we may hedge our anticipated fuel purchases, the underlying commodity costs associated with this transport activity have been volatile in recent years and disruptions in availability of fuel could cause our operating costs to rise significantly to the extent not covered by our hedges. Additionally, we rely on predictable energy costs to operate our stores and DCs. Fluctuations in the availability or cost of our energy could have a material adverse effect on our profitability.

Disruptions of our computer systems could adversely affect our operations We rely heavily on computer systems to process transactions, manage our inventory and supply-chain and to summarize and analyze our global business. Certain systems are at, or near the end of life, and need to be replaced. If our systems are damaged or fail to function properly, or, if we do not replace or upgrade certain systems, we may incur substantial costs to repair or replace them and may experience an interruption of our normal business activities or loss of critical data. We are undertaking certain system enhancements and conversions to increase productivity and efficiency, that, if not done properly, could divert the attention of our workforce during development and implementation and constrain for some time our ability to provide the level of service our customers demand. Also, once implemented, the new systems and technology may not provide the intended efficiencies or anticipated benefits and could add costs and complications to our ongoing operations.

We may be subject to breaches of our information technology systems, which could adversely affect our reputation, business partner and customer relationships and access to online stores. Such breaches could subject us to reputational and financial consequences, disrupt our operations and expose us to litigation Through our sales and marketing activities, we collect and store certain personal information that our customers provide to purchase products or services, enroll in promotional programs, register on our web site, or otherwise communicate and interact with us. This may include names, addresses, phone numbers, email addresses, contact preferences, and payment account information. We also gather and retain information about our employees in the normal course of business. We may share information about such persons with vendors that assist with certain aspects of our business. In addition, our online operations at www.officedepot.com depend upon the secure transmission of confidential information over public networks, such as information permitting cashless payments.

We have instituted safeguards for the protection of such information. These security measures may be compromised as a result of third party security breaches, employee error, malfeasance, faulty password management, or other irregularity, and result in persons obtaining unauthorized access to company data or accounts. Despite instituted safeguards for the protection of such information, we cannot be certain that all of our systems are entirely free from vulnerability to attack. We may experience a breach of our systems and may be unable to protect sensitive data. Moreover, if a computer security breach affects our systems or results in the unauthorized release of personal information, our reputation and brand could be materially damaged and use of our products could decrease. The company would also be exposed to a risk of loss or litigation and possible liability, which could result in a material adverse effect on our business, results of operations and financial condition.

Our business could be disrupted due to weather related factors Because of our heavy concentration in the southern U.S. (including Florida and the Gulf Coast), we may be more susceptible than some of our competitors to the effects of tropical weather disturbances, such as hurricanes. In addition, winter storm conditions in areas that have a large concentration of our business activities could also result in lost retail sales, supply chain constraints or other business disruptions. We believe that we have taken reasonable precautions to prepare for weather-related events, but our precautions may not be adequate to deal with such events in the future.

The unionization of a significant portion of our workforce could increase our overall costs and adversely affect our operations We have a large employee base and while our management believes that our employee relations are good, we cannot be assured that we will not experience pressure from labor unions or become the target of campaigns similar to those faced by our competitors. The potential for unionization could increase if federal legislation is passed that would facilitate labor organization. Significant union representation would

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require us to negotiate wages, salaries, benefits and other terms with many of our employees collectively and could adversely affect our results of operations by significantly increasing our labor costs or otherwise restricting our ability to maximize the efficiency of our operations.

BC Partners significant ownership interest dilutes the interests of our common shareholders, may discourage, delay or prevent a change in control of our company and grants important rights to BC Partners, Inc. The Series A and Series B Preferred Stock that we sold in June 2009 to funds advised by BC Partners, Inc. (the Investors) were immediately convertible into shares of our common stock at an initial conversion price of $5.00 per share (subject to a conversion cap). The investment equates to an initial ownership interest of approximately 20%, assuming the full conversion of each series of preferred stock into the company s common stock. Any sales in the public market of the shares of common stock issuable upon such conversion could adversely affect prevailing market prices of our common stock.

The initial dividend rate remains 10% on both the Series A and Series B Preferred Stock, and dividends are paid quarterly in cash or are added to the liquidation preference at our option and are subject to certain restrictions. To the extent that dividends are added to the liquidation preference, this further increases the ownership interest of the Investors and dilutes the interests of the common shareholders.

The holders of the Series A and Series B Preferred Stock are entitled to vote with the holders of our common stock on an as-converted basis, subject to limitations imposed by New York Stock Exchange (NYSE) shareholder approval requirements. The Investors have agreed to cause all of their common stock and preferred stock entitled to vote at any meeting of our shareholders to be present at such meeting and to vote all such shares in favor of any nominee or director nominated by the company s Corporate Governance and Nominating Committee, against the removal of any director nominated by such committee and, with respect to any other business or proposal, in accordance with the recommendation of the board of directors (other than with respect to the approval of any proposed business combination agreement between the company and another entity). This may discourage, delay or prevent a change in control of our company, which could deprive our shareholders of an opportunity to receive a premium for their common stock as part of a sale of our company.

We also entered into a related Investor Rights Agreement pursuant to which we granted certain rights to the Investors that may restrain our ability to take certain actions in the future. Subject to certain exceptions, for so long as the Investors ownership percentage is equal to or greater than 10%, the approval of at least one of the directors designated to our board of directors by the Investors is required for the company to incur any indebtedness for borrowed money in excess of $200 million in the aggregate during any fiscal year if the ratio of the consolidated debt of the company and its subsidiaries to the trailing four quarter adjusted EBITDA of the company and its subsidiaries, on a consolidated basis, is more than 4x. In addition, for so long as the Investors ownership percentage is (i) equal to or greater than 15%, the Investors are entitled to nominate three directors, (ii) less than 15% but more than 10%, two directors and (iii) less than 10% but more than 5%, one director. There can be no assurance that the interests of the Investors are aligned with those of our other shareholders. Investor interests can differ from each other and from other corporate interests and it is possible that this significant shareholder may have interests that differ from management and those of other shareholders. If the Investors were to sell, or otherwise transfer, all or a large percentage of their holdings, our stock price could decline and we could find it difficult to raise capital, if needed, through the sale of additional equity securities.

Disclaimer of Obligation to Update

We assume no obligation (and specifically disclaim any such obligation) to update these Risk Factors or any other forward-looking statements contained in this Annual Report on Form 10-K to reflect actual results, changes in assumptions or other factors affecting such forward-looking statements.

Item 1B. Unresolved Staff Comments.

None.

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Item 2. Properties.

The following table sets forth our stores by location as of December 31, 2011.

STORES

State/Country	#	State/Country	#
UNITED STATES:			
Alabama	21	New Jersey	11
Alaska	2	New Mexico	7
Arizona	4	New York	9
Arkansas	12	North Carolina	39
California	145	North Dakota	2
Colorado	41	Ohio	13
Connecticut	4	Oklahoma	17
Delaware	2	Oregon	19
District of Columbia	1	Pennsylvania	12
Florida	146	Puerto Rico	6
Georgia	49	South Carolina	21
Hawaii	4	South Dakota	1
Idaho	6	Tennessee	27
Illinois	45	Texas	156
Indiana	22	Utah	9
Iowa	3	Virginia	24
Kansas	7	Washington	37
Kentucky	21	West Virginia	2
Louisiana	38	Wisconsin	14
Maryland	26	Wyoming	3
Massachusetts	1	TOTAL UNITED STATES	1,131
Michigan	21		
Minnesota	8	**INTERNATIONAL**	
Mississippi	19	FRANCE	53
Missouri	25	HUNGARY	9
Montana	4	SOUTH KOREA	16
Nebraska	6	SWEDEN	53
Nevada	19	TOTAL INTERNATIONAL	131

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As of December 31, 2011, we had 15 North American supply chain facilities in 12 U.S. states which support our North American Retail and North American Business Solutions Divisions. As of December 31, 2011, we also had 27 DCs in 13 countries outside of the United States, which support our International Division. The following tables set forth the locations of our supply chain facilities as of December 31, 2011.

DCs (North America)

State	#	State	#
UNITED STATES:			
Arizona	1	Pennsylvania	1
Florida	1	Minnesota	1
California	2	Ohio	1
Colorado	1	Texas	2
Georgia	1	Washington	1
Illinois	1	TOTAL UNITED STATES	13

Crossdock Facilities (North America)

State	#	State	#
UNITED STATES:			
Florida	1	Mississippi	1
		TOTAL UNITED STATES	2

International DCs

Country	#	Country	#
Belgium	1	South Korea	1
China	6	Spain	1
Czech Republic	1	Sweden	3
France	5	Switzerland	1
Germany	2	The Netherlands	1
Ireland	1	United Kingdom	3
Italy	1	TOTAL INTERNATIONAL	27

Our corporate offices in Boca Raton, Florida consist of approximately 625,000 square feet of office space. We also lease a corporate office in Venlo, the Netherlands which is approximately 210,000 square feet and we lease other administrative offices. Each of our facilities is considered to be in good condition, adequate for its purpose and suitably utilized according to the individual nature and requirements of the relevant operations.

Although we own a small number of our retail store locations, most of our facilities are leased or subleased.

Item 3. Legal Proceedings.

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

On April 6, 2011, a putative class action lawsuit was filed against the company and certain current and former executive officers alleging violations of the Securities Exchange Act of 1934 and seeking damages, fees, costs

and equitable relief. The allegations made in this lawsuit primarily relate to the company s previous financial disclosures and reports regarding the certain tax losses described below. The lawsuit was filed in the United States District Court for the Southern District of Florida captioned as Climo v. Office Depot, Inc, Steve Odland, Michael D. Newman and Neil R. Austrian. The Court granted a request by the Central Laborers Pension Fund (CLPF) to appoint it as lead plaintiff in the case and the CLPF filed its amended complaint on September 6, 2011. The company filed a motion to dismiss the Complaint November 7, 2011, plaintiff s opposition to the motion to dismiss was filed on January 7, 2012, and the company s reply was filed on February 7, 2012. Pursuant to Court Order, all discovery is stayed pending a decision on the motion to dismiss.

On June 17, 2011, a derivative lawsuit was filed against certain current and former executive officers and the company, generally alleging that the officers breached their fiduciary duties. The allegations in this lawsuit primarily relate to the company s previous financial disclosures and reports regarding the certain tax losses described below. The derivative lawsuit was filed in the United States District Court for the Southern District of Florida captioned as Long v. Steve Odland, Michael D. Newman and Neil R. Austrian, defendants, and Office Depot, Inc., nominal defendant. The Special Litigation Committee (SLC), which was appointed by the company s Board of Directors to review the allegations, issued its report on January 9, 2012. As set forth in the report, the SLC determined that the claims alleged in the Complaint should be dismissed. Accordingly, the company intends to file a motion to dismiss the Complaint at the appropriate time.

The allegations made in the above lawsuits primarily relate to the company s previous financial disclosures and reports regarding certain tax losses. On March 31, 2011, Office Depot announced that the Internal Revenue Service had denied the company s claim to carry back certain tax losses to prior tax years under economic stimulus-based tax legislation enacted in 2009. As a result, on April 6, 2011, the company restated its financial results to revise the accounting treatment regarding its original tax position. The periods covered by the restatement are the fiscal year ended December 25, 2010 and each of the quarters ended June 26, 2010 and September 25, 2010.

In addition, in the ordinary course of business, our sales to and transactions with government customers may be subject to investigations, audits and review by governmental authorities and regulatory agencies, with which we cooperate. Many of these investigations, audits and reviews are resolved without incident. While claims in these matters may at times assert large demands, we do not believe that contingent liabilities related to these matters, either individually or in the aggregate, will materially affect our financial position, results of our operations or cash flows. Among such matters, during the first quarter of 2011, we were notified that the United States Department of Justice (DOJ) commenced an investigation into certain pricing practices related to an expired agreement that was in place between January 2, 2006 and January 1, 2011, pursuant to which state, local and non-profit agencies could purchase office supplies. We are cooperating with the DOJ on this investigation.

Item 4. Mine Safety Disclosures.

None.

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PART II

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Our common stock is listed on the New York Stock Exchange (NYSE) under the symbol ODP. As of the close of business on January 28, 2012, there were 6,917 holders of record of our common stock. The last reported sale price of the common stock on the NYSE on January 28, 2012 was $2.94

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

	High	Low
2011		
First Quarter	**$ 6.100**	**$ 4.770**
Second Quarter	**4.740**	**3.330**
Third Quarter	**4.420**	**2.050**
Fourth Quarter	**2.580**	**1.800**
2010		
First Quarter	$ 8.300	$ 5.190
Second Quarter	9.190	4.490
Third Quarter	5.010	3.360
Fourth Quarter	5.530	4.250

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. Our asset based credit facility includes limitations in certain circumstances on restricted payments including share repurchases and the payment of cash dividends. These restrictions are based on the then-current and pro-forma fixed charge coverage ratio and borrowing availability at the point of consideration. Further, so long as investors in our redeemable preferred stock own at least 10% of the common stock voting rights, on an as-converted basis, the affirmative vote of a majority of the shares of preferred stock then outstanding and entitled to vote is required for the declaration or payment of a dividend on common stock if dividends on the preferred stock have not been paid in full in cash.

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The foregoing graph shall not be deemed to be filed as part of this Form 10-K and does not constitute soliciting material and should not be deemed filed or incorporated by reference into any other filing of the company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent the company specifically incorporates the graph by reference.

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Item 6. Selected Financial Data.

The following table sets forth selected consolidated financial data at and for each of the five fiscal years in the period ended December 31, 2011. It should be read in conjunction with the Consolidated Financial Statements and Notes thereto, included in Item 8 of this report, and Management s Discussion and Analysis of Financial Condition and Results of Operations, included in Item 7 of this report.

(In thousands, except per share amounts and statistical data)	**2011[1]**	2010	2009	2008	2007
Statements of Operations Data:					
Sales	**$ 11,489,533**	$ 11,633,094	$ 12,144,467	$ 14,495,544	$ 15,527,537
Net earnings (loss) [2] [3][4][5]	**$ 95,691**	$ (46,205)	$ (598,724)	$ (1,481,003)	$ 394,704
Net earnings (loss) attributable to Office Depot, Inc [2] [3][4][5]	**$ 95,694**	$ (44,623)	$ (596,465)	$ (1,478,938)	$ 395,615
Net earnings (loss) available to common shareholders [2] [3][4][5]	**$ 59,989**	$ (81,736)	$ (626,971)	$ (1,478,938)	$ 395,615
Net earnings (loss) per share:					
Basic	**$ 0.22**	$ (0.30)	$ (2.30)	$ (5.42)	$ 1.45
Diluted	**$ 0.22**	(0.30)	(2.30)	(5.42)	1.43
Statistical Data:					
Facilities open at end of period:					
United States:					
Office supply stores	**1,131**	1,147	1,152	1,267	1,222
Distribution centers	**13**	13	15	20	21
Crossdock facilities	**2**	3	6	12	12
International[6]:					
Office supply stores	**131**	97	137	162	148
Distribution centers	**27**	26	39	43	33
Call centers	**22**	25	29	27	31
Total square footage North American Retail Division	**26,556,126**	27,559,184	28,109,844	30,672,862	29,790,082
Percentage of sales by segment:					
North American Retail Division	**42.4%**	42.7%	42.1%	42.2%	43.9%
North American Business Solutions Division	**28.4%**	28.3%	28.7%	28.6%	29.1%
International Division	**29.2%**	29.0%	29.2%	29.2%	27.0%
Balance Sheet Data:					
Total assets	**$ 4,250,984**	$ 4,569,437	$ 4,890,346	$ 5,268,226	$ 7,256,540
Long-term debt, excluding current maturities	**648,313**	659,820	662,740	688,788	607,462
Redeemable preferred stock, net	**363,636**	355,979	355,308		

(1) Includes 53 weeks in accordance with our 52 53 week reporting convention.

(2) Fiscal year 2011 Net earnings (loss), Net earnings attributable to Office Depot, Inc., and Net earnings available to common shareholders includes approximately $58 million of charges relating to facility closure and process improvement activity. Additionally, approximately $123 million of tax and interest benefits were recognized associated with settlements and removal of contingencies and valuation allowances. See Management s Discussion and Analysis of Financial Condition and Results of Operations for additional information.

(3) Fiscal year 2010 Net earnings (loss), Net loss attributable to Office Depot, Inc., and Net loss available to common shareholders include charges of approximately $87 million, including approximately $51 million

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for the write-off of Construction in Progress related to developed software. Additionally, tax benefits and interest reversals of approximately $41 million were recognized from settlements. See Management s Discussion and Analysis of Financial Condition and Results of Operations for additional information.

(4) Fiscal year 2009 Net earnings (loss), Net loss attributable to Office Depot, Inc., and Net loss available to common shareholders include charges of approximately $253 million relating to facility closures and other items and approximately $322 million to establish valuation allowances on certain deferred tax assets. See Management s Discussion and Analysis of Financial Condition and Results of Operations for additional information.

(5) Fiscal year 2008 Net loss attributable to Office Depot, Inc. and Net loss available to common shareholders include impairment charges for goodwill and trade names of $1.27 billion and other asset impairment charges of $222 million.

(6) Facilities of wholly-owned or majority-owned entities operated by our International Division.

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Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations.

RESULTS OF OPERATIONS

OVERVIEW

Our business is comprised of three segments. The North American Retail Division includes our retail stores in the U.S. which offer office supplies and services, computers and business machines and related supplies, 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 the U.S. and Canada directly to businesses through catalogs, internet web sites and a dedicated sales force. Our International Division sells office products and services through catalogs, internet web sites, a dedicated sales force and retail stores in Europe and Asia.

Our fiscal year results are based on a 52- or 53-week retail calendar ending on the last Saturday in December. Fiscal year 2011 is based on 53 weeks, with a 14-week fourth quarter. Fiscal years 2010 and 2009 include 52 weeks. Our comparable store sales relate to stores that have been open for at least one year. A summary of factors important to understanding our results for 2011 is provided below. The comparisons to prior years are discussed in the narrative that follows this overview.

Total company sales were $11.5 billion in 2011, down 1% compared to 2010. Total company sales decreased 4% in 2010 compared to 2009.

Sales for 2011 declined 2% in the North American Retail Division and 1% in the North American Business Solutions Division. Comparable store sales in the North American Retail Division decreased 2%. International Division sales decreased 1% in U.S. dollars and 5% in constant currencies.

Gross margin for 2011 improved approximately 100 basis points compared to 2010, following an approximately 90 basis point increase from 2009. The increase in 2011 primarily reflects improvement from reduced promotional activity, lower property costs and changes in the mix of sales channels and products sold.

We recognized charges of approximately $58 million in 2011, primarily related to restructuring-related activity in the International Division, store closures in the North American Retail Division and process improvement actions at the corporate level. Charges recognized in 2010 and 2009 totaled approximately $87 million and $253 million, respectively.

Tax and related interest benefits of approximately $123 million were recognized in 2011 from the reversal of uncertain tax position accruals and the release of valuation allowances in certain jurisdictions based on positive earnings. Tax settlements and related interest reversal were also recognized in 2010. The company continues to operate in the U.S. with full valuation allowances on deferred tax assets, contributing to significant effective tax rate volatility within the year and across years.

At the end of 2011, we had $571 million in cash and approximately $734 million available on our asset based credit facility. Cash flow from operating activities was $200 million for 2011.

OPERATING RESULTS

Discussion of other income and expense items, including material Charges and changes in interest and taxes follows our review of segment results.

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NORTH AMERICAN RETAIL DIVISION

(Dollars in millions)	**2011**	2010	2009
Sales	**$ 4,870.2**	$ 4,962.8	$ 5,113.6
% change	**(2)%**	(3)%	(16)%
Division operating profit	**$ 134.8**	$ 127.5	$ 105.5
% of sales	**2.8%**	2.6%	2.1%

Sales in our North American Retail Division decreased 2% in 2011, 3% in 2010 and 16% in 2009. The decline in sales reflects the closing of 12 stores in Canada during 2011 and, in 2009, the closing of 120 underperforming stores as part of a strategic business review. Comparable store sales in 2011 from the 1,107 stores that were open for more than one year decreased 2%, with the fourth quarter down 5% compared to the prior year. Comparable store sales in 2010 from the 1,124 stores that were open for more than one year decreased 1%. The 53rd week in 2011 added approximately $78 million to the Division s full year reported sales. Transaction counts were lower in both 2011 and 2010, consistent with the comparable store sales declines. Sales in technology services, Copy and Print Depot, seating and office materials increased in 2011 compared to 2010, while sales of technology products, technology peripheral items and some office supplies declined. Sales in furniture, technology, technology services and Copy and Print Depot increased in 2010 compared to 2009; sales of supplies declined. Our decision to reduce promotions in select categories contributed to lower sales in both 2011 and 2010.

The North American Retail Division reported operating profit of approximately $135 million in 2011, $128 million in 2010 and $106 million in 2009. Division operating profit in 2011 included approximately $12 million of charges associated with the closure of stores in Canada. Charges for store closures in 2009 were managed at the corporate level and not reflected in the determination of Division operating profit. Gross margins increased in 2011 from a change in the mix of sales away from technology products and lower promotional activity, as well as continuing benefits from lower occupancy costs. Gross margins in 2010 also benefited from lower promotional activity and lower product cost driven by line reviews and increased sales of direct import products. Operating profit in 2011 included severance and other costs associated with the store closures in Canada, higher variable based pay and incremental costs incurred to drive increased customer focused selling activities. These factors were offset by a positive contribution from the 53rd week in 2011, decreased advertising expenses and other favorable items including benefits recognized from changes to our private label credit card program. Advertising expense increased in 2010 compared to 2009 and was partially offset by lower variable based pay. Division operating profit in all periods was negatively affected by the unfavorable impact our sales volume decline had on gross margin and operating expenses (the flow through impact).

At the end of 2011, we operated 1,131 retail stores in the U.S. We opened 9 new stores during 2011 and 17 stores during 2010. We closed 25 stores in North America during 2011, including the 12 stores in Canada, and 22 during 2010. We will continue to evaluate locations as leases become due and will close or relocate stores when appropriate.

NORTH AMERICAN BUSINESS SOLUTIONS DIVISION

(Dollars in millions)	**2011**	2010	2009
Sales	**$ 3,262.0**	$ 3,290.4	$ 3,483.7
% change	**(1)%**	(6)%	(16)%
Division operating profit	**$ 145.1**	$ 96.5	$ 98.2
% of sales	**4.4%**	2.9%	2.8%

Sales in our North American Business Solutions Division decreased 1% in 2011, 6% in 2010 and 16% in 2009. The 53rd week added approximately $34 million of sales to the Division in 2011. Sales in the direct channel increased in 2011 and decreased in 2010. Sales in the contract channel were lower in both years. For the Division

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in total, both the number of customer transactions and the average order value per transaction were lower in 2011 and 2010, in part reflecting reductions in promotional activity. During 2011, through alternative non-exclusive purchasing arrangements, the Division retained approximately 87% of the revenue from customers formerly associated with a legacy public sector purchasing cooperative. This retention rate is inclusive of declines due to public sector spending and budget constraints, which impacted these customers as well as our other public sector customers. Sales in the contract channel, other than to customers buying under these purchasing arrangements, were positive for 2011. Sales to small-to medium-sized businesses and sales to large national accounts increased during 2011. On a product category basis in 2011, sales of cleaning and break room products and certain office supplies increased while ink and toner, furniture, paper and other office supply categories decreased. In 2010, the Division experienced weakness in durables such as furniture, technology and peripherals, as customers delayed their purchases of these products in favor of consumables like paper, ink and toner.

