OFFICE DEPOT INC
Form 10-K
February 23, 2016
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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 26, 2015

Or

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

Commission file number 1-10948

Office Depot, Inc.

(Exact name of registrant as specified in its charter)

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

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 27, 2015 (based on the closing market price on the Composite Tape on June 26, 2015) was approximately $4,829,125,471 (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 23, 2016, there were 548,986,561 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 2016 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

Forward-Looking Statements

This Annual Report on Form 10-K (Annual Report) contains forward-looking statements, within the meaning of the Private Securities Litigation Reform Act of 1995 (the Reform Act), that involve risks and uncertainties. These forward-looking statements include both historical information and other information that can be used to infer future performance. Examples of historical information include annual financial statements and the commentary on past performance contained in Part II Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A). While certain information has specifically been identified 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 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 infor 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.

Much of the information in this Annual Report that looks towards future performance of Office Depot, Inc. and its subsidiaries 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 this Annual Report. Significant factors that could impact our future results are provided in Part I Item 1A. Risk Factors included in this Annual Report. 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.

In this Annual Report, unless the context otherwise requires, the Company , Office Depot , we , us , and our refer to Office Depot, Inc. and its subsidiaries.

Item 1. Business

Staples Acquisition

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

The transaction has been approved by both companies Boards of Directors and Office Depot shareholders. The completion of the Staples Acquisition is subject to customary closing conditions including, among others, regulatory approvals under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and under

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the antitrust and competition laws of the European Union and Canada. The Company and Staples have received antitrust clearance for the transaction from regulators in Australia, New Zealand and China.

On December 7, 2015, the United States Federal Trade Commission (the FTC) informed Office Depot and Staples that it intends to block the Staples Acquisition. On the same date, Office Depot and Staples announced their intent to contest the FTC s decision to challenge the transaction. Also on December 7, 2015, the Canadian Competition Bureau filed an application to block the transaction with the Canadian Competition Tribunal. On February 2, 2016, the Company and Staples entered into a letter agreement to waive, until May 16, 2016, certain of their respective rights to terminate the Staples Merger Agreement.

On February 10, 2016, Staples announced that it has received conditional approval from European Union regulatory authorities to acquire Office Depot and the parties plan to divest Office Depot s European businesses in connection with the consummation of the pending acquisition of Office Depot by Staples.

On February 16, 2016, Staples announced an agreement to sell more than $550 million in large corporate contract business and related assets for $22.5 million, contingent upon successful completion of the Staples Acquisition.

Refer to the Company s Current Report on Form 8-K filed with the SEC on February 4, 2015 (the Staples Merger Form 8-K) for additional information on the transaction. For further information on expenses incurred in 2015 related to the Staples Acquisition, refer to Part II Item 7. MD&A of this Annual Report.

Merger and Integration

On November 5, 2013, the Company completed its merger with OfficeMax Incorporated (OfficeMax) in an all-stock transaction (the Merger). Since the Merger date, OfficeMax s financial results have been included in our Consolidated Financial Statements, as discussed herein.

From the Merger date through the end of 2015, significant progress has been made on key integration activities, including the implementation of the Company s real estate strategy (the Real Estate Strategy) which identified at least 400 retail stores for closure through 2016 along with planned changes to the supply chain. In the United States, we closed 168 and 181 retail stores in 2014 and 2015, respectively, converted all stores to common point of sale systems, completed certain warehouse cross-banner consolidations and platform modifications, successfully launched the co-branded website (www.officedepot.com), combined operating support functions, transitioned certain customers from the OfficeMax to the Office Depot platform, and made significant progress on identifying customer preferences and developing methods to service their needs. Integration activities will continue in 2016 and certain supply chain activities are currently anticipated to be substantially completed by the end of 2017.

The remaining discussion of the Business section in this Annual Report addresses the way the Company operates currently; however, the integration will continue to impact many of these processes in future periods.

The Company

Office Depot is a global provider 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.

The Company sells products and services to consumers and businesses of all sizes through three reportable segments (or Divisions): North American Retail Division, North American Business Solutions Division and International Division. Sales for these Divisions are processed through multiple channels, consisting of office supply stores, a contract sales force, Internet sites, an outbound telephone account management sales force, direct marketing catalogs and call centers, all supported by a network of supply chain facilities and delivery operations. Office Depot currently operates under the Office Depot® and OfficeMax® brands and utilizes other proprietary company and product brand names.

