

OFFICE DEPOT INC
Form 10-K
February 20, 2013
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-K

(Mark One)

**Annual Report Pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934
For the fiscal year ended December 29, 2012**

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
(State or other jurisdiction of
incorporation or organization)
6600 North Military Trail, Boca Raton, Florida
(Address of principal executive offices)

59-2663954
(I.R.S. Employer

Identification No.)

33496
(Zip Code)

(561) 438-4800

(Registrant's telephone number, including area code)

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

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Title of each class
Common Stock, par value \$0.01 per share

Name of each exchange on which registered
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 " Accelerated filer x Non-accelerated filer " Smaller reporting company "
(Do not check if a 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 30, 2012 (based on the closing market price on the Composite Tape on June 29, 2012) was approximately \$608,746,476 (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 January 26, 2013, there were 285,522,659 outstanding shares of Office Depot, Inc. Common Stock, \$0.01 par value.

Documents Incorporated by Reference:

Certain information required for Part III of this Annual Report on Form 10-K is incorporated by reference to the Office Depot, Inc. definitive Proxy Statement for its 2013 Annual Meeting of Shareholders, which shall be filed with the Securities and Exchange Commission pursuant to Regulation 14A of the Securities Act of 1934, as amended, within 120 days of Office Depot, Inc.'s fiscal year end.

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PART I

Item 1. Business.

Office Depot, Inc. (Office Depot) is a global supplier of office products and services. Office Depot was incorporated in Delaware in 1986 with the opening of its first retail store in Fort Lauderdale, Florida. In fiscal year 2012, Office Depot sold \$10.7 billion of products and services to consumers and businesses of all sizes through three business segments (or Divisions): 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 a network of supply chain facilities and delivery operations.

In this Annual Report on Form 10-K (Annual Report), unless the context otherwise requires, the Company , Office Depot , we , us , and our refers to Office Depot, Inc. and subsidiaries.

Additional information regarding our Divisions is presented below in Part II Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) and in Note O of the Consolidated Financial Statements located in Part IV Item 15. Exhibits and Financial Statement Schedules of this Annual Report. We are currently evaluating changes to the measurement of Division operating income in our management reporting. Under this consideration, which may be implemented in 2013, a significant amount of costs currently managed at the corporate level could be allocated to the Divisions and certain allocation methodologies updated. When the analysis is complete, prior period reported information may be recast for comparison, using updated allocations to prior periods where appropriate. For financial information regarding operations in geographic areas, refer to Note O in the Consolidated Financial Statements located in Part IV Item 15. Exhibits and Financial Statement Schedules of this Annual Report.

North American Retail Division

The 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. Our stores also contain a Copy & Print Depot™ offering printing, reproduction, mailing, shipping, and other services and we maintain nationwide availability of personal computer (PC) support and network installation service that provides our customers with in-home, in-office and in-store support for their technology needs. Refer to the Merchandising section below for additional product information.

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.

The majority of our retail stores are located in leased facilities that currently average over 20,000 square feet. During 2012, we committed to significant changes to our store portfolio. Over the next five years, we expect to downsize approximately 500 stores to either small (averaging 5,900 sales square feet) or mid-size format (averaging 14,800 sales square feet). Approximately 50 stores will be closed at the end of their lease terms. These plans may change based on market conditions. As of December 29, 2012, we had 79 locations in the small (31) and mid-size (48) store formats. Refer to Part II Item 7. MD&A for additional information on the North American Retail Division retail strategy.

At the end of 2012, the North American Retail Division operated 1,112 office supply stores throughout the United States. We have a broad representation across North America with the largest concentration of our retail stores in Texas, Florida and California. The count of open stores may include locations temporarily closed for remodels or other factors.

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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
2010	1,152	17	22	1,147	6
2011	1,147	9	25	1,131	15
2012	1,131	4	23	1,112	28

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

Sales and marketing efforts are integral to understanding the Divisions processes and management. These efforts are addressed after the Divisions discussions.

North American Business Solutions Division

The North American Business Solutions Division sells nationally branded and our own brands office supplies, technology products, cleaning and breakroom supplies, furniture, certain services, and other solutions. Office Depot customers are served by 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. Refer to the Merchandising section below for additional product information.

Our contract sales channel 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 our dedicated web sites and 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 selected 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. Part of our contract business is with various schools, local, state and national governmental agencies. We also enter into agreements with consortiums to sell to governmental and non-profit entities for non-exclusive buying arrangements. Sales to our contract customers that are fulfilled at retail locations are included in the results of our North American Retail Division.

Our direct sales channel is tailored to serve small- to medium-sized customers. 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 are also 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 primarily fulfilled through our North American supply chain from DCs throughout the U.S. and occasionally through wholesalers.