Division operating profit totaled $145 million in 2011, $97 million in 2010, and $98 million in 2009. The 2011 increase in Division operating profit reflects gross margin benefits from reduced promotions, the impact of a change in the mix of product sales to the direct channel, lower operating expenses, a change of mix of customers in the contract channel, and positive impacts from our margin improvement initiatives. Lower selling, distribution and advertising expenses were incurred in 2011 compared to 2010. Many of these operating expense reductions reflect initiatives put in place in prior periods to improve efficiency and productivity. Also, fiscal year 2011 included benefits discrete to the period from removing recourse provisions and changing terms and conditions in the Office Depot private label credit card program and adjustments relating to customer incentives. Variable based pay linked to performance was higher in 2011. The impact of the 53rd week was relatively neutral to the Division s overall operating profit for 2011. The 2010 decrease in operating profit was partially offset by higher gross margins from a shift in the mix of customers, some pricing improvements and product mix. Increased advertising expenses during 2010 were offset by initiatives to reduce the Division s cost structure and lower variable pay for the period. The flow through impact of lower sales adversely affected all periods, with the greatest impact in 2009.

INTERNATIONAL DIVISION

(Dollars in millions)	**2011**	2010	2009
Sales	**$ 3,357.4**	$ 3,379.8	$ 3,547.2
% change	**(1)%**	(5)%	(16)%
% change in constant currency sales	**(5)%**	(2)%	(9)%
Division operating profit	**$ 92.9**	$ 110.8	$ 119.6
% of sales	**2.8%**	3.3%	3.4%

Sales in our International Division in U.S. dollars decreased 1% in 2011, 5% in 2010 and 16% in 2009. Constant currency sales decreased 5% in 2011, 2% in 2010 and 9% in 2009. Excluding the revenue impact from the fourth quarter 2010 dispositions of businesses in Israel and Japan and the deconsolidation of business in India, as well as the first quarter 2011 acquisition of a business in Sweden (the Portfolio Changes), constant currency sales were 1% lower in 2011 compared to 2010. The 53rd week added approximately $28 million to total Division sales. Contract channel sales in constant currencies increased 3% in 2011 and 1% in 2010. The 2011 increase reflects growth in field sales as a result of staff added in the last two years, as well as the 2011 acquisition. Constant currency sales in the direct business declined 6% in 2011, after considering the Portfolio Changes, and declined 5% in 2010.

Division operating profit totaled approximately $93 million in 2011, $111 million in 2010, and $120 million in 2009. Included in Division operating profit for 2011 and 2010 were charges of approximately $31 million and $23 million, respectively. The 2011 charges primarily relate to severance and other costs associated with facility closures and streamlining processes. The 2010 charges resulted from the sale of operating subsidiaries in Israel and Japan, as well as facility closure and severance costs associated with consolidation arrangements in Europe.

The 2010 subsidiary sales reflect the company s decision to change its investment model in those countries from direct operations to continued cash flow from product sales and other arrangements. The company anticipates recognizing additional charges in 2012 as operational consolidation continues and the related accounting recognition criteria are met.

The decreases in Division operating profit in 2011, 2010 and 2009 were impacted by the flow through impact of lower sales levels. Gross profit as a percent of sales increased in 2011, but decreased after considering the Portfolio Changes. This decrease reflects a change in the mix of direct and contract sales, product costs not passed along to customers, and a negative impact of the 53rd week, partially offset by lower occupancy costs. Operating expenses decreased across the Division, reflecting benefits from restructuring activities initiated in prior periods. The operating profit comparison of 2010 to 2009 also reflects higher vendor rebates in 2009 and higher product costs in 2010 that were not passed on to customers, partially offset by lower variable based pay. For 2009, the negative flow through impact was partially offset by lower operating expenses, including a decrease in distribution costs as well as lower payroll and advertising expenses.

For U.S. reporting, the International Division s sales are translated into U.S. dollars at average exchange rates experienced during the year. The Division s reported sales were positively impacted by approximately $147 million in 2011, negatively impacted by $80 million in 2010 and positively impacted by $305 million in 2009 from changes in foreign currency exchange rates. Division operating profit was positively impacted by $4 million in 2011, negatively impacted by $3 million in 2010 and negatively impacted by $6 million in 2009 from changes in foreign exchange rates. Internally, we analyze our international operations in terms of local currency performance to allow focus on operating trends and results.

CORPORATE AND OTHER

Asset Impairments, Exit Costs and Other Charges

In recent years, the company has taken actions to adapt to changing and increasingly competitive conditions experienced in the markets in which we serve. These actions include closing stores and distribution centers (DCs), consolidating functional activities, disposing of businesses and assets, and taking actions to improve process efficiencies. Significant charges and impairments have been recognized associated with these activities. The charges and impairments recognized in 2009 related to a strategic review and were managed at the corporate level (Charges) and not considered in determining Division operating profit. The charges and impairments recognized in 2011 and 2010 associated with facility closures, consolidating functions and process improvements were either included in the determination of Division operating profit or as corporate costs, depending on the underlying activity. Store-level impairments and store closure costs, unrelated to the actions discussed above, are included in determination of Division operating profit and are not included in the tables below.

The amount of charges and impairments discussed above recognized throughout the company by year and the line item presentation in our accompanying Consolidated Statements of Operations is as follows.

(Dollars in millions)	**2011**	2010	2009
Cost of goods sold and occupancy costs	$ 2	$	$ 13
Store and warehouse operating and selling expenses	25	14	188
Other asset impairments		51	26
General and administrative expenses	31	22	26
Total	$ 58	$ 87	$ 253

The 2011 charges and impairments relate to the consolidation and elimination of functions in Europe, the closure of stores in Canada and company-wide process improvement initiatives. The charges and impairments recognized in 2010 include $51 million for the abandonment of a software application, $23 million for losses on the disposal of operating entities in Israel and Japan and other costs, as well as $13 million of compensation-related costs following the departure of our former CEO. The $253 million of Charges recognized in 2009

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followed a strategic review that led to closures of DCs in North America and Europe, closures of stores in North America and Japan, losses on sale-leaseback transactions that were initiated to enhance our liquidity position, as well as headcount reductions and other restructuring activities. As noted above, costs associated with that strategic review were captured and reviewed at the corporate level and were not included in Division results, consistent with the internal reporting used to manage the business and allocate resources. In addition to severance costs which usually require cash payment within 60 days of the initial accounting expense recognition, a significant amount of the Charges in 2009 related to closed store accruals, and to a lesser extent the 2011 store closures, which will continue to require cash payments over the related lease contract period or until the lease is terminated. Charges and credits associated with adjusting these accrued lease liabilities can impact future period results. Also, the ongoing accretion of the discounted accrued liability is reflected in operating expenses at the corporate level, but is not included in the charges and impairments discussed above. The accretion charge for 2011 and 2010 totaled approximately $12 million and $14 million, respectively.

The following table indicates the amount of charges and impairments included in the determination of Division operating profit and at the corporate level:

(Dollars in million)	**2011**	2010	2009
North America Retail Division	$ 12	$	$
North America Business Solutions Division			
International Division	31	23	
Corporate level	15	64	253
Total	$ 58	$ 87	$ 253

Additional charges are anticipated in the International Division during 2012 as activities are implemented and the accounting recognition criteria are met.

General and Administrative Expenses

Total general and administrative expenses (G&A) increased to $689 million in 2011 from $659 million in 2010. The portion of G&A expenses considered directly or closely related to division activity is included in the measurement of Division operating profit. Other companies may charge more or less G&A expenses and other costs to their segments, and our results therefore may not be comparable to similarly titled measures used by other companies. The remainder of the total G&A expenses are considered corporate expenses. A breakdown of G&A is provided in the following table:

(Dollars in millions)	**2011**	2010	2009
Division G&A	**$ 362.6**	$ 342.2	$ 361.7
Corporate G&A	**326.0**	316.6	361.4
Total G&A	**688.6**	658.8	$ 723.1
% of sales	**6.0%**	5.7%	6.0%

As noted above, total G&A expenses include charges of $31 million, $22 million, and $26 million in 2011, 2010, and 2009, respectively. Of these amounts, approximately $17 million was included in Division G&A for 2011, $9 million in 2010, and none in 2009. The remaining amounts in each year were included in Corporate G&A. After considering these charges, Corporate G&A expenses increased in 2011 from higher variable based pay and the comparison to a favorable litigation settlement in 2010. The decrease in 2010 compared to 2009 was from lower variable based pay, lower legal fees and a favorable litigation settlement.

The company is in the process of further assessing the G&A expenses charged to the Divisions in determining their operating profit. We currently cannot estimate when this analysis will be completed or the potential impacts on the Divisions, but the portion of G&A expenses allocated to the Divisions in future years likely will be substantially increased.

Other Income and Expense

(Dollars in millions)	**2011**	2010	2009
Interest income	**$ 1.2**	$ 4.7	$ 2.4
Interest expense	**(33.2)**	(58.5)	(65.6)
Miscellaneous income, net	**30.9**	34.5	17.1

Interest expense was impacted by the reversal of accrued interest of $32 million in 2011 and $11 million in 2010 following settlements of uncertain tax positions. Our accounting policy is to present interest accruals and reversals on uncertain tax positions as a component of interest expense. Additionally, approximately $2 million of interest income was recognized in 2010 from one of the tax settlements.

Our net miscellaneous income consists of our earnings of joint venture investments, gains and losses related to foreign exchange transactions, investment results from our deferred compensation plan and realized gains and impairments of other investments. We recognized earnings from our joint venture in Mexico, Office Depot de Mexico, of approximately $34 million, $31 million and $31 million in 2011, 2010, and 2009, respectively. These results also were impacted by foreign currency and other gains and losses in all periods.

Income Taxes

(Dollars in millions)	**2011**	2010	2009
Income tax expense (benefit)	**$ (63.1)**	$ (10.5)	$ 287.6
Effective income tax rate*	**(193)%**	18%	(92)%

* Income taxes as a percentage of earnings (loss) before income taxes.

The effective tax rates for 2011 and 2010 reflect benefits from settlements of uncertain tax positions (UTPs) and from reversal of valuation allowances on deferred tax assets. The 2011 rate includes the reversal of $81 million of UTP accruals relating to U.S. and foreign jurisdictions following closure of tax audits and the expiration of the statute of limitations on previously open tax years. The 2010 effective rate includes the reversal of approximately $30 million of UTP accruals. In addition, 2011 and 2010 include approximately $9 million and $10 million, respectively, of discrete benefits from the release of valuation allowances in certain European countries because of improved performance in those jurisdictions. Partially offsetting these tax benefits is income tax expense recognized for tax paying entities. Because of significant valuation allowances that remain in other jurisdictions, deferred tax benefits are not recognized on certain loss generating entities. Within our international operations, statutory tax expense is generally lower compared to the aggregate U.S. federal and state income tax rates. This is further impacted by favorable tax ruling within our international operations.

The aggregate reversal of UTPs in 2010 was reduced by approximately $7 million which was offset against other tax-related accounts and had no impact on earnings. The UTP reversals also resulted in a reversal of previously accrued interest expense of $32 million in 2011 and $11 million in 2010, as well as recognition of $2 million of interest income in 2010. Our accounting policy is to include accrued interest on UTPs, and any related reversals, as a component of interest expense in the condensed consolidated statement of operations.

Following the recognition of $322 million of valuation allowances in 2009, we have regularly experienced substantial volatility in our effective tax rate for interim periods. Because deferred income tax benefits cannot be recognized in several jurisdictions, changes in the amount, mix and timing of projected pre-tax earnings in tax paying jurisdictions can have a significant impact on the annual expected tax rate which, applied against year-to-date results, can result in significant volatility in the overall effective tax rate. This interim volatility is likely to continue in future periods until the valuation allowances can be released.

We file a U.S. federal income tax return and other income tax returns in various states and foreign jurisdictions. With few exceptions, we are no longer subject to active U.S. federal, state or local income tax examinations for years before 2009. The U.S. federal tax returns for 2009, 2010 and 2011 are under review. Significant international tax jurisdictions include the U.K., the Netherlands, France and Germany. Generally, we are subject to routine examination for years 2006 and forward in these foreign jurisdictions. It is reasonably possible that some audits will close within the next twelve months which could result in a decrease of as much as $2.6 million or an increase of as much as $1.0 million to our accrued uncertain tax positions.

As part of the ongoing 2009 and 2010 audits, the U.S. Internal Revenue Service (IRS) has proposed a deemed royalty assessment from our foreign operations with a tax and penalty amount of approximately $126 million. The company disagrees with this assessment and, based on the technical merits of this issue, believes that no accrual is required at this time. The company is working with its outside tax advisors and the IRS to resolve this dispute in a timely manner. To the extent the IRS were to prevail on this issue, the income statement and cash flow impact may be lowered because of available net operating losses and other deferred tax assets.

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LIQUIDITY AND CAPITAL RESOURCES

Liquidity

During the second quarter of 2011, the company entered into a $1.0 billion amended and restated credit agreement (the Amended Credit Agreement) with a group of lenders, most of whom participated in the company s previously existing $1.25 billion credit agreement. The Amended Credit Agreement expires May 25, 2016. The Amended Credit Agreement reduces the applicable borrowing spread, permits the company to redeem, tender or otherwise repurchase its existing 6.25% Senior Notes, subject to a $600 million minimum liquidity requirement, and modifies certain covenants. See Note E of the Notes to the Condensed Consolidated Financial Statements for additional information.

At December 31, 2011, we had approximately $570.7 million in cash and equivalents and another $734.4 million available under the Amended Credit Agreement based on the December borrowing base certificate, for a total liquidity of approximately $1.3 billion. We consider our resources adequate to satisfy our cash needs for at least the next twelve months.

At December 31, 2011, no amounts were drawn under the Amended Credit Agreement. The maximum month end amount outstanding during 2011 occurred in May at approximately $117.5 million. There were letters of credit outstanding under the Amended Credit Agreement at the end of the year totaling approximately $111.2 million. An additional $0.2 million of letters of credit were outstanding under separate agreements. Average borrowings under the Amended Credit Agreement during 2011 were approximately $61.9 million at an average interest rate of 3.5%. The maximum monthly average borrowings during 2011 occurred in May at approximately $121.5 million.

We also had short-term borrowings of $15.1 million at December 31, 2011 under various local currency credit facilities for our international subsidiaries that had an effective interest rate at the end of the year of approximately 2.2%. The maximum month end amount occurred in May at approximately $17.6 million and the maximum monthly average amount occurred in June at approximately $17.0 million. The majority of 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 December 31, 2011. On March 30, 2011, the company obtained from the lending institutions participating in the previously-existing credit agreement a waiver of default following identification of the need to restate the financial statements in our original Annual Report on Form 10-K filed on February 22, 2011. For additional information see Note A to Notes to Consolidated Financial Statements.

Dividends on the company s redeemable preferred stock are payable quarterly, and will be paid in-kind or in cash, only to the extent that the company has funds legally available for such payment and a cash dividend is declared by the company s board of directors. Dividends for the first three quarters of 2011 were paid in cash. The dividend due on January 1, 2012 was paid-in-kind, totaling approximately $7.7 million, measured at fair value.

On February 17, 2012, the company announced commencement of a cash tender offer to purchase up to $250.0 million aggregate principal amount of its outstanding 6.25% Senior Notes due 2013. The tender offer is scheduled to expire at midnight, New York City time, on March 16, 2012, unless extended or earlier terminated.

On February 24, 2012, the company, together with certain of its European subsidiaries, as borrowers and certain of its domestic subsidiaries as guarantors, entered into an amendment (the Amendment) to the Amended Credit Agreement with the lenders party thereto, JPMorgan Chase Bank, N.A., London Branch, as European Administrative Agent and European Collateral Agent, JPMorgan Chase Bank, N.A., as Administrative Agent and

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US Collateral Agent, Bank of America, N.A., as Syndication Agent and Citibank, N.A. and Wells Fargo Bank, N.A., as Documentation Agents. The Amendment amends the Amended Credit Agreement to provide the company flexibility with regard to certain restrictive covenants in any possible future refinancings and other transactions. In addition, the Amendment releases one of the company s subsidiaries from its guarantee obligations under the Amended Credit Agreement.

The foregoing description of the Amendment which describes the primary changes to the Amended Credit Agreement, does not purport to be complete and is subject to and qualified in its entirety by reference to the full text of the Amendment, which is filed as an Exhibit to this Form 10-K.

Also on February 24, 2012, the company entered into a two-year committed factoring arrangement that allows us to sell certain foreign trade receivables to a third party which provides up to approximately $75 million additional liquidity, depending on the level of eligible receivables and currency exchange rates. As of February 27, 2012, no trade receivables had been sold under this agreement.

Cash Flows

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

(Dollars in millions)	**2011**	2010	2009
Operating activities	**$ 199.7**	$ 203.1	$ 296.4
Investing activities	**(157.2)**	(191.5)	25.3
Financing activities	**(98.6)**	(30.9)	173.3

Operating Activities

Net earnings (loss) in 2011 and 2010 include non-cash settlements of uncertain tax positions and related interest, as well as changes in valuation allowances. The 2011 settlements impact the $360 million decrease in accrued expenses and $15 million of deferred taxes in determining cash flow from operating activities. Net working capital and other components increased $180 million in 2011, compared to an increase of $94 million in 2010. The greater change in 2011 reflects adjustments of approximately $113 million for the non-cash tax and interest settlements, compared to approximately $41 million of similar settlements in 2010. The decrease in receivables in each of the years 2011, 2010 and 2009 reflects lower sales, improved collections, and certain changes in vendor purchase arrangements. Inventory balances were lower at the end of 2011 as initiatives were put in place during the year to better manage safety stock and minimum presentation levels. These sources of cash in 2011 were offset by decreases in trade and nontrade accounts payable and accrued expenses. Additionally, during 2011, we received a $25 million dividend from our joint venture. Non-cash charges for asset impairments impacted 2010 and 2009 and cash payments associated with restructuring activities and continuing payment of leases on closed facilities affected each of the three years.

Working capital is influenced by a number of factors, including the aging of inventory and timing of vendor payments. The timing of payments is subject to variability during the year depending on a variety of factors, including the flow of goods, credit terms, timing of promotions, vendor production planning, new product introductions and working capital management. The timing of payments at the end of 2011 resulted in increases to certain accounts payable and accrued expense balances that could be a use of cash in 2012. For our accounting policy on cash management, see Note A of the Notes to Consolidated Financial Statements.

Investing Activities

Net cash used in investing activities was $157 million in 2011, $192 million in 2010, and a $25 million source of cash in 2009. We invested $130 million, $169 million and $131 million in capital expenditures during 2011, 2010 and 2009, respectively. The 2011 capital expenditures relate to new stores and relocations, internal initiatives and various capital projects. The $73 million of acquisition, net of cash acquired was for the acquisition of an entity in Sweden that occurred during the first quarter of 2011. Approximately $47 million was placed in a restricted cash escrow account in 2010 and released in 2011 to fund this acquisition. During 2010, we used approximately $11 million to complete an acquisition. Proceeds from disposition of assets amounted to $8 million in 2011 compared to $35 million in 2010 and $150 million in 2009. Proceeds from the disposition of assets in 2010 included $25 million from the sale of a data center and $8 million from the sale of two operating subsidiaries in the International Division. Proceeds from the disposition of assets in 2009 included proceeds of sale-leaseback transactions of approximately $116 million. In 2009, we also completed the sale of an asset previously classified as a capital lease, resulting in proceeds of approximately $29 million. We placed $9 million of restricted cash on deposit in 2011 relating to an advance received on a dispute that was settled in January 2012.

Financing Activities

Net cash used in financing activities totaled $99 million and $31 million in 2011 and 2010, compared to a source of cash of $173 million in 2009. The use of cash in 2011 included the cash dividends paid on our convertible preferred stock of approximately $37 million, repayments of long and short term borrowings of $69 million, and $10 million in fees related to the Amended Credit Agreement. The dividend on our convertible preferred stock for the fourth quarter of 2011 was paid in-kind in January 2012. The sources of cash in 2011 included proceeds from issuance of borrowings of $10 million, as well as an advance of $9 million was received relating to a dispute associated with a prior year acquisition in Europe. A final settlement of this dispute was reached in January 2012; see Note R of Notes to Consolidated Financial Statements for additional discussion. The use of cash in 2010 resulted from the cash dividends paid on our convertible preferred stock of approximately $28 million and $22 million to acquire certain noncontrolling interests. The 2010 period included short-term borrowings under the Facility offset by payments of approximately $30 million. The source of cash in 2009 resulted from our issuance of redeemable preferred stock during the second quarter, partially offset by repayments of borrowing on our asset based credit facility and capital lease payments. The company has evaluated, and expects to continue to evaluate, possible refinancings and other transactions. Such transactions may be material and may involve cash, the company s securities or the assumption of additional indebtedness.

Off-Balance Sheet Arrangements

As of December 31, 2011, we had no off-balance sheet arrangements other than operating leases which are included in the table below.

Contractual Obligations

The following table summarizes our contractual cash obligations at December 31, 2011, and the effect such obligations are expected to have on liquidity and cash flow in future periods:

		Payments Due by Period			
(Dollars in millions)	Total	Less than 1 year	1 - 3 years	4 - 5 years	After 5 years
Contractual Obligations					
Long-term debt obligations (1)	$ 479.6	$ 28.8	$ 429.9	$ 4.3	$ 16.6
Short-term borrowings and other (2)	15.1	15.1			
Capital lease obligations (3)	489.4	54.9	95.4	86.0	253.1
Operating lease obligations (4)	2,327.0	488.1	782.3	490.8	565.8
Purchase obligations (5)	217.4	144.9	65.1	7.4	
Other liabilities (6)					
Total contractual cash obligations	$ 3,528.5	$ 731.8	$ 1,372.7	$ 588.5	$ 835.5

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(1) Long-term debt obligations consist primarily of our $400 million senior notes and the associated contractual interest payments. Also included in this amount are the expected payments (principal and interest) on certain long-term debt obligations.

(2) Short-term borrowings consist of amounts outstanding under the Amended Credit Agreement and subsidiary lines of credit.

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

(4) The operating lease obligations presented reflect future minimum lease payments due under the non-cancelable portions of our leases as of December 31, 2011. Our operating lease obligations are described in Note G of the Notes to Consolidated Financial Statements. In the table above, sublease income is distributed by period.

(5) Purchase obligations include all commitments to purchase goods or services of either a fixed or minimum quantity that are enforceable and legally binding on us that meet any of the following criteria: (1) they are non-cancelable, (2) we would incur a penalty if the agreement was cancelled, or (3) we must make specified minimum payments even if we do not take delivery of the contracted products or services. If the obligation is non-cancelable, the entire value of the contract is included in the table. If the obligation is cancelable, but we would incur a penalty if cancelled, the dollar amount of the penalty is included as a purchase obligation. If we can unilaterally terminate the agreement simply by providing a certain number of days notice or by paying a termination fee, we have included the amount of the termination fee or the amount that would be paid over the notice period. As of December 31, 2011, purchase obligations include television, radio and newspaper advertising, sports sponsorship commitments, telephone services, certain fixed assets and software licenses and service and maintenance contracts for information technology. Contracts that can be unilaterally terminated without a penalty have not been included.