Additional information regarding our Divisions and operations in geographic areas is presented below in Part II Item 7. MD&A and in Note 17, Segment Information, of the Consolidated Financial Statements located in Part IV Item 15. Exhibits and Financial Statement Schedules of this Annual Report.

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The Company s primary website is www.officedepot.com. The Company s primary brands are discussed in the Intellectual Property section below.

Fiscal Year

Our fiscal year results are based on a 52- or 53-week retail calendar ending on the last Saturday in December. Fiscal years 2015, 2014, and 2013 consisted of 52 weeks and ended on December 26, 2015, December 27, 2014, and December 28, 2013, respectively. Fiscal year 2016 will have 53 weeks. The Company s business in Canada, which has been included in the Company s results since the date of the Merger maintains calendar years with December 31 year-ends. The difference in reporting periods does not have a significant impact on the Company s reported results.

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, including Puerto Rico and the U.S. Virgin Islands. We currently offer products and services in the following categories: supplies, technology, and furniture and other. Refer to the Merchandising section below for additional product information. Most retail stores also offer copy and print services, as discussed in the Copy & Print Depot™ section below.

At the end of 2015, the North American Retail Division operated 1,564 office supply stores. The count of open stores may include locations temporarily closed for remodels or other factors. We have a broad representation across North America with the largest concentration of our retail stores in Texas, Florida, and California. The majority of our retail stores are located in leased facilities that currently average over 20,000 square feet.

As part of the integration of the Office Depot and OfficeMax stores, we have made significant progress in our Real Estate Strategy, which anticipates the closure of at least 400 stores in North America through 2016. We closed 168 stores in 2014, 181 in 2015, and expect to close more than 50 stores in 2016. Closures include both Office Depot and OfficeMax locations. Implementation of this strategy results in charges for facility closures, termination costs, and asset impairments. Refer to Part II Item 7. MD&A for additional information on the store activity.

The retail stores operate under their legacy banners of Office Depot or OfficeMax, though systems, processes and offerings continue to converge. In 2015, the Company combined the previously existing separate Office Depot and OfficeMax loyalty programs, completed the conversion of all U.S. stores to a common point of sale system and harmonized product offerings.

The Company has embraced an omni-channel focus, including an expanded Buy Online-Pickup in Store offering to reach mobile customers however they choose to shop. Sales fulfilled with store merchandise are included in North America Retail Division results, including the computation of comparable store sales.

Refer to the North American Supply Chain discussion below for additional information on our supply chain network.

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 products and services to customers in Canada and the United States, including Puerto Rico, and the U.S. Virgin Islands. Office Depot customers are served by a dedicated sales force, through catalogs, telesales, and electronically through our Internet sites. Refer to the Merchandising section below for additional product information. The North American Business Solutions Division also offers copy and print services, as discussed in the Copy & Print Depot™ section below.

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Our contract sales channel employs a dedicated inside and field sales force that services the office supply needs to a range of small, medium and large-sized businesses. Our contract business customers also include various schools and local, state and national governmental agencies. We also enter into agreements with consortiums to sell to various entities and across industries, including 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, while honoring their contract pricing, as applicable.

Our direct sales channel primarily serves small- to medium-sized customers. Direct customers can order products through our public websites, from our catalogs, or by phone. Website functionality provides customers the convenience of using the loyalty program and offers suggestions by product ratings, pricing, and brand, among other features. Customer orders are fulfilled through our common supply chain; refer to the North American Supply Chain discussion below for additional information on our supply chain network.

Copy & Print Depot™

Office Depot Copy & Print Depot™ provides printing, digital imaging, reproduction, mailing, shipping through UPS, FedEx, and the U.S. Postal Service, and other services. We also 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. Sales are recognized by the respective Division based on how the customer order is serviced.

North American Supply Chain

We operate a network of distribution centers (or DCs) and crossdock facilities across the United States, Puerto Rico, and Canada. Certain of our DCs operate as flow-through facilities where merchandise is sorted for distribution and shipped to fulfill the inventory needs of our retail stores and customers. Some DCs in the OfficeMax network are larger facilities primarily serving the retail business. The crossdocks in the OfficeMax network are smaller buildings where customer orders are sorted and loaded onto private fleet trucks for last mile delivery. The DC and crossdock facilities costs, including real estate, technology, labor and inventory, are allocated to the North American Retail Division and North American Business Solutions Division based on the relative services provided.