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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 three crossdock facilities in 2010 and one in 2011. The crossdock function in the markets where crossdocks were closed has been transitioned to the existing DCs within the same markets. 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.

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

	Open at Beginning of Period	Opened/ Acquired	Closed	Open at End of Period
2010	15	1	3	13
2011	13			13
2012	13			13

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

	Open at Beginning of Period	Opened	Closed	Open at End of Period
2010	6		3	3
2011	3		1	2
2012	2			2

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 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.

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

International Division

As of December 29, 2012, Office Depot sold to customers in 57 countries throughout Europe, Asia, Latin America, and Australia. Outside of North America, the Company operates wholly-owned entities, majority-owned entities or participates in other ventures covering 37 countries and has alliances in an additional 20 countries. Refer to the Merchandising section below for additional product information.

The 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. The Company maintains DCs and call centers throughout Europe and Asia to support these operations. Currently, we have catalog offerings in 15 countries outside of North America and operate more than 40 separate public web sites in the International Division. As of December 29, 2012, the International Division operated, through wholly-owned or majority-owned entities, 123 retail stores in France, South Korea and Sweden. In addition, we participate under licensing and merchandise arrangements in South Korea, Israel, Japan, Dominican Republic and the Middle East. During 2010, we sold the 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.

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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 248 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. Since we participate equally in this business with a partner, we account for the activity under the equity method and venture sales of approximately \$1.1 billion in 2012 are neither reflected in our revenues nor in our consolidated retail comparable store statistics. Our portion of joint venture results is included in Miscellaneous income, net in the Consolidated Statements of Operations.

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

The International Division has separate regional headquarters for Europe in The Netherlands and for Asia in Hong Kong.

International Division store and DC operations are summarized below:

	Office Supply Stores			
	Open at Beginning of Period	Opened/ Acquired	Closed/ Changed Designation	Open at End of Period
Company-Owned Stores	137	7	47 ⁽¹⁾	97
Operated by Joint Ventures	195	21	1	215
Franchise and Licensing Arrangements	100	53 ⁽¹⁾	10	143
Total stores 2010	432	81	58	455
Company-Owned Stores	97	43 ⁽²⁾	9	131
Operated by Joint Ventures	215	18	1	232
Franchise and Licensing Arrangements	143	45	5	183
Total stores 2011	455	106	15	546
Company-Owned Stores	131	4	12	123
Operated by Joint Ventures	232	16		248
Franchise and Licensing Arrangements	183	7	44⁽³⁾	146
Total stores 2012	546	27	56	517

⁽¹⁾ 45 of these stores relate to Office Depot Israel which were changed to a licensing agreement.

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

⁽³⁾ 38 of these stores relate to the termination of the Thailand license agreement.

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	Open at Beginning of Period	Distribution Centers		Open at End of Period
		Opened/ Acquired	Closed/ Deconsolidated	
2010	39	1	14 ⁽⁴⁾	26
2011	26	1		27
2012	27	1	5	23

⁽⁴⁾ 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 brands 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®.

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, tablets, printers, cables, software, digital cameras, telephones, and wireless communications products. The furniture and other category includes products such as desks, chairs, and luggage, sales in our copy and print centers, and other miscellaneous items.

Total Company sales by product group were as follows:

	2012	2011	2010
Supplies	65.5%	65.1%	65.2%
Technology	20.9%	21.9%	22.4%
Furniture and other	13.6%	13.0%	12.4%
	100.0%	100.0%	100.0%

We buy substantially all of our merchandise directly from manufacturers and other primary suppliers, including direct sourcing of our own brands 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, refer to Critical Accounting Policies in Part II Item 7. 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 allow us to better manage 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 brands 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.

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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 that our everyday pricing is 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. No single customer in any of our Divisions accounts for more than 10% of our total sales or accounts receivable.

Our business is 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 DepotTM offering printing, reproduction, mailing, shipping, and other services. This includes XeroxTM 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 and certain retail locations.

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 held 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 Divisions. 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, Internet-based companies, food and drug stores, computer and electronics superstores 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 United States. We anticipate that in the future we will continue to face increased competition from these companies.

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Internationally, we compete on a similar basis to North America. Outside of the United States, we sell through contract and catalog channels in 16 countries and operate retail stores, and in three of these countries we also sell 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 26, 2013, we had approximately 38,000 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 United States Green Building Council in December 2008. In 2010, the United States Green Building Council 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.

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

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Our Executive Officers

Neil R. Austrian Age 73

Mr. Austrian has been Chairman and Chief Executive Officer since May 23, 2011 and he previously acted as Interim Chairman and Chief Executive Officer beginning 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 s