(6) Our Consolidated Balance Sheet as of December 31, 2011 includes $452 million classified as Deferred income taxes and other long-term liabilities. This caption primarily consists of our net long-term deferred income taxes, the unfunded portion of our pension plan, deferred lease credits, liabilities under our deferred compensation plans, and accruals for uncertain tax positions. These liabilities have been excluded from the above table as the timing and/or the amount of any cash payment is uncertain. See Note F of the Notes to Consolidated Financial Statements for additional information regarding our deferred tax positions and accruals for uncertain tax positions and Note H for a discussion of our employee benefit plans, including the pension plan and the deferred compensation plan.

In addition to the above, we have outstanding letters of credit totaling $111.4 million at December 31, 2011.

CRITICAL ACCOUNTING POLICIES

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

Vendor arrangements Our inventory purchases from vendors are generally under arrangements that automatically renew until cancelled with periodic updates or annual negotiated agreements. Many of these arrangements require the vendors to make payments to us or provide credits to be used against purchases if and when certain conditions are met. We generally refer to these arrangements as vendor programs, and they typically fall into two broad categories, with some underlying sub-categories. The first category is volume-based rebates. Generally, our product costs per unit decline as higher volumes of purchases are reached. Certain of our vendor agreements provide that we pay higher per unit costs prior to reaching a predetermined tier, at which time the vendor rebates the per unit differential on past purchases, and also applies the lower cost to future purchases until the next milestone is reached. Current accounting rules provide that companies with a sound basis for estimating their full year purchases, and therefore the ultimate rebate level, can use that estimate to value inventory and cost of goods sold throughout the year. We believe our history of purchases with many vendors provides us with a sound basis for our estimates of purchase volume. If the anticipated volume of purchases is not reached, however, or if we form the belief at any given point in the year that it is not likely to be reached, cost of goods sold and the remaining inventory balances are adjusted to reflect that change in our outlook. We review sales projections and related purchases against vendor program estimates at least quarterly and adjust these balances accordingly. In recent years, the company has reduced the number of arrangements that contain this tiered purchase rebate mechanism in exchange for a lower product cost throughout the year. Continued elimination of tiered arrangements could further reduce the potential variability in gross margin from changes in volume-based estimates.

The second broad category of arrangements with our vendors is event-based programs. These arrangements can take many forms, including advertising support, special pricing offered by certain of our vendors for a limited time, payments for special placement or promotion of a product, reimbursement of costs incurred to launch a vendor s product, and various other special programs. These payments are classified as a reduction of costs of goods sold or inventory, as appropriate for the program. Some arrangements may meet the specific, incremental, identifiable cost criteria that allow for direct operating expense offset, but such arrangements are not significant.

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

Inventory valuation Inventories are valued at the lower of cost or market value. We monitor active inventory for excessive quantities and slow-moving items and record adjustments as necessary to lower the value if the anticipated realizable amount is below cost. We also identify merchandise that we plan to discontinue or have begun to phase out and assess the estimated recoverability of the carrying value. This includes consideration of the quantity of the merchandise, the rate of sale, and our assessment of current and projected market conditions and anticipated vendor rebates. If necessary, we record a charge to cost of sales to reduce the carrying value of this merchandise to our estimate of the lower of cost or realizable amount. Additional promotional activities may be initiated and markdowns may be taken as considered appropriate until the product is sold or otherwise disposed. Estimates and judgments are required in determining what items to stock and at what level, and what items to discontinue and how to value them prior to sale.

We also recognize an expense in cost of sales for our estimate of physical inventory loss from theft, short shipment and other factors referred to as inventory shrink. During the year, we adjust the estimate of our shrink rate accrual following on-hand adjustments and our physical inventory results. These changes in estimates may result in volatility within the year or impact comparisons to other periods.

Closed store accruals and asset impairments We regularly assess the performance of each retail store against historic patterns and projections of future profitability. These assessments are based on management s estimates for sales levels, gross margin attainments, and cash flow generation. If, as a result of these evaluations, management determines that a store will not achieve certain operating performance targets, we may decide to close the store. At the point of closure, we recognize a liability for the remaining costs related to the property, reduced by an estimate of any sublease income. The calculation of this liability requires us to make assumptions and to apply judgment regarding the remaining term of the lease (including vacancy period), anticipated sublease income, and costs associated with vacating the premises. Lease commitments with no economic benefit to the company are discounted at the credit-adjusted discount rate at the time of each location closure. With assistance from independent third parties to assess market conditions, we periodically review these judgments and estimates and adjust the liability accordingly. Future fluctuations in the economy and the market demand for commercial properties could result in material changes in this liability. Costs associated with facility closures are included in store and warehouse operating and selling expenses in our Consolidated Statements of Operations. The accretion of the discounted lease liability and potential future positive and negative adjustments to the recorded amounts from settlements or changes in market conditions related to a company-wide business review are recognized at the corporate level, outside of the determination of Division operating profit. Residual costs and benefits of closures from other periods are included in Division operating profit.

In addition to the decision about whether or not to close a store, store assets are regularly reviewed for recoverability of their carrying amounts. The recoverability assessment requires judgment and estimates of a store s future cash flows. Our impairment analysis builds a cash flow model at the individual store level, beginning with recent store performance and trending the anticipated future results based on chain-wide and individual store initiatives. If the anticipated undiscounted cash flows of a store cannot support the carrying amount of the store s assets, an impairment charge is recorded to operations as a component of store and warehouse operating and selling expenses. That charge is measured as the difference between the carrying value of the assets and their estimated fair value, typically calculated as the discounted amount of the estimated cash flow. The store-level estimated cash flows, by their nature, include uncertain projections and assumptions about future performance. Important assumptions used in these projections include an assessment of future overall economic conditions, the company s ability to control future costs, maintain aspects of positive performance, and successfully implement initiatives designed to enhance sales and gross margins. To the extent that management s estimates of future performance are not realized, future assessments could result in material impairment charges.

Goodwill and other intangible assets At December 31, 2011, we had goodwill of $62 million, indefinite lived intangible assets of $6 million and definite lived intangible assets of $30 million. We review amortization periods and goodwill and indefinite lived intangible assets for impairment annually in the fourth quarter of the year, or sooner if indicators of potential impairment are identified. We use a discounted cash flow approach in assessing the estimated fair value of the reporting units with goodwill and a relief from royalty approach for the indefinite lived trade name. The discounted cash flow analysis begins with the ensuing year s business plan and requires estimates of future sales, profitability, capital expenditures and related cash flows. We include a residual value and discount the aggregate cash flow at an estimated cost of capital for the related unit. We also review the results against a measurement of market capitalization and, to the extent available, market data. These calculations require significant judgment. Of the goodwill recognized at December 31, 2011, approximately $42 million was in the International Division s European reporting unit and $19 million was in the North American Business Solutions Division s direct reporting unit. The European reporting unit has the greatest sensitivity to potential changes in economic conditions, company performance and the related impacts on estimated fair value. Should future performance be below our projections, goodwill and other intangible asset impairment changes could result. While the quantitative assessment described above was used for our 2011 assessment, the accounting rules for goodwill testing will change in 2012 to allow for a qualitative assessment of potential impairment if certain conditions are met or the continued use of this quantitative approach.

Income taxes Income tax accounting requires management to make estimates and apply judgments to events that will be recognized in one period under rules that apply to financial reporting and in a different period in our tax returns. In particular, judgment is required when estimating the value of future tax deductions, tax credits, and the realizability of net operating loss carryforwards (NOLs), as represented by deferred tax assets. When we believe the realization of all or a portion of a deferred tax asset is not likely, we establish a valuation allowance. Changes in judgments that increase or decrease these valuation allowances impact current earnings.

Because of the downturn in our performance during this recessionary period, as well as the significant restructuring activities and charges we have taken in response, we established valuation allowances totaling

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approximately $322 million during 2009. The charge to establish the valuation allowance followed the third quarter 2009 condition of reaching or nearly reaching a 36 month cumulative loss position in two taxing jurisdictions. Judgment is required in projecting when operations will be sufficiently positive to allow a conclusion that utilization of the deferred tax assets will once again be more likely than not. Positive performance in subsequent periods and projections of future positive performance will need to be evaluated against existing negative evidence. Valuation allowances in certain foreign jurisdictions were removed during 2010 and 2011 because sufficient positive financial information existed, resulting in tax benefit recognition of $10 million and $9 million, respectively. Our effective tax rate in future periods may be positively or negatively impacted by changes in related judgments about valuation allowances or pre-tax operations. At December 31, 2011, approximately $387 million of valuation allowances remain relating to U.S. businesses and approximately $235 million relating to foreign jurisdictions.

In addition to judgments associated with valuation accounts, our current tax provision can be affected by our mix of income and identification or resolution of uncertain tax positions. Because income from domestic and international sources may be taxed at different rates, the shift in mix during a year or over years can cause the effective tax rate to change. We base our rate during the year on our best estimate of an annual effective rate, and update that estimate quarterly, with the cumulative effect of a change in the anticipated annual rate reflected in the tax provision of that period. Such changes can result in significant interim reporting volatility, as was experienced during 2011 and 2010. This volatility can result from changes in our projected earnings levels, the mix of income, the impact of valuation allowances in certain jurisdictions and the interim accounting rules applied to entities expected to pay taxes on a full year basis, but recognizing losses in an interim period.

We file our tax returns based on our best understanding of the appropriate tax rules and regulations. However, complexities in the rules and our operations, as well as positions taken publicly by the taxing authorities, may lead us to conclude that an accrual for an uncertain tax position (UTP) is required. We generally maintain accruals for UTPs until examination of the tax position is completed by the taxing authority, available review periods expire, or additional facts and circumstances cause us to change our assessment of the appropriate accrual amount. During the third quarter of 2011, following closure of certain tax audits and the expiration of the statute of limitations on previously open tax years, we reversed approximately $66 million of UTPs and a related $32 million of accrued interest. An additional UTP accrual of $15 million was reversed during the fourth quarter of 2011 following closure of certain tax audits. At December 31, 2011, the UTP accrual was approximately $5.7 million. Matters could arise in the future that could result in additional tax and interest expense or UTP accruals. For example, the company has received notice from the IRS of a proposed deemed royalty assessment from our foreign operations. We disagree with this assessment and no accrual for this matter has been recorded. See Note F to the Notes to Consolidated Financial Statements.

Further, the company has significant operations outside the U.S. Because earnings from those entities have been and will continue to be reinvested into the foreign operations, no incremental U.S. income taxes have been accrued on those earnings. Should the company decide to distribute earnings from our foreign operations to the U.S., additional income tax expense would be recognized, or valuation allowances reduced, for the income tax consequence of the anticipated distribution and possibly for the calculated tax consequences of the full amount of undistributed earnings, net of allowable offsets. The company does not intend to repatriate these funds to the U.S.

Preferred stock paid-in-kind dividends Our redeemable preferred stock carries a stated dividend of 10%, subject to future decreases in certain circumstances, and allows for payment in cash or an increase in the preferred stock s liquidation preference as directed by the board of directors. The valuation for accounting purposes of the dividend paid in-kind requires significant judgment to determine the estimated fair value. The company has used a binomial simulation model to measure values of multiple possible outcomes of the various provisions in the agreement that could impact whether the dividend rate would change based on future stock price performance, whether the company would issue a notice to call the preferred shares and whether the holders would convert their preferred stock into common stock. While the fair value of preferred stock dividends paid in-kind has no standing in the contractual rights to liquidation preference of the preferred shareholders nor any cash impact on the company, it impacts the measurement of net income available to common shareholders and earnings per share. Changes in the valuation assumptions such as the risk adjusted rate, stock price volatility and time to call or convert can impact the estimated fair value and therefore the amount reported as net income available to common shareholders and earnings per share. However, the valuation is most sensitive to changes in the underlying common stock price. The company believes the model used to estimate fair value is reasonable and appropriate, but the reported dividend amount could change significantly in future periods based on changes in the underlying common stock price and the model inputs. After having paid the dividend in cash for several quarters, the board of directors decided to pay the dividend in-kind for the amount due in January 2012. In-kind dividends may continue at least throughout 2012, though the board of directors assesses available data quarterly before making that decision.

SIGNIFICANT TRENDS, DEVELOPMENTS AND UNCERTAINTIES

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

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

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

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

Economic Factors Our customers in the North American Retail Division and the International Division and many of our customers in the North American Business Solutions Division are predominantly small and home office businesses. Accordingly, these customers may continue to curtail their spending in reaction to macroeconomic conditions, such as changes in the housing market and commodity costs, credit availability and other factors. The downturn in the global economy experienced in recent years negatively impacted our sales and profits.

Liquidity Factors Historically, we have generated positive cash flow from operating activities and have had access to broad financial markets that provide the liquidity we need to operate our business. Together, these sources have been used to fund operating and working capital needs, as well as invest in business expansion through new store openings, capital improvements and acquisitions. Due to the downturn in the global economy, our operating results have declined. We have in place an asset based credit facility to provide liquidity, subject to availability as specified in the agreement. Further deterioration in our financial results could negatively impact

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our credit ratings, our liquidity and our access to the capital markets. Certain of our existing indebtedness matures in 2013 and there can be no assurance that we will be able to refinance all or a portion of that indebtedness. If we are able to refinance all or a portion of that indebtedness, the terms of such refinancing will likely be less favorable than the terms of our existing indebtedness.

MARKET SENSITIVE RISKS AND POSITIONS

The company has adopted an enterprise risk management process patterned after the principles set out by the Committee of Sponsoring Organizations (COSO) in 2004. Management utilizes a common view of exposure identification and risk management. A process is in place for periodic risk reviews and identification of appropriate mitigation strategies.

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

Interest Rate Risk

We are exposed to the impact of interest rate changes on cash, cash equivalents and debt obligations. The impact on cash and short-term investments held at the end of 2011 from a hypothetical 10% decrease in interest rates would be a decrease in interest income of less than $0.1 million.

Market risk associated with our debt portfolio is summarized below:

		2011			2010	
(Dollars in thousands)	**Carrying Value**	**Fair Value**	**Risk Sensitivity**	Carrying Value	Fair Value	Risk Sensitivity
$400 million senior notes	**$ 399,953**	**$ 381,067**	**$ 2,860**	$ 400,067	$ 398,000	$ 4,800
Asset based credit facility	**$**	**$**	**$**	$ 52,488	$ 52,488	$

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

Foreign Exchange Rate Risk

We conduct business through entities in various countries outside the United States where their functional currency is not the U.S. dollar. While our company sells directly or indirectly to customers in 60 countries, the principal operations of our International Division are in countries with Euro, British Pound and Mexican Peso functional currencies. We continue to assess our exposure to foreign currency fluctuation against the U.S. dollar. As of December 31, 2011, a 10% change in the applicable foreign exchange rates would result in an increase or decrease in our pretax earnings of approximately $13 million.

Although operations generally are conducted in the relevant local currency, we also are subject to foreign exchange transaction exposure when our subsidiaries transact business in a currency other than their own functional currency. This exposure arises primarily from inventory purchases in a foreign currency. At

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December 31, 2011, there were no foreign exchange forward contracts hedging inventory exposures. This amount was $43 million at its highest point during 2011. Also, from time-to-time, we enter into foreign exchange forward transactions to protect against possible changes in exchange rates related to scheduled or anticipated cash movements among our operating entities.

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

Commodities Risk

We operate a large network of stores and delivery centers around the world. As such, we purchase significant amounts of fuel needed to transport products to our stores and customers as well as pay shipping costs to import products from overseas. We are exposed to potential changes in the underlying commodity costs associated with this transport activity. As of December 31, 2011, a 10% change in domestic commodity costs would result in an increase or decrease in our operating profit of approximately $5 million.

INFLATION AND SEASONALITY

Although we cannot determine the precise effects of inflation on our business, we do not believe inflation has had a material impact on our sales or the results of our operations. We consider our business to be only somewhat seasonal, with sales generally trending lower in the second quarter, following the back-to-business sales cycle in the first quarter and preceding the back-to-school sales cycle in the third quarter and the holiday sales cycle in the fourth quarter. Certain working capital components may build and recede during the year reflecting established selling cycles. Business cycles can and have impacted our operations and financial position when compared to other periods.

NEW ACCOUNTING STANDARDS

Effective for the first quarter of 2012, a new accounting standard will require the presentation of net income and other comprehensive income either as a continuous statement or as two separate statements. The portion of the new standard which would require the presentation of reclassifications of other comprehensive income on the face of the income statement has been deferred. In past periods, we have presented the components of other comprehensive income as a separate statement for the full year and as a separate footnote for interim periods. We anticipate following the two statement format. The standard will not change the recognition or measurement of net income or other comprehensive income.

Also effective for the first quarter of 2012, a new accounting standard has been issued that is intended to achieve common fair value measurements and disclosure requirements between U.S. generally accepted accounting principles and International Financial Reporting Standards. This new standard amends current fair value guidance to include increased transparency around valuation inputs and investment categorization.

Effective for 2012 testing for goodwill impairment, entities will have an option of performing a qualitative assessment before calculating the fair value of their reporting units. If, based on the qualitative assessment, an entity concludes it is more likely than not that the fair value of the reporting unit exceeds its carrying value, quantitative testing for impairment is not necessary. The company did not elect the early adoption that was available for 2011.

Additionally, effective for the first quarter of 2014, a new accounting standard will require disclosure of information about the effect or potential effect of financial instrument netting arrangements on the company s financial position. Companies will be required to present both net (offset amounts) and gross information in the notes to the financial statements for relevant assets and liabilities that are offset.

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Including the above, there are no recently issued accounting standards that are expected to have a material effect on our financial condition, results of operations or cash flows. However, the Financial Accounting Standards Board has issued proposed accounting rules relating to leasing transactions that, if passed in their current form, would have significant impacts to our financial statements. Among other things, the current proposal would create a right of use asset and corresponding liability on the balance sheet measured at the present value of minimum lease payments, record amortization of the right of use asset and implied interest of the liability on the statement of operations and characterize a portion of the lease payments as financing activities rather than operating activities on the statement of cash flow. These proposed changes in accounting rules would have no direct economic impact to the company.

FORWARD-LOOKING STATEMENTS

The Private Securities Litigation Reform Act of 1995 (the Reform Act) provides protection from liability in private lawsuits for forward-looking statements made by public companies under certain circumstances, provided that the public company discloses with specificity the risk factors that may impact its future results. We want to take advantage of the safe harbor provisions of the Reform Act. This Annual Report on Form 10-K contains both historical information and other information that you can use to infer future performance. Examples of historical information include our annual financial statements and the commentary on past performance contained in our MD&A. While we have specifically identified certain information as being forward-looking in the context of its presentation, we caution you that, with the exception of information that is historical, all the information contained in this Annual Report on Form 10-K should be considered to be forward-looking statements as referred to in the Reform Act. Without limiting the generality of the preceding sentence, any time we use the words estimate, project, intend, expect believe, anticipate, continue and similar expressions, we intend to clearly express that the information deals with possible future events and is forward-looking in nature. Certain information in our MD&A is clearly forward-looking in nature, and without limiting the generality of the preceding cautionary statements, we specifically advise you to consider all of our MD&A in the light of the cautionary statements set forth herein.

Forward-looking information involves future risks and uncertainties. Much of the information in this report that looks towards future performance of our company is based on various factors and important assumptions about future events that may or may not actually come true. As a result, our operations and financial results in the future could differ materially and substantially from those we have discussed in the forward-looking statements in this Annual Report on Form 10-K. Significant factors that could impact our future results are provided in Item 1A. Risk Factors included in this Annual Report on Form 10-K. Other risk factors are incorporated into the text of our MD&A, which should itself be considered a statement of future risks and uncertainties, as well as management s view of our businesses.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

See the information in the Market Sensitive Risks and Positions subsection of Management s Discussion and Analysis of Financial Condition and Results of Operation set forth in Item 7 hereof.

Item 8. Financial Statements and Supplementary Data.

See Item 15(a) in Part IV of this Annual Report on Form 10-K.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

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Item 9A. Controls and Procedures.

Disclosure Controls and Procedures

Based on management s evaluation which included the participation of the company s Chief Executive Officer (CEO), and Chief Financial Officer (CFO), as of December 31, 2011, the company s CEO and CFO concluded that the company s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Act)), 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 Controls

Other than remediation of a previously-identified material weakness discussed below, there have been no changes in the company s internal control over financial reporting that occurred during the company s most recent quarter that have materially affected, or are reasonably likely to materially affect, the company s internal control over financial reporting. As a result of the identification of the issue that led to the restatements and the related reassessment of internal control over financial reporting in early April 2011, the company has developed certain remediation steps to address the previously identified material weakness and to improve its internal control over financial reporting. Specifically, the following steps have been implemented and as of December 31, 2011, the previously identified material weakness has been remediated:

- increase the level of review and validation of work performed by management and third-party tax professionals in the preparation of our provision for income taxes; and

- require the involvement of two third-party subject matter experts for material and complex tax transactions.

We are committed to a strong internal control environment, and believe that these remediation actions represent significant improvements.

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Management s Report on Internal Control Over Financial Reporting

Management of Office Depot is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Act. Our Internal Control structure is designed to provide reasonable assurance to our management and the board of directors regarding the reliability of financial reporting and the preparation and fair presentation of published financial statements.

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

In evaluating our Internal Control, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control Integrated Framework*. Based on our assessment, management has concluded that the company s internal control over financial reporting was effective as of December 31, 2011.

Our internal control over financial reporting as of December 31, 2011, has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report which is provided below.

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REPORT OF THE INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the internal control over financial reporting of Office Depot, Inc. and subsidiaries (the Company) as of December 31, 2011, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management s Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit.

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

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

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

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the fiscal year ended December 31, 2011 of the Company and our report dated February 28, 2012 expressed an unqualified opinion on those financial statements.

/s/ DELOITTE & TOUCHE LLP

Certified Public Accountants

Boca Raton, Florida

February 28, 2012

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Item 9B. Other Information.

On February 17, 2012, the company announced commencement of a cash tender offer to purchase up to $250.0 million aggregate principal amount of its outstanding 6.25% Senior Notes due 2013. The tender offer is scheduled to expire at midnight, New York City time, on March 16, 2012, unless extended or earlier terminated.

On February 24, 2012, the company, together with certain of its European subsidiaries, as borrowers and certain of its domestic subsidiaries as guarantors, entered into an amendment (the Amendment) to the Amended Credit Agreement with the lenders party thereto, JPMorgan Chase Bank, N.A., London Branch, as European Administrative Agent and European Collateral Agent, JPMorgan Chase Bank, N.A., as Administrative Agent and US Collateral Agent, Bank of America, N.A., as Syndication Agent and Citibank, N.A. and Wells Fargo Bank, N.A., as Documentation Agents. The Amendment amends the Amended Credit Agreement to provide the company flexibility with regard to certain restrictive covenants in any possible refinancings and other transactions. In addition, the Amendment releases one of the company s subsidiaries from its guarantee obligations under the Amended Credit Agreement.

The foregoing description of the Amendment which describes the primary changes to the Amended Credit Agreement, does not purport to be complete and is subject to and qualified in its entirety by reference to the full text of the Amendment, which is filed as an Exhibit to this Form 10-K.

Also on February 24, 2012, the company entered into a two-year committed factoring arrangement that allows us to sell certain foreign trade receivables to a third party which provides up to approximately $75 million additional liquidity, depending on the level of eligible receivables and currency exchange rates. As of February 27, 2012, no trade receivables had been sold under this agreement.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

The names of our current directors and related biographical information are set forth below. The names of our current executive officers and related biographical information are set forth under Item 1 of this Form 10-K under the caption Executive Officers of the Registrant.