Through the end of 2015, the integration of the companies has resulted in the closure of 8 DCs and crossdock facilities. In the next two years, we expect to integrate additional supply chain facilities by changing the warehouse inventory management system and expanding capacity to service both Office Depot and OfficeMax banner customers, create or repurpose some locations, and close some locations.

Inventory is held in our DCs at levels we believe sufficient to meet current and anticipated customer needs. Certain purchases are sent directly from the manufacturer to our customers or retail stores. Some supply chain facilities and some retail locations also house sales offices, showrooms, and administrative offices supporting our contract sales channel.

As of December 26, 2015, we operated 45 DC and crossdock facilities in the United States and Canada. Refer to Item 2. Properties for further information.

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

International Division

In recent years, the International Division has undergone significant restructuring activities, including disposing of assets and streamlining processes, primarily in Europe. In 2015, the Company substantially completed the European restructuring plan to realign the organization from a geographic-focus to a business channel-focus (the European Restructuring Plan). The restructuring plan includes the creation of centralized and standardized processes that operate across Europe. These activities have helped to lower operating expenses. Refer to Part II Item 7. MD&A for further details on this plan.

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The International Division sells office products and services through direct mail catalogs, contract sales forces, Internet sites, retail stores, and to a lesser extent, through licensing, franchising, alliances and other arrangements. We also offer copy and print services to our customers in Europe through our e-commerce business and certain retail locations. Refer to the Merchandising section below for additional product information.

As of December 26, 2015, the International Division sold to customers in 57 countries throughout Europe, Asia/Pacific, and Latin America, including wholly-owned operations in 17 countries and through licensing and franchise agreements, cross-border transactions, alliances and other arrangements in an additional 40 countries. Sales through delivery channels, including contract, call centers and the Internet are throughout the Division. Retail operations consisted of 147 stores in France, South Korea, Sweden, New Zealand, and Australia and participation under licensing and merchandise arrangements in certain countries in Latin America, Europe, and Asia.

The Company maintains DCs and call centers throughout Europe and Asia/Pacific to support these operations. Refer to Part I Item 2. Properties for additional information on the International Division stores and DCs count and Part II Item 7. MD&A for stores activity.

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

Merchandising

Our merchandising strategy is to meet our customers needs by offering a broad selection of country and regional branded office products, as well as our own branded products and services. The selection of our own branded products has increased in breadth and level of sophistication over time. We currently offer products under various labels, including Office Depot®, OfficeMax®, Foray®, Ativa®, TUL®, Realspace®, WorkPro®, Brenton Studio®, Highmark®, Grand & Toy® and Viking Office Products®.

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, cleaning and breakroom items, and school supplies. The technology category includes products such as desktop and laptop computers, monitors, tablets, printers, ink and toner, cables, software, digital cameras, telephones, and wireless communications products, as well as services for technology products. The furniture and other category includes products such as desks, chairs, luggage, sales in our copy and print centers, and other miscellaneous items.

Total Company sales by product group were as follows:

	2015	2014	2013*
Supplies	**47.6%**	47.2%	46.6%
Technology	**37.3%**	38.0%	40.6%
Furniture and other	**15.1%**	14.8%	12.8%
	100.0%	100.0%	100.0%

* Amounts include the OfficeMax sales since November 5, 2013.

We buy substantially all of our merchandise directly from manufacturers, industry wholesalers, 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/Pacific. 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 a converged global sourcing office in Shenzhen, China, which allows us to better manage our product sourcing, logistics and quality assurance. This office consolidates our purchasing power with Asian factories and, in turn, helps us to increase the scope of our own branded offerings.

Sales and Marketing

As part of bringing Office Depot and OfficeMax together and setting a foundation for growth, the Company has invested significant effort to identify our customers needs, understand their preferences and develop strategies to meet their needs. This includes assessing consumer shopping needs and behaviors which will help refine our strategy to identify and offer desired product assortment, shopping environment and purchasing methods. This effort will help shape our business in future periods and may impact store and website design, product offerings and placement, promotional activity and customer contact methods. Identifying the most desirable and effective way to reach our customers and allowing them to shop through whichever channel they prefer will continue to be a priority in the future.

Our marketing programs are designed to attract and retain customers, drive frequency of customer visits, and increase customers spend in our stores and websites. 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. Our North American marketing programs are prepared on a combined banner basis.