NEIL R. AUSTRIAN AGE: 72

Mr. Austrian has served as a Director on our Board since 1998. Mr. Austrian has served as Chair and Chief Executive Officer (Chair and CEO) of the company since May 2011, prior to which he was Interim Chair and CEO since November 2010. He also served in the Interim role from October 2004 through March 2005. Mr. Austrian has in-depth insights into the company s operations and its management which uniquely qualifies him for serving on our company s Board. In addition, Mr. Austrian s experience as President and Chief Operating Officer of the National Football League from April 1991 until December 1999, makes him well suited to understand and oversee the complex managerial, strategic and financial considerations necessary to serve on the board of a corporation such as Office Depot. His experience at Dillon Reed & Co. Inc. as Managing Director from October 1987 until March 1991 provided him with a sound footing in finance, investment banking and deal negotiation. In addition, Mr. Austrian served as the Chief Financial Officer of Doyle Berbach Advertising, a public advertising agency, from 1974 until 1978, which enhanced his finance, marketing, and strategic experience. Mr. Austrian s knowledge of all aspects of the direct sales business gained while serving as a director of Viking Office Products from 1988 until August 1998 when it merged with Office Depot, further strengthens his knowledge of our industry. Mr. Austrian also serves as a director of the DirecTV Group.

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JUSTIN BATEMAN AGE: 38

Mr. Bateman has served as a Director on our Board since June 2009. He is a senior Partner with BC Partners, the U.S. investment arm of which he co-established in early 2008, and is based in the firm s New York office. Mr. Bateman initially joined BC Partners London office in 2000 from PricewaterhouseCoopers, where he spent three years in Transaction Services working on due diligence projects for both financial investors and corporate clients. In 2002 he left BC Partners to complete his MBA at INSEAD before rejoining the BC Partners London office. Over the years Mr. Bateman has participated in or been a board member of General Healthcare Group, Baxi Holdings, Ltd. and Regency Entertainment. He is currently a director of Intelsat S.A., the leading international provider of fixed satellite services. Mr. Bateman was appointed as a Director of the company pursuant to the terms of the Investor Rights Agreement in connection with the company s private equity investment transaction with BC Partners. Mr. Bateman serves as a non-voting observer on the Audit Committee and his experience as a chartered accountant and understanding of accounting issues is helpful in fulfilling the committee s oversight responsibilities. Mr. Bateman s analysis of and participation in the oversight of BC Partners portfolio companies provides him with the skills he needs to assist the company with its strategic planning process. Mr. Bateman s education and experience in business and finance allows him to provide the Board significant managerial, strategic, financial and compliance-based expertise.

THOMAS J. COLLIGAN AGE: 67

Mr. Colligan has served as a Director on our Board since January 2010. He served as Vice Dean of The Wharton School s Aresty Institute of Executive Education from 2007 to June 2010 where he was responsible for the non-degree executive education programs. From 2004 to 2007, Mr. Colligan served as a managing director at Duke Corporate Education, a corporation that provides custom executive education and is affiliated with Duke University s Fuqua School of Business. Prior to joining Duke Corporate Education, he was Vice Chairman of PricewaterhouseCoopers LLP from 2001 to 2004 and served there in other capacities from 1969 to 2004, including as a partner. Mr. Colligan also has advised Fortune 500 companies in various industries, including technology, telecommunications, pharmaceuticals and consumer products. Mr. Colligan is currently a director of CNH Global, N.V., and Targus Group International, Inc., a non-public company and leading global supplier of notebook carrying cases and accessories. He previously served as a director of Schering-Plough Corporation, Anesiva, Inc. and Educational Management Corporation. Mr. Colligan s experience as a former audit partner and Vice Chairman of PricewaterhouseCoopers qualifies him to serve on the Board of Directors and to provide guidance to the company s internal audit function. In addition, Mr. Colligan s former position as Vice Dean of The Wharton School s Aresty Institute of Executive Education and his previous position as Managing Director at Duke Corporate Education have provided him a broad based understanding of new and developing business strategies that are helpful to our Board.

MARSHA J. EVANS AGE: 64

Ms. Evans has served as a Director on our Board since 2006. Ms. Evans was acting Commissioner of the Ladies Professional Golf Association from July 2009 to January 2010, President and Chief Executive Officer of the American Red Cross from 2002 to 2005, and National Executive Director of The Girl Scouts of the USA from 1998 to 2002. Ms. Evans retired from the U.S. Navy in 1998 with the rank of Rear Admiral. From 1995 to 1998 Ms. Evans served as superintendent of the Naval Postgraduate School in Monterey, California and from 1993 to 1995 she led the Navy s worldwide recruitment organization, during which time she developed extensive human resources experience. Ms. Evans also served as a director of Huntsman Corporation from 2005 to 2011. Currently, she is also a Director of Weight Watchers International, the North Highland Company and The Estate of Lehman Brothers Holdings. Ms. Evans brings significant leadership experience to our Board of Directors and the Board relies on her perspectives on human resources and governance issues.

BRENDA J. GAINES AGE: 62

Ms. Gaines has been a Director on our Board since 2002. Ms. Gaines retired in 2004 from her position as President and Chief Executive Officer of Diners Club North America, a Division of Citigroup, a position she held

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since 2002. She served as President of Diners Club North America from 1999 until 2002 and from 1994 until 1999, she served as Executive Vice President, Corporate Card Sales. Prior to that she served in various positions of increasing responsibility within Citigroup or its predecessor corporations since 1988. From 1985 until 1987, Ms. Gaines was Deputy Chief of Staff for the Mayor of the City of Chicago. She is currently a director of AGL Resources, the Federal National Mortgage Association (Fannie Mae) and Tenet Healthcare Corporation, and is on the National Board of the Smithsonian Institution. Ms. Gaines also served as a director of CNA Financial Corp. from 2004 to 2007 and NICOR, Inc. from 2006 to 2011 and has served as a board member of the non-profit organization March of Dimes. Ms. Gaines has significant experience in financial services, including the credit card and payment industry. As Chief Executive Officer of Diners Club North America, she managed a company with three distinct customer groups, that included retail consumers, small businesses and large multinational corporations. While working as the Deputy Chief of Staff for the Mayor of the City of Chicago, Ms. Gaines developed valuable experience working with public agencies, which represent one of the company s larger customer segments. This experience enables her to provide insights into the company s core customers as well as the company s products and services. Ms. Gaines has held a number of executive and board leadership positions in a number of public companies. Ms. Gaines service on other public company boards allows her to provide the Board of Directors with a variety of perspectives on corporate governance issues.

MYRA M. HART AGE: 71

Ms. Hart has served as a Director on our Board since 2004. She is currently a member of Harvard Business School s senior faculty. From 1995 to 2007, she served as Professor, Entrepreneurial Management, at the Harvard Business School. In 2007 and 2008, she was a visiting scholar at Babson College and Stanford University, respectively. From 1985 until 1990, Dr. Hart was a member of the Staples, Inc. founding management team, leading operations, growth and development. She is a Director of Nina McLemore, Inc. and Kraft Foods, Inc. and a former director of Summer Infant, Inc. and Royal Ahold. Dr. Hart is also a member of the National Board of the Smithsonian Institution, and Trustee Emeritus of Cornell University. Dr. Hart s experience in the industry enables her to share with our Board suggestions about how similarly-situated companies effectively assess and undertake business considerations and opportunities. In addition, as a member of Harvard Business School s senior faculty, Dr. Hart has been able to offer Office Depot a variety of business management solutions that are grounded in policies and practices taught at the business school. Dr. Hart s service on other public, private and non-profit boards also provides our Board with a diverse knowledge of best practices.

On February 21, 2012 Ms. Hart informed the Board that she will not be standing for re-election for the coming year, and that her service as a director will end effective the date of the Annual Meeting of Shareholders to be held in 2012.

W. SCOTT HEDRICK AGE: 66

Mr. Hedrick has been a Director on our Board since 1991. From November 1986 until April 1991, he was a Director of The Office Club, Inc., which was acquired by Office Depot in 1991. Mr. Hedrick was appointed Lead Director in February 2011. He was a founder and has been a general partner of InterWest Partners, a venture capital fund, since 1979. Mr. Hedrick is also a director of Hot Topic, Inc. and a cluster of mutual funds managed by Capital Research and Management Company. As one of our longest-serving non-executive Directors, Mr. Hedrick brings an important institutional knowledge to our Board. His work with InterWest provides him with a solid basis for his analysis of our financial strategies. Mr. Hedrick s service on the board of Hot Topic, Inc. gives him another view of the issues affecting retailers, which is useful to our Board of Directors.

KATHLEEN MASON AGE: 62

Ms. Mason has served as a Director on our Board since 2006. She currently serves as President and Chief Executive Officer of Tuesday Morning Corporation and has served in that position since July 2000. From July 1999 to November 1999, Ms. Mason served as President of Filene s Basement, a department store chain. From

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January 1997 to June 1999, Ms. Mason was President of HomeGoods, an off-price home fashion store and a subsidiary of TJX Companies. Ms. Mason was Chair and Chief Executive Officer of Cherry & Webb, a women s specialty store, from February 1987 to December 1996. Prior to those dates, she held management positions at Kaufmann s Division of the May Company, Mervyn s Division of Target, Inc. and the Limited. She is currently a director of Genesco, Inc. and previously served as a director of The Men s Warehouse, Inc., and of Hot Topic, Inc. Ms. Mason s senior executive positions at various large national retail companies gives her the experience to critically review the various business considerations necessary to run a successful consumer-driven business such as our North American Retail Division. Ms. Mason s broad exposure to numerous retailers provides our Board with relevant comparisons and her extensive retail knowledge gives her an insight into a number of issues facing Office Depot. As a sitting chief executive officer of a public retail company, Ms. Mason is able to offer our Board of Directors sound business and financial strategies to address evolving complex audit issues.

JAMES S. RUBIN AGE: 44

Mr. Rubin has served as a Director on our Board since June 2009. He is a Senior Partner of BC Partners, which he joined in May 2008 from One Equity Partners, where he was a founding partner since its inception in 2001. Mr. Rubin originated and executed transactions in a variety of industries with a particular focus on healthcare and business services and was also responsible for building One Equity s practice in India. Prior to forming One Equity, Mr. Rubin was a Vice President with Allen & Company Incorporated, a New York merchant bank specializing in media and entertainment transactions and advisory work. From 1996 to 1998, he held a number of senior policy positions with the Federal Communications Commission. Mr. Rubin is currently a board member of ATI Enterprises, a private post-secondary education company, and MultiPlan, one of the largest independent preferred provider organizations in the U.S. He is a member of the board of trustees of the Brookings Institute and the New York City non-profit Common Ground Communities, and serves on the board of The Dalton School. Mr. Rubin was appointed as a Director pursuant to the terms of the Investor Rights Agreement in connection with the company s private equity investment transaction with BC Partners. Mr. Rubin s extensive background in the financial services industry allows him to provide proven financial advice to our Board. Mr. Rubin brings significant business and finance experience to our Board of Directors and provides new strategies and solutions to address an increasingly complex business environment.

RAYMOND SVIDER AGE: 49

Mr. Svider has served as a Director on our Board since June 2009. He has been co-Chairman of BC Partners since December 2008 and has been a Managing Partner of the firm since 2003. Mr. Svider joined BC Partners in 1992 in Paris before moving to London in 2000 to lead its investments in the technology and telecoms industries. Over the years, Mr. Svider has participated in or led a variety of investments including Tubesca, Nutreco, UTL, Neopost, Polyconcept, Neuf Telecom, Unity Media/Tele Columbus, and Intelsat S.A. He is currently Chairman of the board, the audit and compensation committees of Intelsat S.A., and a member of the board of ATI Enterprises, a private post-secondary education company, and MultiPlan, one of the largest independent preferred provider organizations in the U.S. Prior to joining BC Partners, Mr. Svider worked in investment banking at Wasserstein Perella in New York and Paris, and at the Boston Consulting Group in Chicago. Mr. Svider was appointed as a Director on our Board pursuant to the terms of the Investor Rights Agreement in connection with the company s private equity investment transaction with BC Partners. As a Managing Partner of BC Partners since 2003, Mr. Svider has demonstrated significant leadership abilities and extensive knowledge of complex financial and operational issues facing large organizations. He brings an expertise in international operations and financial strategy to our Board of Directors. In addition, through his oversight of BC Partners portfolio companies, Mr. Svider has significant experience in developing various strategies to motivate and compensate executives.

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Board of Directors and Audit Committee

Director Independence

The company s Board of Directors has determined that nine (9) of the ten (10) directors satisfy the New York Stock Exchange s (the NYSE) definition of independent Director. Mr. Austrian is not independent. The Board of Directors believes in strong and independent Directors. The Board of Directors evaluates the independence of each nominee for election as a Director of our company in accordance with the Corporate Governance Guidelines, which incorporate the applicable listing standards of the NYSE. The Corporate Governance Guidelines require that a majority of our Board of Directors must be Independent within the meaning of the NYSE s listing standards (Independent Directors), and all Directors who sit on our Audit Committee (the Audit Committee), Compensation Committee (the Compensation Committee) and Corporate Governance and Nominating Committee, must also be Independent Directors.

All members of our Audit Committee, Compensation Committee and Corporate Governance and Nominating Committee have been determined by our Board of Directors to be Independent Directors. Our Board of Directors has reviewed the various relationships between members of our Board of Directors and the company and has affirmatively determined that none of our Directors has a material relationship with the company that would impair independence from management, other than Mr. Austrian, who serves as Chairman and Chief Executive Officer. Our Board of Directors has also determined that Messrs. Bateman, Rubin and Svider are affiliates of the company due to BC Partners stock ownership of the company. The Board of Directors concluded that a relationship with a shareholder of the company in and of itself does not impair Messrs. Bateman, Rubin and Svider s independent judgment in connection with their duties and responsibilities as Directors of the company. The Board also determined that Mr. Colligan, who serves as a Director of an entity that sells products to the company, is independent.

As a result, all members of our Board of Directors other than Mr. Austrian, due to his CEO position, have been determined to be Independent Directors. This determination by our Board of Directors is based upon an individual evaluation of each of our Directors, his or her employment or Board of Directors affiliations, and a determination that the Independent Director has no business relationship with our company other than his or her service on our Board of Directors. None of our Directors serves as an executive officer of a charitable organization to which we made contributions during 2011.

Board of Directors Role in Risk Oversight

Our Board of Directors has an active role in overseeing management of the company s risks, directly and through its Committees. The Board oversees a formal enterprise-wide approach to risk management, designed to support the achievement of organizational objectives, including strategic objectives, to improve long-term organizational performance and enhance shareholder value. A fundamental part of risk management is not only understanding the risks a company faces and what steps management is taking to manage those risks, but also understanding what level of risk is appropriate for the company. The involvement of the full Board of Directors in setting the company s business strategy is a key part of its assessment of management s appetite for risk and also a determination of what constitutes an appropriate level of risk for the company. The full Board of Directors participates in an annual enterprise risk management assessment, which is led by the company s Chief Compliance Officer. In the company s continuing risk assessment process, risk is assessed quarterly by a Steering Committee (the Steering Committee), comprised of members of management representing our business units and corporate staff. This Steering Committee focuses on identifying and evaluating company-wide risks in four primary areas: financial risk, legal/compliance risk, operational/strategic risk and compensation risk. This company-wide risk portfolio is then presented to and evaluated by the Operating Committee, made up of our Chief Executive Officer, Executive Vice President & Chief Financial Officer, Business Unit Presidents, Executive Vice President & Chief Marketing Officer, Executive Vice President & Chief Merchandising Officer, Executive Vice President of Human Resources, and our Executive Vice President & General Counsel (collectively, the Operating Committee). The Operating Committee membership was expanded to include the Executive Vice President & Chief Marketing Officer and Executive Vice President & Chief Merchandising Officer positions in order to further strengthen the risk oversight function in these areas of the company s business. The findings are then presented to the Board of Directors. In addition to the presentation made to the full Board of Directors at least once a year, the Audit Committee receives quarterly updates on certain risk areas the Board has identified for focus and the Independent Directors periodically discuss risk management during executive sessions without management present.

While the Board of Directors has the ultimate oversight responsibility for the risk management process, various Committees of the Board of Directors also have responsibility for risk management. In particular, the Audit Committee focuses on assessing and mitigating financial risk, including internal controls, and receives an annual risk assessment report from the company s internal auditors. As part of its annual executive compensation review in setting executive compensation, the Compensation Committee reviews the company s management of executive compensation and retention risks and strives to create incentives that encourage a level of risk-taking behavior consistent with the company s business strategy. The Audit and Compensation Committees annually have a joint meeting to review incentive compensation plans for a risk assessment. The Corporate Governance and Nominating Committee assists the Board in fulfilling its oversight responsibilities with respect to the management of risks associated with Board organization, membership and structure, succession planning for our Directors and Named Executive Officers (NEOs), and corporate governance.

From time to time the company may engage in purchase and sale transactions for office products with BC Partners or its portfolio companies. These transactions are conducted on an arms length basis and are not material to BC Partners.

Audit Committee

The company has a separately-designated standing audit committee composed of the following members: Thomas J. Colligan who is the chair of the Audit Committee, Brenda J. Gaines, Myra M. Hart, and Kathleen Mason.

All members of the Audit Committee have been determined by the Board of Directors to be Independent Directors and financially literate. In addition, our Board of Directors has determined that the following members of our Audit Committee qualify as Audit Committee financial experts within the meaning of the applicable regulations of the SEC: Thomas J. Colligan, Brenda J. Gaines and Kathleen Mason.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires our Directors, Executive Officers and persons who own more than 10% of Office Depot s common stock to file reports of their holdings and transactions of Office Depot common stock with the SEC and the NYSE. Based on our records, we believe that each of our officers and Directors reported on a timely basis all transactions required to be reported by Section 16(a) during fiscal 2011.

Code of Ethics

Our Code of Ethical Behavior is in compliance with applicable rules of the SEC that applies to our principal executive officer, our principal financial officer, and our principal accounting officer or controller, or persons performing similar functions. A copy of the Code of Ethical Behavior is available free of charge on the Investor Relations section of our web site at www.officedepot.com. We intend to satisfy any disclosure requirement under Item 5.05 of Form 8-K regarding an amendment to, or waiver from, a provision of this Code of Ethical Behavior by posting such information on our web site at the address and location specified above.

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Item 11. Executive Compensation.

EXECUTIVE AND DIRECTOR COMPENSATION

Compensation Discussion and Analysis

Executive Summary

The Compensation Discussion and Analysis (CD&A) describes our executive compensation programs for fiscal 2011 and explains how the Compensation Committee made its compensation decisions for our named executive officers (NEOs). The NEOs for 2011 are:

- Chairman and Chief Executive Officer, Neil Austrian;
- Executive Vice President and Chief Financial Officer, Michael Newman;
- President, North America, Kevin Peters;
- President, International, Steven Schmidt;
- Executive Vice President, General Counsel and Corporate Secretary, Elisa Garcia;
- Former President, International, Charlie Brown; and
- Former Executive Vice President, Human Resources, Daisy Vanderlinde.

Our Performance in 2011

The company made measurable progress in 2011 in improving financial performance despite a lackluster global economy. Our executives successfully executed key business initiatives that are yielding early positive results. In particular, our Chairman and Chief Executive Officer has made significant progress achieving key objectives established by the Board in order to strategically position the company for a positive impact on performance in 2011 and later years. A more detailed discussion of these other key objectives can be found in 2011 Key Management Objectives and NEO Compensation later in this CD&A.

The key financial measures on which our 2011 annual cash bonus plan was based are: earnings before interest and taxes (EBIT), free cash flow, and gross profit dollars, all as adjusted. The company achieved at or above the threshold level for each of these three metrics. Accordingly, all of our NEOs, except former executives Mr. Brown and Ms. Vanderlinde, earned an annual cash bonus at 86% of target for fiscal 2011.

Key 2011 Management Changes

- *Appointment of Mr. Austrian as Chairman and Chief Executive Officer*: In May 2011, the Board elected Mr. Austrian, who was serving as the Interim Chairman and Chief Executive Officer (Interim Chair and CEO) at the time, to serve as the company s Chairman and Chief Executive Officer (Chair and CEO).

Consolidation of North America Division: In July 2011, Mr. Austrian changed the company s reporting structure by combining the reporting for the company s North America Retail Division and its Business Solutions Division into one new North America Division. Mr. Peters, formerly the President, North America Retail, was promoted to the new position of President, North America. In addition, Mr. Schmidt, who was formerly the President, Business Solutions Division, became the company s new Executive Vice President, Corporate Strategy and New Business Development. Mr. Peters also assumed responsibility for the company s supply chain in February 2012.

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Appointment of new President, International Division: In November 2011, Mr. Schmidt became President, International following Mr. Brown s termination from employment.

Additional duties for Executive Vice President and Chief Financial Officer: Mr. Newman assumed additional duties in 2011 including, from July until February 2012, management of the company s Supply Chain, and from July until Mr. Schmidt s November 2011 appointment as President, International, Mr. Newman also managed the company s Mexico and Latin America operations.

In 2011, there was no change in base salary or target bonus percentage under the annual cash bonus plan in connection with any of these position or responsibility changes other than Mr. Austrian s appointment as Chair and CEO as described in the Summary of Key 2011 Compensation Decisions later in this CD&A.

Summary of Key 2011 Compensation Decisions

Chair and CEO compensation: In connection with his appointment as Chair and CEO in May 2011, the Compensation Committee negotiated, and the Board of Directors approved, a new letter agreement with Mr. Austrian that superseded and replaced Mr. Austrian s interim letter agreement entered into in November 2010. Under the new letter agreement, Mr. Austrian is eligible to receive an annual base salary of $1,100,000, which is less than what he was eligible to receive as Interim Chair and CEO. Mr. Austrian s other compensation (excluding his time-based restricted stock grant) represents 53% of his total compensation and is at-risk. The Compensation Committee felt it was critical that the Chair and CEO compensation be linked to improving shareholder value. This was accomplished through two equity grants, one of which vests based on performance and service requirements while the other vests based on service requirements only. The company and Mr. Austrian also entered into a change in control agreement which contains the same provisions as the change in control agreements provided to the other NEOs and requires the double trigger of a change in control and termination before any severance benefits become payable, as further described under the Summary of Executive Agreements and Potential Payments Upon A Change In Control section. Mr. Austrian is not entitled to severance upon termination prior to a change in control. In July 2011, the parties amended Mr. Austrian s letter agreement to change the cash bonus performance and payment periods from a quarterly to an annual basis, to align with the performance and payment periods in effect for the other NEOs. There are no gross-up provisions in any of the arrangements with the Chair and CEO.

NEO base salary and target incentive compensation levels for 2011 remain at the same levels as 2010: As part of its annual compensation review for NEOs, the Compensation Committee decided to maintain the existing base salary and target incentive compensation levels for NEOs for 2011, as further described in the 2011 Key Management Objectives and NEO Compensation section later in this CD&A.

Changes to Annual Cash Bonus metrics: The Compensation Committee changed two of the 2010 annual bonus metrics for fiscal 2011 as follows: (i) from Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA) to EBIT to align with divisional metrics which focused on improving operating performance while continuing to reduce costs to drive earnings improvement, and (ii) from sales to gross profit dollars to focus the NEOs on profitable sales. The third metric, free cash flow, which was chosen to ensure ongoing liquidity and retention of creditor and vendor confidence, remained the same as the 2010 metric. The 2011 bonus metrics were designed to allow a leveraging up if objectives were over achieved or down if below target, but above threshold, performance resulted.

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Fiscal 2011 Annual Cash Bonus payout

Due to the company s 2011 financial performance, the NEOs (except for Mr. Brown and Ms. Vanderlinde) received a bonus at 86% of target as detailed below:

2011 Bonus Metrics	Award Weighting	Threshold Parameter (25% Payout)	Target Parameter (100% Payout)	2011 Actual Performance	Payout Percentage
EBIT*	50%	$ 105 million	$ 140 million	$ 122 million	32%
Free Cash Flow*	25%	$ 33 million	$ 42 million	$ 57 million	34%
Gross Profit Dollars*	25%	$ 3.297 billion	$ 3.47 billion	$ 3.422 billion	20%

* As adjusted. See 2011 Key Management Objectives and NEO Compensation- Annual Cash Bonus for more details on the adjustments.

Fiscal 2011 Long-Term Incentive Program grant: In May 2011, the Compensation Committee approved the annual long-term incentive grant to the NEOs (excluding Mr. Austrian, who was the Interim Chair and CEO at the time) which was delivered 50% in non-qualified stock options and 50% in restricted stock with all equity vesting one-third on each of the first, second, and third anniversaries of the grant date; provided that, each NEO remains in the company s employment until each anniversary date. For 2011, all of the non-qualified stock options were granted at a 25% premium over the exercise price, which is the fair market value on the grant date.

Termination of Executive Medical Plan beginning in 2012: The Compensation Committee approved terminating coverage of all executives, including the NEOs, under the Executive Medical Plan beginning in 2012 after reviewing the Peer Group (described in the Competitive Benchmarking section later in this CD&A) and determining that an executive medical benefit is no longer necessary for a competitive executive compensation program and in response to the escalating cost of health care under the Executive Medical Plan. As of January 1, 2012, the executives are now eligible to participate in the medical, dental, vision, and pharmacy benefit programs available to the company s broad-based full-time employees.

Enhancing Stock Ownership Guidelines: In October 2011, the Compensation Committee enhanced the company s stock ownership guidelines for the executives, including the NEOs, to more closely reflect the ownership guidelines of the company s competitors and peers and current corporate governance trends. Under the enhanced guidelines, the Chair and CEO is expected to hold company stock equal to at least either: 700,000 shares, or a multiple equal to five times his annual base salary, to be satisfied within five years of assuming his position. Under the enhanced guidelines, the other NEOs are expected to hold company stock equal to at least either: 250,000 shares, or a multiple equal to three times each individual s annual base salary, to be satisfied within five years of becoming a Section 16(b) officer of the company. The amount of stock required to satisfy the ownership requirement must be held by each NEO until termination of employment with the company. The Compensation Committee also adopted a restriction on an NEO s right to sell stock during the initial five year period prior to such individual satisfying the required ownership. The restriction requires that the NEO retain 50% of the net shares (after shares are disposed of to pay for taxes upon acquisition).

Risk assessment review: In December 2011, the Compensation Committee reviewed a risk assessment of the company s global incentive plans and had a joint review meeting with the Audit Committee in February 2012 as part of the Compensation Committee s oversight of risk in incentive compensation paid to employees, including the NEOs.

Severance arrangements with former Executive Officers: In September 2011, in connection with Mr. Brown s termination and pursuant to the terms of his previously negotiated Executive Employment Agreement, Mr. Brown received a severance payment of $4,401,209, which included a retention bonus that the

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Compensation Committee had negotiated with Mr. Brown in April 2010 in exchange for Mr. Brown waiving his walk-away right under his change in control agreement that was in effect at the time. In August 2011, in connection with Ms. Vanderlinde s termination of employment, the Compensation Committee reviewed and approved a Separation Agreement pursuant to which Ms. Vanderlinde received a total severance payment of $1,572,296, which included amounts owed to her pursuant to her previously negotiated Employment Offer Letter Agreement and an additional payment to obtain her release of any and all claims against the company.

Policies affecting the compensation of NEOs, including anti-hedging and clawback policies: In February 2011, the Board adopted an anti-hedging policy which prohibits hedging transactions with respect to company securities by our Directors, executive officers and all other employees. In February 2010, the Board adopted a policy for recoupment of incentive compensation. The policy provides that if the company restates its reported financial results for any period beginning after January 1, 2010, the Board will review the bonus and other awards made to executive officers based on financial results during the period subject to the restatement. To the extent practicable and in the best interests of shareholders, the Board will seek to recover or cancel any such awards that were based on having met or exceeded performance targets that would not have been met under the restated financial results.

Key Changes to Our Compensation Practices for 2012 as a Result of Say on Pay Vote

At our April 2011 annual meeting, our shareholders voted to approve our fiscal 2010 executive compensation program, but approximately one-third of the votes cast did not support the measure. In response to concerns expressed by shareholders and as described in further detail in the Response to 2011 Say on Pay Vote section later in this CD&A, the Compensation Committee worked with its independent compensation consultant, Hay Group, and management to improve the company s executive compensation programs and policies to further link NEO compensation with performance. No specific component of the program was altered for 2011 since the Compensation Committee had established the fiscal 2011 annual compensation program prior to the results of the Say on Pay Vote. However, in February 2012, the Compensation Committee made the following changes to the long-term incentive compensation program for NEOs (other than the Chair and CEO) in order to better align the interests of executive management with shareholders. The Compensation Committee is evaluating changes to the CEO compensation in light of Say on Pay.

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2011 Long-Term Incentive Program	2012 Long-Term Incentive Program (following the 2011 Say on Pay Vote)
Long Term Incentive Program structure consisted solely of 50% Restricted Stock and 50% Stock Options. The whole grant had time-based vesting and a portion was also subject to a performance target:	Long Term Incentive Program structure provides an opportunity for performance-based equity and cash awards.
Restricted Stock Subject to time-based vesting with a three year pro-rata vesting period	50% of equity award and the entire cash award is performance-based with additional time-based vesting component to promote retention and to better align interests of executive management with shareholders:
Stock Options	50% of opportunity is Restricted Stock
100% of the stock option award granted at a 25% premium on the exercise price and subject to time-based vesting with a three year pro-rata vesting period	25% of opportunity: Time-based vesting with a three year pro-rata vesting period
	25% of opportunity: Performance-based (subject to meeting EBIT threshold) and time-based vesting pro-rata over three year period
	50% of opportunity is Cash
	Performance-based (subject to meeting EBIT threshold) and time-based vesting pro-rata over three year period
	If fiscal year 2012 performance threshold (EBIT) is not satisfied, participants receive only the time-vested restricted stock (25% of opportunity).

2011 Key Management Objectives and NEO Compensation

This section discusses the key objectives the Board set for the NEOs in 2011, the roles and responsibilities of the NEOs, and the total compensation packages for each of the NEOs in 2011.

Execution of 2011 Annual Initiatives and Impact on Company Performance

While the company made measurable progress in 2011 in improving financial performance and achieved at or above the threshold level for EBIT, free cash flow and gross profit under our annual cash bonus program, our NEOs also successfully executed the annual initiatives approved by the Board under the company s annual operating plan. These key initiatives are intended to strategically position the company for a positive impact on performance in 2011 and later years and are discussed briefly below:

Improving operating performance while reducing costs. In establishing the company s 2011 annual operating plan, the Board and management identified the need to focus on improving operating performance while continuing to reduce costs as a key component in the company s short-term performance and long-term success. The Board established a goal of achieving an as adjusted EBIT of at least $105 million in 2011. To encourage management to focus on this key component, the Compensation Committee selected EBIT as one of the three metrics for the 2011 annual cash bonus program. The company achieved an as adjusted EBIT of $122 million in 2011.

Ensuring resources are available to support company s 2011 key initiatives. The Board charged management with ensuring that sufficient human resources and financial capital were allocated to the company s divisions and departments as needed to guarantee success in each of the key initiatives identified under the company s 2011 annual operating plan. The Board reviewed performance of the key initiatives at each of its quarterly meetings.

Pricing and promotions. The Board charged management with increasing margins through implementation of strategic pricing in the Retail and Business Solutions Division businesses and through enhanced planning and IT platforms for promotions.

Implementing in-store customer experience initiative. In 2011, the company piloted an In Store Customer Experience initiative to enhance customers overall shopping experience in the company s North America retail stores. This pilot initiative included: re-focusing on product training and sales coaching for store employees; establishing process improvements to streamline store functions, so store employees have more time to focus on the customers instead of administrative tasks; and simplifying in-store signage. The company is rolling out this initiative to all North America retail stores in 2012.

Redesigning marketing and merchandising strategies. In recent years, the company had limited its marketing and merchandising efforts as part of its cost reduction strategies. As part of the company s desire to redesign its merchandising and marketing strategies, the company s goal was to hire new executives to lead these efforts; and in July 2011, the company hired a new Executive Vice President & Chief Marketing Officer and appointed an Interim Head of Merchandising, who became the Executive Vice President & Chief Merchandising Officer in January 2012.

Roles and Responsibilities of NEOs and Total Compensation Paid in 2011

Chief Executive Officer. On May 23, 2011, the Board elected Mr. Austrian to serve as the company s Chair and CEO. Mr. Austrian had been the Interim Chair and CEO since November 1, 2010.

Roles, Responsibilities, and 2011 CEO Objectives - Following Mr. Austrian s appointment to Chair and CEO, in addition to his responsibilities for managing the company s executive team and overseeing implementation of the annual initiatives discussed above, the Board also set certain key objectives for Mr. Austrian. The objectives are discussed briefly below:

Rebuilding positive company culture. As Interim Chair and CEO, Mr. Austrian personally led internal focus groups to identify the company s strengths and weaknesses. During these focus group meetings, Mr. Austrian identified certain company culture improvements that were needed. The Board charged Mr. Austrian with rebuilding a positive company culture that focuses on commitment, accountability and continued process improvement, including considering changes to the company s organizational structure to encourage employee commitment to the company s success.

Restructuring management team. Mr. Austrian restructured his management team, consolidating all North American operations under one President, appointing a new Executive Vice President of Human Resources, and creating the enhanced roles of Executive Vice President, Chief Marketing Officer and Executive Vice President, Chief Merchandising Officer and elevating these roles to the Operating Committee level. In addition, the company implemented robust reporting and review of key initiatives performance at the Operating Committee and Board levels.

Focusing on CEO succession planning. In connection with Mr. Austrian s appointment as Chair and CEO, the Board identified CEO succession planning as an important objective to be focused on over the next few years. The Board asked Mr. Austrian to focus on grooming certain executives to become possible candidates for the CEO position in the future. As a result, succession planning throughout the company has received a renewed focus.

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Total Compensation   When assessing whether the company s compensation policies align pay with performance, the Compensation Committee reviews both financial performance and execution of non-financial annual initiatives as described in this section of the CD&A. Based on these performance objectives, the Board, after consultation with the Compensation and Corporate Governance and Nominating Committees, determined that Mr. Austrian s performance in 2011 was above expectations.

Mr. Austrian s 2011 annual base salary was $1,100,000 beginning with his election to Chair and CEO on May 23, 2011, which is less than what he was eligible to receive as Interim Chair and CEO. Prior to such date, Mr. Austrian received a monthly base salary of $200,000 for his services as the Interim Chair and CEO. In 2011, the Compensation Committee benchmarked the Chair and CEO s total direct compensation solely against the Peer Group (described in the Competitive Benchmarking section later in this CD&A) because it believes that CEO positions within the Peer Group are of similar scope and complexity. In 2011, Mr. Austrian s base salary was approximately 7% below the median of the company s Peer Group for 2010. Mr. Austrian s other compensation (excluding his time-based restricted stock grant) represents 53% of his total compensation and is at-risk.

Mr. Austrian was eligible for a 2011 target bonus of 140% of his annual base salary, pro-rated for his service as Chair and CEO from May 23, 2011 through December 31, 2011, and subject to the satisfaction of the three performance metrics approved by the Compensation Committee under the 2011 annual cash bonus program for the NEOs, as described earlier in this CD&A. The target bonus percentage for Mr. Austrian is set approximately at the Peer Group median. In light of the company s 2011 performance against the bonus metrics and the applicable pro-ration for service, Mr. Austrian s cash bonus for 2011 is $815,015.

In lieu of a sign-on cash bonus and to incentivize future performance, Mr. Austrian was awarded two grants of restricted shares of the company s common stock on May 23, 2011. The Board, upon recommendation of the Compensation Committee, felt it was critical that the Chair and CEO compensation be linked to improving shareholder value. This was accomplished through two equity grants, one of which vests based on performance and service requirements while the other vests based on service requirement only. The first grant of 600,000 restricted shares is subject to vesting based on a service requirement, and the second grant of 600,000 restricted shares is subject to vesting based on both service and performance requirements, as further described under the Summary of Executive Agreements and Potential Payments Upon Termination or Change in Control. Additionally, Mr. Austrian agreed to extend the scheduled vesting date for the unvested stock options granted to him on November 2, 2010 when he was named Interim Chair and CEO to April 30, 2013.

Other NEOs (other than the Chief Executive Officer). In addition to the Chair and CEO, the company s currently employed NEOs include: Michael Newman, Kevin Peters, Steven Schmidt and Elisa Garcia. In this section, references to NEO or NEOs does not include the Chair and CEO. In addition, in 2011, our NEOs included two former executives: Charles Brown and Daisy Vanderlinde.

Roles and Responsibilities   The currently employed NEOs had the following roles and responsibilities in 2011:

Michael Newman, Executive Vice President and Chief Financial Officer. Mr. Newman was appointed Executive Vice President and Chief Financial Officer in August 2008. As Executive Vice President and Chief Financial Officer, Mr. Newman s roles and responsibilities include managing the company s finance, accounting, information technology, and tax departments as well as overseeing the company s Supply Chain from July 2011 through February 2012.

Kevin Peters, President, North America. Mr. Peters was appointed President of the company s new North America Division in July 2011. Previously, Mr. Peters had served as President, North America Retail since April 2010, as Executive Vice President, Supply Chain and Information Technology from March 2009 to April 2010, and as Executive Vice President, Supply Chain from when he joined the company in 2007 until March 2009. As President, North America, Mr. Peters roles and responsibilities include managing the company s

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North America Retail and Business Solutions Divisions as well as overseeing the company s E-Commerce department. In February 2012, Mr. Peters also assumed responsibility for the company s supply chain.

Steven Schmidt, President, International. Mr. Schmidt was appointed President, International in November 2011. Mr. Schmidt previously served as Executive Vice President, Corporate Strategy and New Business Development from July 2011, following the company s combining its North America Retail Division and its Business Solutions Division into one new North America Division. Previously, Mr. Schmidt had been President, Business Solutions Division since joining the company in July 2007. As President, International, Mr. Schmidt s roles and responsibilities now include managing the company s business outside of the United States.

Elisa Garcia, Executive Vice President, General Counsel and Corporate Secretary. Ms. Garcia was appointed Executive Vice President, General Counsel and Corporate Secretary in July 2007. As Executive Vice President, General Counsel and Corporate Secretary, Ms. Garcia has global responsibility for legal, government relations, compliance, loss prevention, internal audit and risk management for the company and oversees more than 150 legal and compliance professionals located in the United States, Europe and Asia.

Total Compensation   The Compensation Committee evaluates the contributions of the NEOs primarily against the company s corporate performance and execution of the company s non-financial annual initiatives rather than focusing on each NEO s individual business unit or function. The Compensation Committee believes that the NEOs share the responsibility for implementing the key initiatives of the annual operating plan and driving the performance of the company, as the key members of management. However, the Compensation Committee also takes into consideration each NEO s individual role and performance based on: (i) the size, scope, and complexity of the NEO s role, (ii) the NEO s relative position compared to market pay for the Peer Group based on available proxy data, (iii) long-term contributions, performance, and growth potential, and (iv) retention considerations. In addition, in certain cases, Hay Group survey data is utilized to review the compensation of the NEOs since proxy information does not typically reflect the actual job content of some NEOs.

2011 Base Salary   The Compensation Committee reviews the NEO base salaries each year and considers the company s financial performance and execution of the company s non-financial annual initiatives in the prior year as well as the company s compensation objectives, market competitiveness, and any changes in positions or responsibilities of NEOs. During the review process in February 2011, based on the company s performance in 2010, the Compensation Committee did not increase base salaries of the NEOs for 2011 even though base salaries were below the Peer Group median. The annual base salary for each of the NEOs in 2011 was as follows: $625,000 for Messrs. Newman, Peters, Schmidt, and Brown and $440,000 for Ms. Garcia and Ms. Vanderlinde. On average, these NEOs base salaries were about 8% below the median of the Peer Group based on available 2010 survey data. However, the Compensation Committee believes that, based on the company s overall performance in 2011, its decision not to increase salaries for the NEOs in 2011 was consistent with its compensation philosophy and objectives of aligning executive compensation with shareholder interests and paying for performance. Despite the changes in roles and responsibilities of the NEOs, as described above, the Compensation Committee did not change any base salaries for the NEOs in 2011.

2011 Annual Cash Bonus   In February 2011, the Compensation Committee considered the 2011 annual operating business plan approved by the Board and the key performance measures for the company s business in its decision to approve the following performance metrics for the NEOs under the company s 2011 annual cash bonus plan: (1) an EBIT metric to align with divisional metrics which focused on improving operating performance while continuing to reduce costs to drive earnings improvement; (2) a free cash flow metric to ensure ongoing liquidity and retention of creditor and vendor confidence; and (3) gross profit dollars, a gross margin metric, to focus our NEOs on growing profitable sales. The change from the performance metrics used in the 2010 annual cash bonus plan (i.e., EBITDA, free cash flow, and sales) was made to align 2011 executive compensation with the company s 2011 strategic initiatives to drive the company s growth, and the 2011 performance metrics will be retained for the 2012 annual cash bonus plan.

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The 2011 bonus metrics were designed to allow a leveraging up if objectives were over achieved or down if below target performance, but above the threshold resulted. The Compensation Committee did not set maximum parameters for any of the metrics, so payment could be made for extraordinary performance. The Compensation Committee believed that not imposing a ceiling would not incentivize excessive risk taking because the results for the annual incentive include the expense of the incentive, and there are controls in place to mitigate risk concerns. As an additional protection against undue risk taking, the company has a clawback policy for incentive compensation as described under Recoupment Policy in the Other Policies and Matters Related to Executive Compensation section later in this CD&A. While the Compensation Committee has negative discretion in making bonus determinations, it did not exercise its discretion with respect to the 2011 bonus.

The Compensation Committee reviewed the level of achievement for each of the bonus metrics under the 2011 annual cash bonus plan based on the company s 2011 audited financial statements approved by the Board s Audit Committee. For purposes of the 2011 corporate annual cash bonus plan, the company achieved EBIT of $122 million, free cash flow of $57 million, and gross profit dollars of $3.4 billion, after adjustments approved by the Finance Committee. The company achieved at or above the threshold level for each metric. When considering whether the company has reached the target performance metrics for Annual Bonus compensation, the Compensation Committee may exclude significant or unusual items that may distort the company s performance. This ensures that executives will not be unduly influenced in their decision-making because they would neither benefit nor be penalized as a result of certain unexpected and uncontrollable or strategic events that may positively or negatively affect the performance metrics in the short-term. Therefore, the Compensation Committee determined the final achievement level by excluding unplanned and extraordinary items including: costs associated with facility closures and other downsizing activities that are considered part of a specific functional reorganization, direct costs associated with specific and approved efficiency initiatives and a denied tax refund claim. The Compensation Committee also added certain unplanned and extraordinary items in making its determination, including: a cash dividend from a joint venture, a delayed trade payables adjustment and a shrink adjustment. Following the application of these adjustments, the Compensation Committee authorized bonuses under the 2011 annual cash bonus plan to be paid at 86% of target to the NEOs. For purposes of calculating the achievement of each of the bonus metrics, the following net adjustments were made:

	EBIT (in millions)	Free Cash Flow (in millions)	Gross Profit Dollars (in millions)
As Reported[(1)]	$ 65	$ 69	$ 3,426
Extraordinary Items, Net	$ 57	$ (12)	$ (4)
Adjusted[(2)]	$ 122	$ 57	$ 3,422

(1) As reported in the Company s 2011 Financial Statements later in this report.

(2) 2011 annual cash bonus plan metric achievement.

Messrs. Newman, Peters, Schmidt and Brown were eligible for a 2011 target bonus of 75% of annual base salary. Ms. Garcia and Ms. Vanderlinde were eligible for a target bonus of 70% of annual base salary. The target bonus percentages for NEOs are set approximately at the Peer Group median for similarly situated NEOs. In light of the company s 2011 performance as compared to the bonus metrics, the NEOs received the cash bonus set forth in the Non-Equity Incentive Plan column of the Summary Compensation Table.

2012 Base Salary and Annual Cash Bonus The Compensation Committee approved changes in base salary and/or target bonus percentage effective as of April 1, 2012 for the following NEOs: (i) Mr. Peters base salary was increased to $675,000 and his target bonus percentage was increased to 85% to reflect his responsibility for all of the company s North American business, previously handled by two business unit Presidents; (ii) the target bonus percentage for both Messrs. Newman and Schmidt was increased to 85% to reflect increases in responsibility in 2011 as a result of the changes in the company s reporting structure and in connection with Mr. Brown s termination from employment; and (iii) Ms. Garcia s base salary was increased to $500,000 to recognize performance since joining the company in 2007 and to address below market base salary.

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Long-Term Equity Incentive The Compensation Committee believes that providing equity grants is an effective means to focus the NEOs on driving share price appreciation and delivering long-term value to shareholders. The 2011 equity grant to each of the NEOs was based on the Compensation Committee s consideration of the following items: (i) long-term incentive grants to NEOs in the Peer Group, (ii) availability of shares under the 2007 Long-Term Incentive Plan and the annual burn rate of shares under the 2007 Long-Term Incentive Plan based on ISS calculation methodology, and (iii) the company s recent financial performance. On May 3, 2011, the NEOs received non-qualified stock options at an option price of $5.34, which was equal to 125% of the closing stock price on such date, and restricted shares of the company s common stock in the amounts set forth in the Grants of Plan Based Awards Table. All of the equity granted in 2011 has a three year pro-rata vesting period based on the grant date, and the non-qualified stock options granted have a seven year exercise period. See Response to 2011 Say on Pay Vote for a discussion of changes made to the long-term equity incentive program for fiscal year 2012.

Retention Payments In 2010, in connection with the resignation of Steve Odland, the company s former Chief Executive Officer, the company entered into a Retention Agreement with Mr. Newman under which he is eligible to earn a retention payment of up to $1,937,500 payable in two installments upon the filing of the Annual Reports on Form 10-K for the fiscal years ended December 31, 2010 and December 31, 2011. The Compensation Committee felt that it was important at the time of Mr. Odland s departure and in light of the uncertainty at the CEO position to retain the company s Chief Financial Officer for the next two annual reporting cycles. On March 11, 2011, Mr. Newman received the first payment of $937,500 under his Retention Agreement.

In addition, in 2010, the company entered into a Retention Agreement with Ms. Garcia under which she is eligible to earn a retention payment of up to $1,500,000 payable in three equal installments, as long as she remains actively employed with the company until each Retention Payment Date (as defined in the Retention Agreement). The Compensation Committee felt that stability in the corporate governance area was important for the company and therefore entered into the Retention Agreement with Ms. Garcia. The first payment to Ms. Garcia pursuant to the Retention Agreement was made on November 10, 2011.

As discussed further below, in connection with his termination, in September 2011, Mr. Brown received a $3 million retention bonus that the Compensation Committee had negotiated with Mr. Brown in April 2010 in exchange for Mr. Brown waiving his walk-away right under his change in control agreement which was in effect at the time.