In early 2015, we combined the previously existing separate Office Depot and OfficeMax loyalty programs. Our customer loyalty program provides customers with rewards that can be applied to future purchases or other incentives. These programs enable us to market more effectively to our customers. Loyalty 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 further our competitive positioning. We generally target our everyday pricing to be 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.

With the exception of online purchases placed or fulfilled in our retail locations, online sales activities are reported in the North American Business Solutions or International Divisions, as appropriate.

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Intellectual Property

We currently operate under the Office Depot® and OfficeMax® brand names. We hold trademark registrations domestically and worldwide and have numerous other applications pending worldwide for the names Office Depot , Viking , Ativa , Foray , Realspace , OfficeMax , TUL , Brenton Studio , Highmark and others. 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. We also hold issued patents and pending patent applications domestically and internationally for certain private brand products, such as shredders, binders, and writing instruments.

Industry and Competition

We operate in a highly competitive environment in all three Divisions. 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 compete with us in substantially all of our current markets. Increased competition in the office products markets, together with increased advertising, and Internet-based search tools, has heightened price awareness among end-users. Such heightened price awareness has led to margin pressure on office products and impacted our results. In addition to price, competition is also based on customer service, the quality and breadth of product selection and convenience. 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. Some of our competitors are larger than us and have greater financial resources, which affords them greater purchasing power, increased financial flexibility and more capital resources for expansion and improvement, which may enable them to compete more effectively. We anticipate that in the future we will continue to face competition from these companies.

We believe our customer service and the efficiency and convenience for our customers from our combined contract and retail distribution channels help our North American Business Solutions Division to compete with other business-to-business office products distributors.

We believe our North American Retail Division segment competes based on the quality of our customer service, our store formats, the breadth and depth of our merchandise offering and our pricing.

Internationally, we compete on a similar basis to North America. Our wholly-owned entities in the International Division sell through contract and catalog channels and operate retail stores in 17 countries. Additionally, our International Division provides office products and services in another 40 countries through licensing and franchise agreements, cross-border transactions, alliances and other arrangements.

Employees

As of January 23, 2016, we had approximately 49,000 employees worldwide. In certain international locations, changes in staffing or work arrangements may need approval of local works councils or other bodies.

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Environmental Matters

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 and technology recycling services.

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. Operations in the US and internationally have been commended for our leadership position for our facility design, recycling efforts, and green product offerings. Additional information on our achievements and green product offerings can be found at www.officedepotcitizenship.com/planet/ and www.officedepot.com/buygreen.

We are subject to a variety of environmental laws and regulations related to historical OfficeMax operations of paper and forest products businesses and timberland assets. We record environmental and asbestos liabilities, and accrue losses associated with these obligations, when probable and reasonably estimable. We record a separate insurance recovery receivable when considered probable. Refer to Item 3. Legal Proceedings for additional information.

Available Information

We make available, free of charge, on the Investor Relations section of our website www.officedepot.com, 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 our bylaws; corporate governance guidelines; charters of the Audit, Compensation, Finance and Integration, and Corporate Governance and Nominating Committees; and code of ethical behavior may also be found under the Investor Relations section of our website.

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Our Executive Officers

Michael Allison Age: 58

Mr. Allison was appointed as our Executive Vice President and Chief People Officer in December 2013. From July 2011 until December 2013, Mr. Allison was our Executive Vice President, Human Resources. 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.

Mark Cosby Age: 57

Mr. Cosby was appointed as our President, North America in July 2014. From September 2011 to November 2013, Mr. Cosby served as the President, Pharmacy at CVS Caremark Corporation, where he was responsible for all aspects of the $65 billion retail business, including 7,600 retail stores, 19 distribution centers, retail merchandising, supply chain, marketing, real estate and store pharmacy operations. Prior to CVS, Mr. Cosby spent five years at Macy s, Inc., where he served in a number of executive roles, including President, Stores from April 2009 to August 2011. Prior to Macy s, Inc., Mr. Cosby served as President, Full-line Stores at Sears, Roebuck & Company and chief operating officer and chief development officer at YUM! Brands, Inc.