Arrangements with Former Executive Officers. In September 2011, Mr. Brown, President, International, was terminated from employment. In connection with his termination and pursuant to the terms of his previously negotiated Executive Employment Agreement, Mr. Brown was entitled to receive a severance payment of $4,401,209, which included a $3 million retention bonus that the Compensation Committee had negotiated with Mr. Brown in April 2010 in exchange for Mr. Brown waiving his walk-away right under his change in control agreement which was in effect at the time. For additional information on Mr. Brown s severance payment, see Summary of Executive Agreements and Potential Payments Upon Termination or Change in Control. In August 2011, Ms. Vanderlinde, Executive Vice President of Human Resources, was terminated, and pursuant to her Separation Agreement, received a severance payment of $1,572,296, which included amounts owed to her pursuant to her previously negotiated Employment Offer Letter Agreement and an additional payment to obtain her release of any and all claims against the company.

Response to 2011 Say on Pay Vote. At the company s 2011 Annual Shareholders Meeting, the company had on the ballot, for the first time, a non-binding resolution for shareholders to approve elements of the compensation of the NEOs, as described in the CD&A, the compensation tables, and the accompanying narrative disclosure issued with respect to that meeting. Although the company s 2010 compensation program for NEOs received a passing vote on its Say on Pay proposal at its 2011 Annual Shareholders Meeting in April, approximately one-third of the votes cast did not support the measure. As a result, the company engaged in dialogue with its largest shareholders, as explained below, and the Compensation Committee considered the concerns of shareholders as evidenced by the vote, and continued to focus on changes to further strengthen the link between NEO compensation and performance.

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In connection with the 2011 Say on Pay vote, the company and the Compensation Committee Chair engaged in thorough discussions of the executive compensation program with certain of the company s largest shareholders. A number of these shareholders informed us that the dialogue had enabled them to increase their understanding of the company s compensation program. Several of these shareholders focused on matters related to:

- The desire that long-term compensation be linked to long-term performance of the company;
- The combined role of Chair and CEO; and
- The membership on the Compensation Committee of Raymond Svider, a representative of BC Partners.

The Compensation Committee has reviewed the investor feedback received in connection with the 2011 Annual Meeting and has deliberated extensively concerning the results of the 2011 Say on Pay vote on fiscal 2010 executive compensation. No specific component of the program was altered for 2011 based on shareholder feedback, since it was received after the Compensation Committee had established the fiscal 2011 annual compensation program. However, as a result of the investor feedback, as well as the discussions with Hay Group, our compensation consultant, and management, the Compensation Committee approved a newly designed long-term incentive program for fiscal year 2012 to continue to align the interests of executive management with shareholders while providing stretch goals and retention value for the NEOs (other than the Chair and CEO):

- The 2012 Long-Term Incentive Program provides an award based on a targeted value broken down as follows:
  - 25% of the value of the grant in restricted stock, vesting one-third each year for 3 years;
  - 25% of the value of the grant in performance-based restricted stock units, with a one year performance period, and time-based vesting one-third each year for 3 years; and
  - 50% of the value of the grant in performance-based cash, with a one year performance period, and time-based vesting one-third each year over 3 years.
- The performance cash and performance stock units are based on whether the company achieves an EBIT target set by the Board under the 2012 annual operating plan, with the EBIT metric designed to allow a leveraging up if 2012 results exceed the EBIT target, subject to a maximum EBIT, or a leveraging down if 2012 results are below target, but at or above a threshold EBIT. If actual EBIT for 2012 is less than threshold, then the performance cash and performance stock units are forfeited and only the time-vested restricted stock (25% of opportunity) will remain outstanding.

The Compensation Committee is evaluating changes to the CEO s compensation in light of Say on Pay.

The company chose not to make changes regarding certain matters raised by shareholders, including:

- Regarding the combined role of Chair and CEO, the company believes this is an effective leadership structure for the company at this time.

Regarding the membership on the Compensation Committee of Raymond Svider, a representative of BC Partners, the company believes that the participation of a 20% owner of the company on the Compensation Committee is a good practice since such a director is highly motivated to rigorously oversee compensation and is well-positioned to exercise independent judgment regarding compensation. In fact, the interests of representatives of major shareholders are generally aligned with those of other shareholders with respect to the oversight of executive compensation.

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Compensation Framework

The goal of the company s compensation program for NEOs is to retain and reward executives who create long-term value for shareholders without excessive risk taking. This section discusses the Compensation Committee s compensation philosophy; the roles of the Compensation Committee, the Board, management, and independent compensation consultants in establishing NEO compensation; peer group benchmarking; and the importance of pay-for-performance and aligning shareholder interests in designing NEO compensation.

Compensation Philosophy

The executive compensation program is constructed to align the interests of executive management with shareholders, attract and retain highly qualified individuals, and create long-term value while not incentivizing excessive risk taking. The Compensation Committee is guided by the following key principles in determining the compensation structure for the company s executives:

Competition. Compensation should reflect the competitive marketplace, so the company can attract, retain, and motivate talented executives throughout the volatility of business cycles.

Accountability for Business Performance. Compensation should be tied in part to the company s financial and operating performance, so that executives are held accountable through their compensation for the performance of the businesses for which they are responsible and for achieving the company s annual operating plan.

Accountability for Long-Term Performance. Compensation should include meaningful incentives to create long-term shareholder value while not incentivizing excessive risk taking.

To implement the key principles, the compensation structure consists of the following elements: base salary, performance-based annual cash bonus, and long-term cash and equity incentives. Balanced benefits that align with those provided to the larger employee population are also provided. Perquisites are only provided to attract and retain talented executives, as competitively necessary.

Base Salary. The base salary component is designed to provide a competitively comparable fixed amount of compensation that is less than a majority of total target compensation, which is comprised of base salary, short and long-term incentives, and benefits.

Annual Cash Bonus. The performance-based annual cash bonus is designed to link compensation to shareholder interests. Bonus target percentages are set targeting toward the median of the Peer Group, and the bonus is paid at target for reaching annual operating plan financial goals but is leveraged up and down for above and below plan performance, respectively. The total target cash level approximates the Peer Group median when the company meets its performance goals. The annual cash bonus plan is designed to provide increased incentive payouts when company performance significantly exceeds target levels, and to provide reduced incentive payouts when performance is below target but above threshold levels. The annual cash bonus plan design may also include a discretionary portion of the annual performance-based cash bonus to enable the Compensation Committee to address issues such as risk, quality of performance, and adherence to the company s Code of Ethical Behavior. The Compensation Committee did not exercise discretion in fiscal 2011.

Long-Term Equity Incentive. The long-term incentive component is designed to incentivize achievement of the company s operating plan and to balance short-term performance rewards with those for sustained long-term performance results that create value for the company s shareholders. The long-term incentive is instrumental in retaining the NEOs and permits the granting of non-qualified stock options, restricted stock, performance shares, and/or performance-based cash. Long-term incentive opportunities are structured to be at the median of the Peer Group with opportunity for increased grants for superior performance. In 2011, a minimum of 50% of the equity component for NEOs was tied to performance.

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Establishing Executive Compensation

Role of the Compensation Committee. Each year, the Compensation Committee conducts an initial review of management s recommendations with respect to executive compensation design for the following year, evaluates these recommendations, consults with Hay Group, which is the Compensation Committee s independent compensation consultant, and reviews the company s Peer Group data. After year-end when financial results for the prior year are available, the Compensation Committee reviews performance against targets for the prior year, approves payouts under prior year compensation plans where applicable, and reviews the proposed executive compensation design with this backdrop before providing approval of the salary, bonus target percentages, and long-term incentive grants and awards for the NEOs (other than the CEO) for the new year. Annually, the Compensation Committee recommends to the Board for approval: a payout to the CEO under prior year compensation plans where applicable, and the salary, bonus target percentages, and long-term incentive grants and awards for the CEO for the new year. The Compensation Committee also approves the metrics, including financial and performance goals, to be used in assessing annual performance and determining target annual bonuses.

During the course of the year, the Compensation Committee: reviews and approves any new employment arrangements for NEOs other than the CEO (for whom it makes recommendations to the Board and then negotiates with the CEO to implement the Board s decisions); reviews, approves, and recommends changes in the perquisites and benefits provided to the NEOs; reviews and makes recommendations to the Board on the composition of the Peer Group used for benchmarking purposes and the company s executive compensation programs and policies; reviews the company s executive compensation disclosures in the company s annual proxy statement; reviews the company s stock ownership guidelines for the company s NEOs and Directors against the company s Peer Group and tracks the progress of the NEOs and Directors in satisfying such guidelines within the required time frame; approves new executive compensation plans and material amendments to existing executive compensation plans; reviews its charter and recommends changes to the Board where applicable; engages and directly monitors independent compensation consultant(s) to study and make recommendations regarding Director or NEO compensation matters; and reviews the risks related to the company s incentive compensation practices and programs**.**

The Compensation Committee meets at least quarterly during which it also meets in executive session without management present.

Role of the Board. The Board receives reports from the Compensation Committee on its actions and recommendations following every Compensation Committee meeting and then acts as it determines appropriate on the Compensation Committee s recommendations. The Board also approves the terms of the compensation package and employment agreements for the CEO.

Role of Management. The Compensation Committee believes that even the best advice of a compensation consultant or other outside advisors must be combined with the input from management and the Compensation Committee s own individual experiences and best judgment to arrive at the proper alignment of compensation philosophy, programs, and practices.

Role of Independent Compensation Consultant. In relation to their engagement, Hay Group also provided compensation data, and reviewed and advised the Compensation Committee on: negotiating executive employment agreements, responding to shareholder concerns reflected in the 2011 Say on Pay vote, and developing the Peer Group.

Competitive Benchmarking

The Compensation Committee believes benchmarking is a useful method to gauge the compensation level for executive talent within competitive job markets that are germane to the company. The Compensation Committee reviews data gathered from Peer Group proxies as well as survey data from Hay Group for benchmarking purposes. Data from Proxy Statements and Hay Group s retail industry survey provide specific Peer Group NEO information concerning base salaries, bonuses, long-term incentives, and benefit/perquisite prevalence. However, the Peer Group and Hay Group survey data are not used in isolation. NEO compensation also takes into consideration the company s financial performance and the financial performance of the Peer Group. This information is then used to analyze each NEO s individual performance and tenure in his/her current position. After a review of the benchmarking data and the other factors mentioned, the Compensation Committee determines any changes to the NEO compensation positioning, target total direct compensation structures (i.e., sum of salary, annual bonus, and equity awards), variable compensation program design, and/or benefit and perquisite offerings, if necessary. When making compensation decisions, the Compensation Committee considers each element of compensation individually, but also considers the target total direct compensation as well as the mix of compensation paid to the NEOs.

The Compensation Committee has developed specific criteria to select the company s Peer Group and reviews the criteria annually to determine if modifications are necessary. The guiding criteria used in 2011 were the same as 2010 and included, but were not limited to: companies with revenues within one half to two times the company s revenue, a retail or direct to customer business model, a business to business model, significant global operations, and a significant distribution function. Companies selected for the Peer Group were required to have a number of these characteristics, but not all of them.

For 2011, no changes were made to the company s 2010 Peer Group, which consisted of the following nineteen organizations:

Amazon.com	J.C. Penney Co., Inc.	Starbucks Corporation
Arrow Electronics, Inc.	Kohl s Corporation	Tech Data Corporation
Avnet, Inc.	Limited Brands, Inc.	TJX Companies, Inc.
Best Buy Co., Inc.	Macy s, Inc.	W.W. Grainger
GameStop	OfficeMax Inc.	Yum! Brands, Inc.
Gap Inc.	Rite Aid Corporation	
Genuine Parts Company	Staples, Inc.	

Aligning Executive Compensation with Shareholder Interests

The Compensation Committee believes there should be a key link between compensation and shareholder interests. The Compensation Committee recognizes that shareholder interests are protected when the company pays the NEOs competitively, but not in excess of market, relative to competitive benchmarks such as the company s Peer Group and applicable survey data. When designing the compensation program, the Compensation Committee strives to provide an appropriate mix of different compensation elements, including short-term and long-term, fixed and variable, and cash and equity components, and to provide smaller rewards for short-term performance and larger rewards for long-term performance. The Compensation Committee also designs the compensation program to provide meaningful rewards to the NEOs which align with the short-term and long-term objectives of the company without encouraging undue risk taking.

NEOs receive their short-term, fixed, cash component in base salary, their short-term, variable, cash component under the annual cash bonus plan, and their long-term variable equity and cash components under the long-term incentive plan. Cash payments reward short-term and long-term performance, while equity rewards encourage our NEOs to deliver results over a longer period of time and serve as a retention tool. For fiscal year 2012, the cash payment under the long-term incentive program will also serve as a retention tool and the performance-based equity awards will align NEOs interests with those of stockholders. The Compensation Committee believes that a portion of NEO compensation should be at risk by basing it on the company s operating and stock price performance over the long term, which disincentivizes taking excessive short-term risks which may negatively impact long-term performance. In establishing the total compensation package, at least half of total target compensation is awarded in variable pay. Variable pay is reviewed by the Compensation Committee on an annual basis to ensure that the metrics selected provide appropriate rewards for the achievement of the goals and priorities identified by the Board and the NEOs in the annual operating business plan as key to the company s stability and growth.

The Compensation Committee periodically monitors the company s incentive plans throughout the year to ensure that the incentive plans do not encourage undue risk taking and appropriately balance risk and reward consistent with the company s enterprise risk management efforts.

Pay-For-Performance

The Compensation Committee views the annual cash bonus plan and the long-term equity incentive plan as key links between NEO compensation and the creation of shareholder value as each of these programs provide meaningful rewards to the NEOs for satisfying performance targets the Compensation Committee has identified as key drivers in the short-term and long-term success of the company.

Other Compensation

The company provides the NEOs with a set of core benefits (e.g., coverage for medical, dental, vision care, prescription drugs, annual physical, basic life insurance, long-term disability coverage, and car allowance) plus voluntary benefits that an NEO may select (e.g., supplemental life insurance). The company s overall benefits philosophy is to focus on the provision of these core benefits, with NEOs able to use their cash compensation to obtain such other benefits as they individually determine to be appropriate. The company provides health and life insurance benefits; but consistent with the Peer Group, does not provide substantial perquisites. The following events related to the company s benefits and perquisites for the NEOs took place in 2011:

Retirement Plans. In January 2011, the company restarted a matching contribution to the 401(k) plan for all participants, including the NEOs, to motivate and retain employees. The matching contribution is equal to 50% of employee deferrals on the first 4% of eligible earnings (up to plan limits). The matching contribution is below market. The company continues to maintain three non-qualified deferred compensation plans which remain frozen to new contributions. The company does not sponsor a pension plan.

Mr. Austrian s Benefits and Perquisites. Mr. Austrian did not receive any of the core benefits and perquisites during his service as Interim Chair and CEO; however, effective with his election to serve as the Chair and CEO on May 23, 2011, he participates in all of the core benefits and perquisites provided to the NEOs other than the car allowance program, which he voluntarily opted out of under his letter agreement (as described in the Summary of Executive Agreements and Potential Payments Upon Termination or Change in Control section).

Executive Medical Plan. In October 2011, the Compensation Committee approved terminating coverage of the executives, including the NEOs, under the executive medical plan effective January 1, 2012. The executive medical plan provided enhanced medical, dental, vision, and pharmacy benefits to the executives. Due to rising health care costs, the executive medical plan has significantly increased in cost in recent years. The Compensation Committee determined that it was not prudent for the company to continue to provide benefits to the executives under the executive medical plan. As of January 1, 2012, the executives are now eligible to participate in the company s medical, dental, vision, and pharmacy benefit programs available to the broad-based full-time employees.

NEO Employment Arrangements

The company is party to various employment arrangements, including written offer letters, employment agreements, change in control agreements, and retention agreements with certain of our NEOs, that provide for the payment of additional and future compensation of such NEOs for satisfying specified service requirements, in the event of certain types of terminations and, in some cases, in the event of a change in control of the company. The terms of these arrangements are usually established in connection with the NEOs initial hire by the company. The termination of employment provisions in the employment arrangements were entered into to address competitive concerns at the time the NEOs were recruited, by providing those individuals with a fixed amount of compensation that would offset the potential risk of leaving their prior employer or forgoing other opportunities to join the company.

The Compensation Committee believes the change in control agreements effectively create incentives for the NEOs to build shareholder value and to obtain the highest value possible should the company be acquired in the future, despite the risk of losing employment and potentially not having the opportunity to otherwise vest in equity awards which comprise a significant component of each NEO s compensation. In addition, these arrangements are necessary to attract and retain qualified executives who may have other job alternatives that may appear to them to be less risky absent these arrangements, which is particularly important to the company given the high levels of competition for executive talent in the retail sector. For additional information on the employment arrangements the company is party to with certain of our NEOs, see Summary of Executive Agreements and Potential Payments Upon Termination or Change in Control.

Other Policies and Matters Related to Executive Compensation

Incentive Plan Risk Review. The Compensation Committee has generally reviewed, analyzed and discussed the executive compensation incentive programs in the context of how the current global economic and financial situation might affect the program. The Compensation Committee, in conjunction with the Audit Committee, received reports on all of the company s 100+ global incentive plans, which were discussed to ensure that the plans did not incentivize excessive risk and rewarded the behavior the company wishes to reward. The committees jointly reported to the Board that they do not believe that any aspects of the compensation program encourage the NEOs to take unnecessary and excessive risks. The committees highlighted the progress the company has made in strengthening governance and ensuring a strong correlation between the company s operating objectives and the objectives of the incentive programs. Additionally, the financial goals set forth in the corporate annual cash bonus plan are based upon performance targets that the Compensation Committee believes are attainable without the need to take inappropriate risks or make material changes to the company s business or strategy. In addition, the 2007 Long-Term Incentive Plan awards that vest over a three-year period mitigate against taking short-term risks. Finally, the equity component of the company s compensation program coupled with the company s stock ownership guidelines, which expose NEOs to the loss of the value of retained equity if stock prices decline, incentivize NEOs to focus on long-term share appreciation.

Recoupment Policy. In February 2010, the Board adopted a policy for recoupment of incentive compensation. The policy provides that if the company restates its reported financial results for any period beginning after January 1, 2010, the Board will review the bonus and other awards made to executive officers based on financial results during the period subject to the restatement. To the extent practicable and in the best interests of shareholders, the Board will seek to recover or cancel any such awards that were based on having met or exceeded performance targets that would not have been met under the restated financial results.

Anti-Hedging Policy. In February 2011, the Board adopted an anti-hedging policy which prohibits hedging transactions with respect to company securities by our Directors, executive officers and all other employees.

Stock Ownership Guidelines for NEOs. The Compensation Committee believes that the NEOs should maintain a meaningful equity interest in the company through the ownership of stock. The Peer Group data includes the use of both multiples of base salary and target share amounts, with the multiple of base salary approach being the prevalent methodology in the Peer Group. In October 2011, the Compensation Committee enhanced the company s executive stock ownership guidelines to increase the required levels of stock ownership for the Chair and CEO and for the other NEOs to more closely reflect the ownership guidelines of the company s competitors and Peer Group and current corporate governance trends. The enhanced guidelines used for the NEOs continue to be within the target range for the Peer Group.

Under the enhanced guidelines, the Chair and CEO is expected to hold company stock equal to at least either: 700,000 shares, or a multiple equal to five times his annual base salary, to be satisfied within five years of assuming his position. Under the enhanced guidelines, the other NEOs are expected to hold company stock equal to at least either: 250,000 shares, or a multiple equal to three times each individual s annual base salary, to be satisfied within five years of becoming a Section 16(b) officer of the company. The amount of stock required to satisfy the ownership requirement must be held by each NEO until termination of employment with the company. The Compensation Committee also adopted a restriction on an NEO s right to sell stock during the initial five year period prior to such individual satisfying the required ownership. The restriction requires that the NEO retain 50% of the net shares (after shares are disposed of to pay for taxes and acquisition). For purposes of determining compliance with these stock ownership guidelines, the following types of equity are considered: shares held outright (including restricted stock for which the restrictions have lapsed and shares purchased on the open market), unvested restricted stock subject to time vesting requirements only, vested restricted stock units, and the spread between fair market value and exercise price for vested in-the-money stock options. The current guidelines are deemed competitive according to market data. The Compensation Committee annually reviews each NEO s progress toward meeting the ownership guidelines. As of February 15, 2012, all of our currently employed NEOs satisfied their stock ownership requirements.

In 2012, the Compensation Committee will again review the executive stock ownership guidelines and determine if any changes are warranted in either the level of shares required to be held or in the methodology to calculate the ownership level (i.e., multiple of salary or fixed number of shares).

Deductibility of Executive Compensation. Section 162(m) of the Internal Revenue Code of 1986, as amended (Code), generally does not allow a tax deduction to public companies for compensation in excess of $1 million paid to the CEO or any of the other NEOs, excluding the Chief Financial Officer. Certain compensation is specifically exempt from the deduction limit to the extent that it does not exceed $1 million during any fiscal year or is performance based as defined in Code Section 162(m). The Compensation Committee strives to structure NEO compensation to come within the deductibility limits set in Code Section 162(m) whenever possible. However, the Compensation Committee believes that it must maintain the flexibility to take actions which it deems to be in the best interests of the company but which may not qualify for tax deductibility under Code Section 162(m).

In fiscal year 2011, the only NEO who received an annual base salary in excess of $1,000,000 was Mr. Austrian, whose annual base salary as Chair and CEO is $1,100,000. A portion of the compensation paid to Messrs. Austrian, Peters and Schmidt and Ms. Garcia will not be deductible for tax purposes for 2011 pursuant to Code Section 162(m). For fiscal year 2011, the lost deduction was approximately $1.3 million.

Regulatory Requirements. In addition to Code Section 162(m), the Compensation Committee considered other tax and accounting provisions in developing the pay programs for the NEOs. These include the special rules applicable to fair value based methods of accounting for stock compensation and the overall income tax rules applicable to various forms of compensation. While the Compensation Committee tried to compensate the NEOs in a manner that produced favorable tax and accounting treatment, the main objective was to develop fair and equitable compensation arrangements that appropriately incentivized, rewarded, and retained the NEOs.

COMPENSATION COMMITTEE REPORT

The Compensation Committee of the Board of Directors of the company has reviewed and discussed this Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K with the company s management and, based on such review and discussion, the Compensation Committee recommended to the

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Board of Directors that the Compensation Discussion and Analysis be included in the company s Annual Report on Form 10-K for the year ended December 31, 2011 as well as in the 2012 Proxy Statement.

THE COMPENSATION COMMITTEE:

Marsha J. Evans (Chair)

W. Scott Hedrick

Raymond Svider

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

During fiscal year 2011, the Compensation Committee consisted of: Lee A. Ault and David W. Bernauer (who both served through the 2011 Annual Meeting), Marsha J. Evans, W. Scott Hedrick, and Raymond Svider. All members of the Committee were Independent Directors, and no member was an employee or former employee of the company. During fiscal year 2011, none of the company s executive officers served on the board of directors or compensation committee (or other committee serving an equivalent function) of another entity whose executive officer served on the company s Board of Directors or Compensation Committee.

COMPENSATION PROGRAMS RISK ASSESSMENT

The Compensation Committee has assessed the company s compensation programs and has concluded that the company s compensation policies and practices do not create risks that are reasonably likely to have a material adverse effect on the company. The company has conducted a risk assessment that included a detailed qualitative and quantitative analysis of its compensation and benefit programs to which employees at all levels of the organization may participate, including the NEOs. The Compensation Committee considered how the design of the company s compensation programs compares to compensation programs maintained by the Peer Group. Based on the company s assessment, the Compensation Committee believes that the company s compensation and benefit programs have been appropriately designed to attract and retain talent and properly incentivize employees to act in the best interests of the company. The company s programs contain various factors to ensure its employees, including the NEOs, are not encouraged to take unnecessary risks in managing the company s business, such as:

- oversight of compensation and benefits programs (or components of programs) by the Compensation Committee;
- discretion provided to the Compensation Committee (including negative discretion) to set targets, monitor performance and determine final incentive award payouts;
- oversight of compensation and benefits programs (or components of programs) by a broad-based group of functions within the company, including Human Resources;
- a variety of programs that provide focus on both short-and long-term goals and that provide a balanced mixture of cash and equity compensation;
- incentives focused primarily on the use of financial metrics based on the annual operating plan which is approved by the Board;
- service-based vesting conditions with respect to equity-based awards; and

incentive pay recoupment policy which provides for recoupment of incentive compensation in the event of a financial restatement.

The Compensation Committee periodically monitors the company s incentive plans throughout the year to ensure that the incentive plans do not encourage undue risk taking and appropriately balance risk and reward consistent with the company s enterprise risk management efforts.

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SUMMARY COMPENSATION TABLE

The following table provides a summary of the annual and long-term compensation that the company paid to its NEOs (or deferred for, or that was attributable to/earned) for services rendered during the 2009, 2010, and 2011 fiscal years.

Summary Compensation Table for Fiscal Years 2009 - 2011

(a) Named Officers and Principal Positions	(b) Year	(c) (1) Salary ($)	(d) Bonus ($)		(e) (2) Stock Awards ($)	(f) (2) Option Awards ($)	(g) (3) Non-Equity Incentive Plan Compensation ($)	(h) Change in Pension Value and NQ Deferred Compensation Earnings ($)	(i) (4) All Other Compensation ($) Total Other		(j) Total ($)
Neil Austrian (5) Chief Executive Officer	2011	$ 1,646,154	$		$ 4,284,000	$	$ 815,015	$	$ 71,766		$ 6,816,935
	2010	$ 415,385	$		$	$ 984,400	$	$	$		$ 1,399,785
Michael Newman Chief Financial Officer	2011	$ 637,019	$ 937,500	(6)	$ 355,832	$ 294,840	$ 410,877	$	$ 81,134		$ 2,717,202
	2010	$ 625,000	$ 468,750		$	$ 1,580,200	$	$	$ 40,924		$ 2,714,874
	2009	$ 625,000	$		$	$ 200,400	$ 437,500	$	$ 164,875		$ 1,427,775
Kevin Peters President, North America	2011	$ 637,019	$		$ 355,832	$ 294,840	$ 410,877	$	$ 101,769		$ 1,800,337
	2010	$ 568,077	$		$	$ 1,802,447	$ 247,380	$	$ 55,120		$ 2,673,024
Steve Schmidt President, International	2011	$ 637,019	$		$ 355,832	$ 294,840	$ 410,877	$	$ 106,097		$ 1,804,665
	2010	$ 625,000	$		$	$ 1,580,200	$ 276,563	$	$ 53,957		$ 2,535,720
	2009	$ 625,000	$		$	$ 606,200	$ 468,750	$	$ 36,944		$ 1,736,894
Elisa D. Garcia Executive Vice President, General Counsel	2011	$ 448,462	$ 500,000	(7)	$ 203,333	$ 168,480	$ 269,974	$	$ 115,157		$ 1,705,406
Charles Brown Former President, International	2011	$ 471,154	$		$ 355,832	$ 294,840	$	$	$ 3,471,351	(9)	$ 4,593,177
	2010	$ 625,000	$ 1,000,000	(8)	$	$ 1,580,200	$ 276,563	$	$ 44,543		$ 3,526,306
	2009	$ 625,000	$		$	$ 267,200	$	$	$ 653,663		$ 1,545,863
Daisy Vanderlinde Former Executive Vice President, Human Resources	2011	$ 301,231	$		$ 203,333	$ 168,480	$	$	$ 1,627,763	(10)	$ 2,300,807

(1) Column (c) is used to record salary amounts that include cash compensation earned by each NEO during fiscal years 2011, 2010 and 2009 as well as any amounts earned in those years but contributed into the 401(k) Plan at the election of the NEO. Fiscal year 2011 included an additional 53rd week which is reflected in the salary amounts for the NEOs employed though that period.

(2) The dollar amounts in columns (e) and (f) reflect the aggregate grant date fair value of equity awards granted within the fiscal year in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 718 for stock-based compensation. These

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amounts reflect the total grant date fair value for these awards, and do not correspond to the actual value that will be recognized by each of the NEOs when received. Assumptions used in the calculation of these award amounts are included in Note A to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2011.

(3) The amounts in column (g) reflect cash awards earned under the 2011 Bonus Plan, which is previously discussed in more detail in the Compensation Discussion and Analysis (CD&A) under the Annual Cash Bonus section. While such amounts were earned for fiscal year 2011 performance, they will not be paid to the NEOs until March 9, 2012. Fiscal year 2011 consisted of a 53-week period.

(4) The Other Compensation Table for Fiscal Year 2011 that follows reflects the types and dollar amounts of perquisites, other personal benefits, and severance arrangements provided to the NEOs during the fiscal year 2011. For purposes of computing the dollar amounts of the items listed in the following table, the actual out-of-pocket costs to the company of providing the perquisites, other personal benefits, and severance arrangements to the NEOs was used. Each perquisite, other personal benefit, and severance arrangement included in the Table that follows is described in more detail in the narratives immediately following the Table.

(5) Effective May 23, 2011, Mr. Austrian was appointed as the company s Chair and CEO. Set forth in this table is the compensation that Mr. Austrian has earned during fiscal year 2011 for his service as Interim Chair and CEO from December 26, 2010 through May 22, 2011, and as Chair and CEO from May 23, 2011 through December 31, 2011, pursuant to the terms of his letter agreements with the company, which are described under the Summary of Executive Agreements and Potential Payments Upon Termination or Change of Control section. In addition to the compensation described in the Summary Compensation Table and Grants of Plan-Based Award Tables, in 2011, Mr. Austrian also received stock awards for his service as a director of the company prior to his appointment as Chair and CEO, which is reflected in the Director Compensation Table for Fiscal Year 2011.

(6) Pursuant to the terms of his Retention Agreement which is described under the Summary of Executive Agreements and Potential Payments Upon Termination or Change of Control section, Mr. Newman earned the first installment of his Retention Payment in March 2011.

(7) Pursuant to the terms of her Retention Agreement which is described under the Summary of Executive Agreements and Potential Payments Upon Termination or Change of Control section, Ms. Garcia earned the first installment of her Retention Payment in November 2011.

(8) In 2010, Mr. Brown accrued a $1,000,000 retention bonus pursuant to his amended Executive Employment Agreement, which is described under the Summary of Executive Agreements and Potential Payments Upon Termination or Change of Control section. This retention bonus was accrued on September 14, 2010 to be payable in connection with Mr. Brown s termination of employment. Mr. Brown was terminated in September 2011 and received a severance payment as reported under column (i), in addition to this retention bonus.

(9)) Mr. Brown was terminated by the company on September 26, 2011. In connection with Mr. Brown s termination of employment, he became entitled to a severance payment pursuant to the terms of his previously negotiated Executive Employment Agreement, which is described under the Summary of Executive Agreements and Potential Payments Upon Termination or Change of Control section. In addition to the severance payment, Mr. Brown was paid a $1,000,000 retention bonus accrued in 2010, which is disclosed in Footnote 8 above. Mr. Brown s severance payment will be paid to him in cash on March 26, 2012 and is disclosed on the Other Compensation Table for Fiscal Year 2011 that follows.

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(10) Ms. Vanderlinde terminated employment with the company on August 31, 2011. In connection with Ms. Vanderlinde s termination of employment, she earned a severance payment pursuant to the terms of her Separation Agreement, which included amounts owed to her pursuant to her previously negotiated Employment Offer Letter Agreement, both of which are described under the Summary of Executive Agreements and Potential Payments Upon Termination or Change of Control section. Ms. Vanderlinde s severance payment was paid to her in cash on September 7, 2011 and is disclosed on the Other Compensation Table for Fiscal Year 2011 that follows.

Other Compensation Table for Fiscal Year 2011

Summary Compensation Table, Column (i) Components

(a) Named Officers	(b) (1) Car Allowance	(c) (2) Exec Med	(d) (3) Exec Welfare	(e) (4) 401k Match	(f) (5) Personal Aircraft Usage	(g) (6) Charitable Contributions	(h) Severance		(i) (9) Company Event	(j) Total
Neil Austrian	$	$ 26,561	$ 10,340	$	$ 18,879	$ 10,000	$		$ 5,986	$ 71,766
Michael Newman	$ 15,900	$ 51,457	$ 8,877	$ 4,900	$	$	$		$	$ 81,134
Kevin Peters	$ 15,900	$ 60,393	$ 8,603	$ 4,900	$	$	$		$ 11,973	$ 101,769
Steve Schmidt	$ 15,900	$ 49,710	$ 11,114	$ 4,900	$	$ 12,500	$		$ 11,973	$ 106,097
Elisa D. Garcia	$ 15,900	$ 61,144	$ 8,213	$ 4,900	$	$ 25,000	$		$	$ 115,157
Charles Brown	$ 11,760	$ 46,166	$ 7,316	$ 4,900	$	$	$ 3,401,209	(7)	$	$ 3,471,351
Daisy Vanderlinde	$ 10,680	$ 33,140	$ 6,747	$ 4,900	$	$	$ 1,572,296	(8)	$	$ 1,627,763

(1) The amounts in column (b) reflect the payments made to each NEO during fiscal year 2011 as part of the Executive Car Allowance Program.

(2) The amounts in column (c) reflect the cost to the company for insurance premiums (medical, dental and vision) and health physicals in connection with the NEOs participation in the Executive Benefits Program. As discussed further in the CD&A under the Summary of Key 2011 Compensation Decisions, the Compensation Committee approved terminating coverage of all executives, including the NEOs, under the Executive Medical Plan beginning in 2012. As of January 1, 2012, the executives are now eligible to participate in the medical, dental, vision and pharmacy benefit programs available to the company s broad-based full-time employees.

(3) The amounts in column (d) reflect the cost to the company for insurance premiums associated with welfare benefits (LTD, STD, basic life insurance and AD&D) in connection with the NEOs participation in the Executive Benefits Program. Amounts also include imputed income for premiums paid on life insurance in excess of $50,000.

(4) The amounts in column (e) reflect the company cost of matching contributions under our 401(k) Plan of up to 2% of eligible compensation for the 2011 fiscal year subject to the IRS annual compensation limits. As discussed in the Retirement Plans section of the CD&A, the company restarted a matching contribution to the 401(k) Plan for all participants beginning January 2011.

(5) The amount in column (f) reflects the incremental cost of personal use of company leased aircraft. The amount includes the actual cost of fuel and additives, trip-related crew hotels and meals, in-flight food and beverages, landing and ground handling fees, hangar or aircraft parking costs, certain other smaller variable costs for each personal trip leg plus an allocation of maintenance costs based on the per mile cost to maintain the planes multiplied by the number of personal miles flown. Fixed costs that would be incurred in any event to operate company aircraft (e.g., aircraft and hangar lease costs, depreciation, and flight crew salaries) are not included. Mr. Peters personal use of company leased aircraft resulted in no incremental cost to the company.

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(6) The amount in column (g) represents the cost of company matching contributions on behalf of the NEOs to eligible charitable organizations under the 2011 Executive Matching Gifts Program.

(7) Reflects the severance payment payable to Mr. Brown in connection with his termination in September 2011 and pursuant to the terms of his previously negotiated Executive Employment Agreement. In connection with his termination, in addition to the $1 million retention award as described in footnotes 9 and 10 to the Summary Compensation Table, Mr. Brown became entitled to receive: 1) cash severance of $937,500; 2) $2,000,000 retention bonus, 3) 2011 pro-rated bonus at target; and 4) 18 times COBRA and other welfare benefit plan monthly premiums. Payment of all amounts will be paid to him in cash on March 26, 2012.

(8) In August 2011, Ms. Vanderlinde, Executive Vice President of Human Resources, was terminated, and pursuant to her Separation Agreement, received a severance payment of $1,572,296 on September 7, 2011. In connection with her termination, Ms. Vanderlinde became entitled to receive: 1) $880,000 continued base salary for 24 months; 2) $616,000 for two times 2011 bonus at target; and 3) $76,296 for COBRA and other welfare benefit plan monthly premiums.

(9) Represents payments to Messrs. Austrian, Peters and Schmidt for personal expenses incurred while attending a company-sponsored event and the related gross-up payments for the event.

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Grants of Plan-Based Awards in Fiscal Year 2011

(a) Named Officers	(b) Grant Date	(c-e) Estimated Future Payouts Under Non-Equity Incentive Plan Awards (1)(2) Threshold ($) (1)	Target ($)	Maximum ($) (1)	(f-h) Estimated Future Payouts Under Equity Incentive Plan Awards (3) Threshold (#)	Target (#)	Maximum (#)	(i) All Other Stock Awards: Number of Shares/Units	(j) All Other Option Awards: Number of Securities Underlying Options (#)	(k) (4) Exercise or Base Price of Option Awards ($/Sh)	(l) (5) Grant Date Fair Value
Neil Austrian	5/23/2011	$ 236,923	$ 947,692	NA				600,000 (6)			$ 2,412,000
	5/23/2011					600,000 (6)					$ 1,872,000
Michael Newman	5/3/2011	$ 119,441	$ 477,764	NA		140,000 (O)				$ 5.34	$ 294,840
	5/3/2011					83,333 (R)					$ 355,832
Kevin Peters	5/3/2011	$ 119,441	$ 477,764	NA		140,000 (O)				$ 5.34	$ 294,840
	5/3/2011					83,333 (R)					$ 355,832
Steve Schmidt	5/3/2011	$ 119,441	$ 477,764	NA		140,000 (O)				$ 5.34	$ 294,840
	5/3/2011					83,333 (R)					$ 355,832
Elisa D. Garcia	5/3/2011	$ 78,481	$ 313,923	NA		80,000 (O)				$ 5.34	$ 168,480
	5/3/2011					47,619 (R)					$ 203,333
Charles Brown	5/3/2011	$ 119,441	$ 477,764	NA		140,000 (O)				$ 5.34	$ 294,840
	5/3/2011					83,333 (R)					$ 355,832
Daisy Vanderlinde	5/3/2011	$ 78,481	$ 313,923	NA		80,000 (O)				$ 5.34	$ 168,480
	5/3/2011					47,619 (R)					$ 203,333

(1) Column (c) reflects the minimum payments each NEO could expect to receive if the company reached at least its threshold performance goal in fiscal year 2011 under the 2011 Annual Corporate Bonus Plan. Fiscal year 2011 consisted of a 53-week period which is reflected in the payout amounts. Threshold was set at 25% of target for all NEOs. The Bonus Plan award was based upon the company s ability to meet annual financial performance targets set by the Compensation Committee. Each of the company s financial performance goals were targeted to pay out at 100% upon achievement. Maximum parameters were not set for any of the metrics, so payment could be made for extraordinary performance. Performance below the Plan threshold resulted in no bonus being paid for that metric. Further description of the 2011 Annual Corporate Bonus Plan is discussed in the Annual Cash Bonus section.

(2) The amounts shown in column (d) reflect the target payments each NEO could receive if the company reached its target performance goals in 2011 under the 2011 Annual Corporate Bonus Plan. Each NEO s target annual bonus is expressed as a percentage of such officer s bonus eligible earnings. For 2011, Mr. Austrian s target bonus percentage was 140% of annual bonus eligible earnings. Mr. Austrian s earnings as Interim CEO and Chair were not eligible for the annual bonus. For 2011, the target bonus percentage was 75% of annual bonus eligible earnings for Messrs. Newman, Peters, Schmidt and Brown and 70% of annual bonus eligible earnings for Mlles. Garcia and Vanderlinde.

(3) Column (g) represents awards of nonqualified stock options and restricted stock shares granted under the company s 2007 Long-Term Incentive Plan (the 2007 LTIP). The (O) reflected next to the target share amounts above is used to designate nonqualified stock options granted at a 25% premium price, and the (R) reflected next to the target share amounts is used to designate restricted stock shares. All options and restricted shares granted under the 2011 annual long-term incentive grant vest pro-rata over the three-year period following the grant date.

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(4) Under the 2007 LTIP, grants of stock options must have an exercise price equal to or greater than their fair market value on the grant date. The 2007 LTIP defines fair market value as the closing stock price on the New York Stock Exchange on the grant date.

(5) Computed in accordance with FASB ASC Topic 718 for stock-based compensation. See Note A of the consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2011 regarding assumptions underlying valuation of equity awards.

(6) When Mr. Austrian was appointed as the company s Chair and CEO, in lieu of a sign-on cash bonus and to incentivize future performance, he was awarded two grants of restricted shares of the company s common stock on May 23, 2011. The first grant of 600,000 restricted shares is subject to vesting based on a service requirement, and the second grant of 600,000 restricted shares is subject to vesting based on both service and performance requirements, as further described under the Summary of Executive Agreements and Potential Payments Upon Termination or Change in Control.

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Outstanding Equity Awards at 2011 Fiscal Year-End

	Option Awards						Stock Awards					
(a)	(b)		(c)	(d)	(e)	(f)	(g)		(h)	(i)		(j)
Named Officers	Number of Securities Underlying Unexercised Options (#) Exercisable		Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)	Option Exercise Price ($)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)		(18) Market Value of Shares or Units of Stock That Have Not Vested ($)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)		Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($)
PEO - Neil Austrian	7,500	(1)			$ 19.7250	4/25/12						
	7,500	(1)			$ 11.4850	2/14/13						
	7,500	(1)			$ 17.5450	2/18/14						
	15,611	(1)			$ 33.0650	2/14/13						
	44,155	(1)			$ 11.2700	3/5/15						
	38,736	(1)			$ 0.8500	3/4/16						
	133,333	(2)	266,667		$ 4.4300	11/2/17						
							600,000	(3)	$ 1,290,000	600,000	(3)	$ 1,290,000
PFO - Michael Newman	403,877	(4)			$ 6.8000	8/27/15						
	100,000	(5)	50,000		$ 0.8500	3/4/16						
	100,000	(5)	50,000		$ 1.0625	3/4/16						
	66,666	(6)	133,334		$ 7.7100	3/8/17						
	66,666	(6)	133,334		$ 9.6380	3/8/17						
		(7)	140,000		$ 5.3400	5/3/18	83,333	(7)	$ 179,166			
Kevin Peters	75,000	(5)	37,500		$ 0.8500	3/4/16						
	75,000	(5)	37,500		$ 1.0625	3/4/16						
	66,666	(6)	133,334		$ 7.7100	3/8/17						
	66,666	(6)	133,334		$ 9.6380	3/8/17						
	24,960	(8)	49,921		$ 5.1300	6/8/17						
		(7)	140,000		$ 5.3400	5/3/18	83,333	(7)	$ 179,166			
Steve Schmidt	112,047	(9)			$ 28.7300	7/24/14						
	233,333	(5)	233,334		$ 0.8500	3/4/16						
	66,667	(5)	66,667		$ 1.0625	3/4/16						
	66,666	(6)	133,334		$ 7.7100	3/8/17						
	66,666	(6)	133,334		$ 9.6380	3/8/17						
		(7)	140,000		$ 5.3400	5/3/18	83,333	(7)	$ 179,166			
Elisa D. Garcia	37,500	(5)	37,500		$ 0.8500	3/4/16						
	75,000	(5)	37,500		$ 1.0625	3/4/16						
	37,500	(6)	75,000		$ 7.7100	3/8/17						
	37,500	(6)	75,000		$ 9.6380	3/8/17						
	11,822	(8)	23,644		$ 5.1300	6/8/17						
		(7)	80,000		$ 5.3400	5/3/18	47,619	(7)	$ 102,381			

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Outstanding Equity Awards at 2011 Fiscal Year-End

	Option Awards					Stock Awards			
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
Named Officers	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)	Option Exercise Price ($)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	(18) Market Value of Shares or Units of Stock That Have Not Vested ($)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($)
Charles Brown (16)	40,000 (10)			$ 16.0650	2/4/12				
	40,000 (11)			$ 11.4850	2/14/13				
	40,000 (12)			$ 17.5450	3/26/13				
	50,000 (13)			$ 18.0850	2/11/12				
	25,000 (14)			$ 28.2450	7/26/12				
	285,423 (15)			$ 11.2700	3/26/13				
	133,333 (5)			$ 0.8500	3/26/13				
	133,333 (5)			$ 1.0625	3/26/13				
	66,666 (6)			$ 7.7100	3/26/13				
	66,666 (6)			$ 9.6380	3/26/13				
Daisy Vanderlinde (17)	337,500 (5)			$ 0.8500	2/28/13				
	112,500 (5)			$ 1.0625	2/28/13				
	112,500 (6)			$ 7.7100	2/28/13				
	112,500 (6)			$ 9.6380	2/28/13				
	67,060 (8)			$ 5.1300	2/28/13				
	80,000 (7)			$ 5.3400	2/28/13				

(1) Represents annual grants of stock options made to Mr. Austrian as part of his compensation for serving on the Board of Directors for prior years.

(2) Mr. Austrian was granted non-qualified stock options to purchase 400,000 shares of common stock of the company on November 2, 2010 pursuant to and subject to the terms of the company s 2007 LTIP. Additionally, Mr. Austrian agreed to extend the scheduled vesting date for the unvested stock options to April 30, 2013 when he was named interim Chair and CEO.

(3) In lieu of a sign-on cash bonus and to incentivize future performance, Mr. Austrian was awarded two grants of restricted shares of the company s common stock on May 23, 2011. The first grant of 600,000 restricted shares is subject to vesting based on a service requirement, and the second grant of 600,000 restricted shares is subject to vesting based on both service and performance requirements, as further described under the Summary of Executive Agreements and Potential Payments Upon Termination or Change in Control.

(4) Represents stock options granted to Mr. Newman on August 27, 2008 under the 2007 LTIP as part of his sign-on with the company. These options vest in three equal installments beginning on the first anniversary of the grant date.

(5)

Represents an annual grant of stock options awarded on March 4, 2009 under the 2007 LTIP. 50% of the grant consisted of at-the-money options and 50% consisted of premium-priced options. The options vest in three equal installments beginning on the first anniversary of the grant date.

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(6) Represents an annual grant of stock options awarded on March 8, 2010 under the 2007 LTIP. 50% of the grant consisted of at-the-money options and 50% consisted of premium-priced options. The options vest in three equal installments beginning on the first anniversary of the grant date.

(7) Represents an annual grant of stock options and restricted stock awarded on May 3, 2011 under the 2007 LTIP. 50% of the grant consisted of premium-priced options and 50% consisted of a grant of restricted stock. Both options and restricted stock vest in three equal installments beginning on the first anniversary of the grant date.

(8) Represents new at-the-money stock options granted to in exchange for old out-of-the-money stock options as part of the Offer to Exchange that the company offered to its employees on June 8, 2010. Because Mr. Peters, Ms. Garcia, and Ms. Vanderlinde were not NEOs for 2009, they were eligible to participate in the exchange. The exchanged options vest pursuant to the terms of the 2007 LTIP.

(9) Represents stock options granted to Mr. Schmidt on July 24, 2007 under the 2007 LTIP as part of his sign-on with the company. These awards vested in three equal installments beginning on the first anniversary of the grant date.

(10) Represents an annual grant of stock options made to Mr. Brown on February 4, 2002 under the company's Long-Term Equity Incentive Plan. The grant consisted of 33,776 nonqualified stock options that vested in three equal installments beginning on the first anniversary of the grant date and 6,224 incentive stock options that cliff-vested on the third anniversary of the grant date.

(11) Represents an annual grant of stock options made to Mr. Brown on February 14, 2003 under the company's Long-Term Equity Incentive Plan. The grant consisted of 31,293 nonqualified stock options that vested in three equal installments beginning on the first anniversary of the grant date and 8,707 incentive stock options that cliff-vested on the third anniversary of the grant date.

(12) Represents an annual grant of stock options made to Mr. Brown on February 18, 2004 under the company's Long-Term Equity Incentive Plan. The grant consisted of 34,301 nonqualified stock options that vested in three equal installments beginning on the first anniversary of the grant date and 5,699 incentive stock options that cliff-vested on the third anniversary of the grant date.

(13) Represents an annual grant of stock options made to Mr. Brown on February 11, 2005 under the company's Long-Term Equity Incentive Plan. The options vested in three equal installments beginning on the first anniversary of the grant date.

(14) Represents a grant of stock options to Mr. Brown on July 26, 2005 under the company's Long-Term Equity Incentive Plan after being promoted to President of the company's International Division. The options vested in three equal installments beginning on the first anniversary of the grant date.

(15) Represents an annual grant of stock options made to Mr. Brown on March 5, 2008 under the 2007 LTIP. The options vested in three equal installments beginning on the first anniversary of the grant date.

(16) In connection with Mr. Brown s termination of employment with the company, the option expiration date for each of his vested nonqualified stock option grants became the earlier of: each grant s original expiration date, or March 26, 2013, which was eighteen months following his termination of employment as provided for under the terms of the 2007 LTIP.

(17)

In connection with Ms. Vanderlinde s termination of employment with the company, the option expiration date for each of her vested nonqualified stock option grants became the earlier of: each grant s original expiration date, or February 28, 2013, which was eighteen months following her termination of employment as provided for under the terms of her previously negotiated Employment Offer Letter Agreement.

(18) Market value of unvested restricted stock awards computed by multiplying the number of shares by $2.15, the closing price of the company's common stock on the New York Stock Exchange on December 30, 2011, the last day the New York Stock Exchange was open during the company's 2011 fiscal year, which ended on December 31, 2011.

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Option Exercises and Stock Vested in Fiscal Year 2011

	Option Awards		Stock Awards		
(a)	(b)	(c)	(d)		(e) (1)
Named Officers	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise ($)	Number of Shares Acquired on Vesting (#)		Value Realized on Vesting ($)
Neil Austrian			29,274	(2)	$ 125,000
Michael Newman					
Kevin Peters			17,747	(3)	$ 94,946
Steve Schmidt			41,408	(3)	$ 221,533
Elisa D. Garcia			23,662	(3)	$ 126,592
Charles Brown					
Daisy Vanderlinde			71,281	(4)	$ 298,020

(1) Value of Restricted Stock calculated by multiplying the number of shares by the fair market value of the company s common stock on the NYSE on the vesting date.

(2) Represents immediate vesting of restricted stock granted in 2011 for Mr. Austrian s annual retainer as a Director prior to becoming the Chair and CEO on May 23, 2011.

(3) Represents three-year pro rata vesting of restricted stock granted in 2008 under the LTIP.

(4) Represents shares of restricted stock for which vesting was accelerated under the LTIP provision of reaching the age of 60 and completing 5 years of continuous service with the company while employed.

Nonqualified Deferred Compensation

In addition to offering a traditional qualified defined contribution retirement savings plan (i.e., 401(k) plan), the company continues to maintain three non-qualified deferred compensation plans for the benefit of its executive officers, including the NEOs, which remain frozen to new contributions. The following table reflects information related to the company s non-qualified deferred compensation plans. Information regarding the company s 401(k) plan, which is generally available to all employees, is not included.

Nonqualified Deferred Compensation

(a)	(b)	(c)	(d)	(e)	(f)
Named Officers	**Executive Contributions in Last FY ($)**	**Registrant Contributions in Last FY ($)**	**(1) Aggregate Earnings in Last FY ($)**	**Aggregate Withdrawals/ Distributions ($)**	**(2) Aggregate Balance at Last FYE ($)**
Neil Austrian					
Michael Newman					

Kevin Peters			
Steve Schmidt	$ 112		$ 24,844
Elisa D. Garcia			
Charles Brown	$ (15,341)	$ 72,216	$ 43,443
Daisy Vanderlinde	$ (77)		$ 9,182

(1) Amounts shown in this column are not otherwise reported as compensation in the last completed fiscal year in the Summary Compensation Table.

(2) In 2008, as permitted under the Internal Revenue Code Section 409A transition rules, participants in the non-qualified deferred compensation plans were provided with the ability to make an election to change the method of distribution of their accounts. Mr. Schmidt and Ms. Vanderlinde each made an election in 2008 to change their account distribution method and instead received a full distribution of their account in July 2009. Following the distribution of each of these NEO's account, the remaining account balance for each NEO reflects the company matching contributions that may not be withdrawn until at least six months after an NEO terminates service with the company. Mr. Brown also made an election in 2008 to change his account distribution method and received a partial distribution of his account in July 2009.

Director Compensation

In October, 2010, the Compensation Committee set the 2011 compensation for the outside Directors at an annual targeted economic value (annual retainer fee) of $200,000, with $75,000 to be in the form of cash and the remainder in the form of restricted stock, which is fully vested at the time of grant as required under the terms of the 2007 Long-Term Incentive Plan. The restricted stock is granted in a lump sum as soon as administratively practicable following the release of election results from the annual shareholder meeting which is held in April. The equity portion of the 2011 annual retainer fee was granted on May 3, 2011. Directors may elect to defer the time of release or payment and/or the form of payment of any shares of restricted stock by converting such stock to restricted stock units based on the stock s closing price on the date of grant; provided that, they make the election in the prior calendar year. The purpose of this allocation of compensation with the majority of the annual retainer fee payable in restricted stock is to more closely align the compensation of the Directors with the interests of long-term shareholders of the company. The 2011 annual retainer fee is at the median compensation of the boards of directors of the company s Peer Group for fiscal year 2010 (described in the Competitive Benchmarking section). A separate compensation arrangement has been established for the three Directors added to the Board in 2009 pursuant to the terms of the Investor Rights Agreement in connection with the company s transaction with BC Partners. Because of the company s equity held by BC Partners as a result of its securities purchase in 2009, and because the three additional representatives added to the Board are employed by BC Partners, the compensation of the BC Partner representatives for Board service is paid entirely in cash and paid to BC Partners directly instead of to the individuals. All cash paid to all of the Directors is payable in equal quarterly installments at the end of each quarter during which the Director served. No deferrals of cash are permitted.

The Audit Committee Chair receives additional compensation of $25,000 annually for serving in that role, the Lead Director and the Compensation Committee Chair each receive additional compensation of $20,000 annually for serving in their respective roles, and all other Committee Chairs each receive $15,000 annually for serving as chairs of their respective committees. The additional compensation for services as the Lead Director or as a committee chair must be taken in the form of restricted stock unless the Director elects to convert such restricted stock into restricted stock units under his or her annual election made in the prior year. By granting equity compensation to Directors using restricted stock, long-term interest of the Directors in the company is achieved without the additional risk that would be created if a stock option grant was used.

In connection with the search for a new CEO, the Board formed a Search Committee made up of Ms. Evans (Chair), Ms. Hart, Mr. Rubin and Mr. Austrian. The Search Committee members, with the exception of Mr. Austrian, received cash compensation as follows: Ms. Evans $25,000; Ms. Hart $15,000; and Mr. Rubin $15,000, which was paid to BC Partners.

In 2011, the Compensation Committee approved the continued use of the stock ownership guidelines for the Directors, which requires that all Directors, with the exception of the Directors representing BC Partners, own an amount of the company s stock equal to one times annual retainer fee (excluding chair retainer fees) to be achieved within three years from the initial date of Board service. In addition, the Compensation Committee approved a restriction on a Director s right to sell stock during the initial three year period prior to the Director satisfying the required ownership. The restriction requires that the Director retain 50% of net shares (after shares are disposed of to pay for taxes and acquisition). As of February 15, 2012, the current holdings for each Director is appropriate considering the current market value. Due to the current market value of the company s common stock, three of the seven directors who are subject to the stock ownership guidelines are not at the required ownership levels and one additional director who has not satisfied the required ownership level is within his three-year time frame for compliance.

Following his appointment as Interim Chair and CEO, Mr. Austrian stepped down as Lead Director and his service on all committees of the Board requiring director independence was suspended; but he continued to serve as a Director and a member of the Finance Committee. Mr. Austrian did not receive the cash compensation portion of the company s annual retainer fee for Directors for the period he served as Interim Chair and CEO; however, he was eligible to participate in the equity portion of the 2011 annual retainer fee. Following his election to serve as the permanent Chair and CEO on May 23, 2011, Mr. Austrian continues to serve as a Director but has not served as a member of any committee. However, he is allowed to attend any and all meetings of the Board s committees in his capacity as CEO. Mr. Austrian has not received any compensation for his service as a Director beginning May 23, 2011.

Director Legacy Program

A predecessor company, Viking Office Products, Inc., established a director legacy program in 1996. Under this program, any member of the Viking board of directors was permitted to nominate one or more charitable organizations to receive a future charitable contribution from Viking in the amount of $1,000,000. A portion of the gift is made at the time of the Director s retirement and the remainder is to be paid at the time of the Director s death. In order to fund these charitable gift payments, Viking took out a life insurance policy on each Director s life. In 1998, the company acquired Viking, and now the company is the owner and beneficiary of the policies. Director participants and their estates have no legal right to the policy or its proceeds. The company uses all of the proceeds of the life insurance policies to fund the charitable gifts designated by the Director participant. All of the premiums of the life insurance policies have been paid in full and no further premiums are required. There are no additional costs related to the maintenance of this program. After the 2011 Annual Meeting, Mr. Austrian was the only remaining participant in this program as he was the only remaining member of the Board who was a member of the board of directors of Viking. Mr. Ault, who retired from the Board effective as of the 2011 Annual Meeting, had also been a participant in this program.

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Director Compensation Table for Fiscal Year 2011

(a) Name	(b) Fees Earned or Paid in Cash ($)	(c) (1)(2)(3) Stock Awards ($)	(d) (4) Option Awards ($)	(e) Non-Equity Incentive Plan Compensation ($)	(f) Change in Pension Value and NQ Deferred Compensation Earnings ($)	(g) All Other Compensation Total Other	(h) (5) Total
Neil Austrian (6)		$ 125,000					$ 125,000
Lee Ault (7)	$ 18,750						$ 18,750
Justin Bateman	$ 200,000						$ 200,000
David Bernauer (7)	$ 18,750					$ 30,000 (8)	$ 48,750
Thomas Colligan	$ 75,000	$ 150,000					$ 225,000
Marsha Evans	$ 100,000	$ 145,000				$ 4,000 (8)	$ 249,000
David Fuente (7)	$ 41,576	$ 140,000				$ 57,690 (9)	$ 239,266
Brenda Gaines	$ 75,000	$ 125,000					$ 200,000
Myra Hart	$ 90,000	$ 125,000				$ 30,000 (8)	$ 245,000
Scott Hedrick	$ 75,000	$ 160,000				$ 20,000 (8)	$ 255,000
Kathleen Mason	$ 75,000	$ 125,000					$ 200,000
James Rubin	$ 215,000						$ 215,000
Raymond Svider	$ 200,000						$ 200,000

(1) The dollar amounts in column (c) reflect the aggregate grant date fair value of equity awards granted within the fiscal year in accordance with the FASB ASC Topic 718 for stock-based compensation. These amounts reflect the total grant date fair value for these awards, and do not correspond to the actual cash value that will be recognized by each of the Directors when received. See Note A of the consolidated financial statements in our Annual Report on regarding assumption underlying valuation of equity awards.

(2) The Equity Compensation Paid to Directors for Fiscal Year 2011 Table that follows represents the aggregate grant date fair value of awards of restricted stock granted to our Directors under the company s 2007 LTIP in 2011. Annual awards are calculated by a dollar value that is then translated into restricted stock based on the closing stock price on the date of grant. The per share price of the restricted stock on the grant date of May 3, 2011 was $4.27. All restricted stock awards made to Directors were immediately vested.

(3) As of December 31, 2011, there were no outstanding shares of restricted stock held by any Directors other than Mr. Austrian who holds restricted shares in his capacity as Chair and CEO, and accordingly it is reported in the Grants of Plan Based Awards in Fiscal Year 2011 table. Beginning in 2007, all annual grants of equity to the Directors fully vest at the grant date. As of December 31, 2011, the following Directors held the following number of restricted stock units based on our common stock: Marsha Evans 59,439, Myra Hart 44,499, Scott Hedrick 52,696 and Thomas Colligan 35,129. Please see the table Equity Compensation Paid to Directors for Fiscal Year 2011 that follows for all equity granted in 2011.

(4) As of December 31, 2011, the following Directors held options to purchase the following number of shares of our common stock: Thomas Colligan 0, Marsha Evans 19,368, Brenda Gaines 116,310, Myra Hart 106,625, Scott Hedrick 71,402, and Kathleen Mason 56,013.

(5) Except for the Directors who are representatives of BC Partners, the Directors receive annual compensation of: (a) $75,000 in cash, and (b) the remainder of the annual retainer fee and chair fees, if applicable, in restricted stock as discussed further in the Director Compensation section. The BC Partners Directors received their 2011 compensation entirely in cash. In connection with the search for a new CEO, the Board formed a Search Committee made up of Ms. Evans (Chair), Ms. Hart, Mr. Rubin and Mr. Austrian. The Search

Committee members, with the exception of Mr. Austrian, received cash compensation as follows: Ms. Evans $25,000; Ms. Hart $15,000; and Mr. Rubin $15,000, which was paid to BC Partners. These amounts are included in column (b).

(6) Following his appointment as Interim Chair and CEO, Mr. Austrian stepped down as Lead Director and his service on all committees of the Board requiring director independence was suspended; however, he continued to serve as a Director and a member of the Finance Committee. Mr. Austrian did not receive the cash compensation portion of the company s annual retainer fee for Directors for the period he served as Interim Chair and CEO; however, he was eligible to participate in the equity portion of the 2011 annual retainer fee in May 2011. Since Mr. Austrian s annual equity grant for 2011 vested immediately upon its grant on May 3, 2011 following his re-election to the Board, he received the full amount of his 2011 equity compensation grant rather than a pro rata portion. Following his appointment as the Chair and CEO on May 23, 2011, Mr. Austrian continues to serve as a Director but has not served as a member of any committee. Mr. Austrian has not received any cash or equity compensation for his service as a Director since his appointment as Chair and CEO on May 23, 2011. The compensation received by Mr. Austrian as an NEO of the company is shown in the Summary Compensation Table and the Other Compensation Table for Fiscal Year 2011.

(7) Mssrs. Bernauer, Ault and Fuente are no longer Directors of the company. Mr. Bernauer and Mr. Ault each served through to the 2011 Annual Meeting on April 21, 2011 and did not seek re-election to the Board for the following year. Mr. Fuente resigned from the Board effective July 20, 2011.

(8) All Other Compensation includes the incremental cost to the company of charitable matching contributions made by the company on behalf of the Directors in the amount of $30,000 each for Mr. Bernauer and Ms. Hart, $4,000 for Ms. Evans, and $20,000 for Mr. Hedrick.

(9) All Other Compensation also includes for Mr. Fuente the cost of participating in our Executive Medical Plan ($57,690). Mr. Fuente is entitled to these benefits pursuant to the residual terms of the employment agreement that the company had with Mr. Fuente when he was the CEO of Office Depot. Mr. Fuente served as CEO of Office Depot from 1987 to 2000.

Equity Compensation Paid to Directors for Fiscal Year 2011

(a)	(b)	(c)	(d) (1)	(e)	(f) (1)	(g)
Directors	**Grant Date**	**Option Awards**	**Grant Date Fair Value of Option Awards**	**Stock Awards**	**Grant Date Fair Value of Stock Awards**	**Total Value of Equity Awards for 2011**
Neil Austrian (2)	5/3/11			29,274	$ 125,000	$ 125,000
Thomas Colligan	5/3/11			35,129	$ 150,000	$ 150,000
Marsha Evans	5/3/11			33,958	$ 145,000	$ 145,000
David Fuente	5/3/11			32,787	$ 140,000	$ 140,000
Brenda Gaines	5/3/11			29,274	$ 125,000	$ 125,000
Myra Hart	5/3/11			29,274	$ 125,000	$ 125,000
Scott Hedrick	5/3/11			37,471	$ 160,000	$ 160,000
Kathleen Mason	5/3/11			29,274	$ 125,000	$ 125,000

(1) Amounts are determined using the fair market value of the company s common stock on the grant date. See footnote 2 in the previous Director Compensation Table for Fiscal Year 2011 for additional information.

(2) In addition to the equity awards reflected in this table which he received in his capacity as a director, Mr. Austrian also received equity awards in 2011 when he was appointed as Chair and CEO, which are included in the Grants of Plan-Based Awards in Fiscal Year 2011 Table.

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SUMMARY OF EXECUTIVE AGREEMENTS AND POTENTIAL PAYMENTS

UPON TERMINATION OR CHANGE IN CONTROL

The company has entered into Employment Agreements, Offer Letters, Retention Agreements and Change in Control Agreements with the NEOs. Material items addressed in these agreements include the term of the arrangement (including renewal provisions), the elements of the executive s compensation, the amounts and benefits payable on various termination events (including a change in control of the company) and restrictions relating to non-competition, non-solicitation and confidentiality of information imposed on the executive management, all of which are described in more detail below.

Key Definitions

Cause. The following actions constitute cause for all respective agreements described in this section. Differences reflect various combinations of the time at which agreements were reached, the level of the position and/or market conditions at the time of the initial hire:

Actions that Constitute Cause	**Neil Austrian**	**Michael Newman(2)(3)**	**Kevin Peters(2)**	**Steven Schmidt(2)**	**Elisa D. Garcia(2)**	**Charles Brown (Former President, International Division)(2)**	**Daisy Vanderlinde (Former Executive Vice President, Human Resources)(2)**
Willful engagement in illegal conduct or gross misconduct which is materially and demonstrably injurious to the company						X(4)	
Engagement in illegal conduct or gross misconduct in violation of the company s Code of Ethical Behavior	X(6)	X	X	X	X(2)(8)	X(2)	X(2)
Conviction of a felony or willful malfeasance or gross negligence in discharging executive s duties, resulting in material harm to the company	X(1)(5)						
Willful and material violation of a material provision of the company s written policies, including the company s Code of Ethical Behavior							X(7)
Willful and continued failure to perform substantially executive s duties (other than from incapacity due to physical or mental illness), after written demand for substantial performance by the Board					X(8)		
Willful and continued failure to perform substantially executive s duties (other than from incapacity due to physical or mental illness), after written demand for substantial performance by the CEO					X(8)	X(4)	
	X(6)	X	X	X	X(2)	X(2)	X(2)

Continued failure to perform substantially executive s duties, after written demand for substantial performance

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(1) As set forth in the Interim Letter Agreement for Neil Austrian dated November 2, 2010.

(2) As set forth in the Change in Control Agreement dated in December, 2010.

(3) As set forth in the Retention Agreement for Michael Newman dated November 4, 2010.

(4) As set forth in the Executive Employment Agreement for Charles Brown as amended and restated effective December 31, 2008 and subsequently amended April 26, 2010.

(5) As set forth in the new Letter Agreement for Neil Austrian dated May 23, 2011, these actions are defined as good cause.

(6) As set forth in the Change in Control Agreement for Neil Austrian dated May 23, 2011.

(7) As set forth in the employment letter agreement for Daisy Vanderlinde dated September 8, 2005 as amended effective December 31, 2008.

(8) As set forth in the Retention Agreement for Elisa D. Garcia dated November 2, 2010.

***Good Reason*.** The following actions constitute good reason for all respective agreements described in this section. Differences reflect various combinations of the time at which agreements were reached, the level of the position and/or market conditions at the time of the initial hire:

Actions that Constitute Good Reason	Neil Austrian(1)	Michael Newman(2)	Kevin Peters(2)	Steven Schmidt(2)	Elisa D. Garcia(2)	Charles Brown (Former President, International Division)	Daisy Vanderlinde(2) (Former Executive Vice President, Human Resources)
Assignment of duties inconsistent with executive s position, authority, duties or responsibilities or any other action by the company that diminishes executive s position, authority, duties or responsibilities						X(3)	
Failure by the company to comply with the compensation and benefit provisions of the agreement						X(3)	
Requirement that executive be based at any location not within vicinity of the company s headquarters						X(3)	
Purported termination of executive s employment other than as expressly permitted by the agreement						X(3)	

Material diminution of executive s authorities, duties or responsibilities	X(4)	X	X	X	X	X(2)	X
Material failure by the company to comply with the compensation and benefit provisions in the agreement	X(4)	X	X	X	X	X(2)	X
Material change in the office or location at which executive is based or requiring executive to travel on company business to a substantially greater extent than required immediately prior to the change in control effective date	X(4)	X	X	X	X	X(2)	X
Material failure by the company to require the company s successor to assume and perform the agreement	X(4)	X	X	X	X	X(2)	X

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(1) The Interim Letter Agreement for Neil Austrian dated November 2, 2010 and the new Letter Agreement for Neil Austrian dated May 23, 2011 do not include a reference to Good Reason.

(2) As set forth in the Change in Control Agreement dated in December, 2010.

(3) As set forth in the Executive Employment Agreement for Charles Brown as amended and restated effective December 31, 2008 and subsequently amended April 26, 2010.

(4) As set forth in the Change in Control Agreement for Neil Austrian dated May 23, 2011

Change in Control. The following conditions constitute a change in control for all respective agreements described in this section. Differences reflect various combinations of the time at which agreements were reached, the level of the position and/or market conditions at the time of the initial hire:

Actions that Constitute Change in Control	Neil Austrian(1)(4)	Michael Newman(2)(3)	Kevin Peters(2)(3)	Steven Schmidt(2)(3)	Elisa D. Garcia (3)	Charles Brown(2)(3) (Former President, International Division)	Daisy Vanderlinde(3) (Former Executive Vice President, Human Resources)
If any person or group (other than an exempt person) becomes the beneficial owner of 30% or more of the combined voting power of the outstanding securities of the company without the approval of the company s Board of Directors (2)	X	X	X	X	X	X	X
If any person (other than an exempt person) is or becomes the beneficial owner of greater than 50% of the combined voting power of the outstanding securities of the company	X	X	X	X	X	X	X
If during any period of two consecutive years, individuals who were directors at the beginning of the period and any new directors whose election by the Board or nomination for election by the shareholders was approved by at least two-thirds of the directors then still in office cease for any reason to constitute a majority of the Board	X	X	X	X	X	X	X
Upon consummation of a merger or consolidation of the Company with	X	X	X	X	X	X	X

any other corporation (subject to
certain exceptions)

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Actions that Constitute Change in Control	Neil Austrian(1)(4)	Michael Newman(2)(3)	Kevin Peters(2)(3)	Steven Schmidt(2)(3)	Elisa D. Garcia (3)	Charles Brown(2)(3) (Former President, International Division)	Daisy Vanderlinde(3) (Former Executive Vice President, Human Resources)
Upon a sale or disposition by the Company of all or substantially all of the company s assets, other than a sale to an exempt person	X	X	X	X			