Elisa D. Garcia C. Age: 58

Ms. Garcia was appointed as our Executive Vice President, Chief Legal Officer and Corporate Secretary in December 2013. From July 2007 until December 2013, Ms. Garcia was our Executive Vice President, General Counsel and Corporate Secretary. Ms. Garcia is responsible for global legal and compliance matters, loss prevention, safety, and government 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 until May 2007. Prior to joining Domino s Pizza, Ms. Garcia served as Latin American Regional Counsel for Philip Morris International, and Corporate Counsel for GAF Corporation. Ms. Garcia currently serves as a director of Dollarama, Inc. a Canadian dollar store operator.

Stephen Hare Age: 62

Mr. Hare was appointed as our Executive Vice President and Chief Financial Officer in December 2013. Prior to joining the Company, Mr. Hare served as the Senior Vice President and Chief Financial Officer of The Wendy s Company, a restaurant owner, operator and franchisor, from July 2011 until September 2013. Mr. Hare also served as the Senior Vice President and Chief Financial Officer of Wendy s/Arby s Group, Inc., a position he held from October 2008 until July 2011. He also served as Chief Financial Officer of Arby s Restaurant Group, Inc., a restaurant owner, operator and franchisor (Arby s), from June 2006 until the sale of Arby s by The Wendy s Company in July 2011. Prior to joining The Wendy s Company, Mr. Hare served as an Executive Vice President of Cadmus Communications Corporation (Cadmus), a leading publisher of scientific, technical, medical, and scholarly journals, and as President of Publisher Services Group, a division of Cadmus, from January 2003 to June 2006, and as the Executive Vice President, Chief Financial Officer of Cadmus from September 2001 to January 2003. Mr. Hare currently serves as a director of Hanger, Inc., a provider of orthotic and prosthetic products and services that enhance human physical capability.

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Juliet Johansson Age: 46

Ms. Johansson was appointed as our Executive Vice President and Chief Strategy Officer in March 2014. From May 2012 to September 2013, Ms. Johansson served as Senior Vice President of the Global Commercial Business of Biomet 3i, a dental implant manufacturer. Prior to Biomet 3i, Ms. Johansson served as an Operating Advisor at The Blackstone Group from September 2010 to May 2012. Prior to the Blackstone Group, Ms. Johansson spent five years at Ryder, Inc., where she held a number of senior executive roles involving strategy, national sales and marketing, including Vice President Marketing from September 2005 to March 2008 and Vice President National Sales until March 2010. Prior to Ryder, Ms. Johansson was a consultant with McKinsey & Company for seven years.

Kim Moehler Age: 47

Ms. Moehler was appointed as our Senior Vice President and Controller in March 2012, and Senior Vice President, Finance and Chief Accounting Officer in December 2013. Ms. Moehler previously served as Senior Vice President, Finance North American Retail and North America Financial Planning & Analysis from February 2012 until March 2012, and as our Senior Vice President, Finance North American Retail from September 2006 through February 2012. From May 2000 through September 2006, Ms. Moehler served in director and vice president finance positions at the Company. Ms. Moehler joined Office Depot in February 1999 as Senior Manager, Budget & Finance Reporting. Before Office Depot, Ms. Moehler was employed with Advantica Corporation (owner of Denny s restaurants), leaving as the Director of Field Finance. Ms. Moehler is a licensed CPA.

Steven Schmidt Age: 61

Mr. Schmidt was appointed as our Executive Vice President and President of International in November 2011 after serving as our Executive Vice President, Corporate Strategy and New Business Development from July 2011 until November 2011, and as our President, North American Business Solutions from July 2007 until November 2011. 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.

Roland Smith Age 61

Mr. Smith was appointed as our Chairman and Chief Executive Officer in November 2013. Prior to joining Office Depot, Mr. Smith served as the President and Chief Executive Officer of Delhaize America, LLC, the U.S. division of Delhaize Group, and Executive Vice President of Delhaize Group, an international food retailer, from October 2012 to September 2013. Mr. Smith was a Special Advisor to The Wendy s Company, a restaurant owner, operator and franchisor, from September 2011 to December 2011, served as President and Chief Executive Officer from July 2011 to September 2011. Mr. Smith served as President and Chief Executive Officer of Wendy s/Arby s Group, Inc. and Chief Executive Officer of Wendy s International, Inc. from September 2008 to July 2011. Mr. Smith also served as Chief Executive Officer of Triarc Companies, Inc. from June 2007 to July 2011, and the Chief Executive Officer of Arby s Restaurant Group, Inc., a restaurant owner, operator and franchisor, from April 2006 to September 2008. Mr. Smith served as President and Chief Executive Officer of American Golf Corporation and National Golf Properties, an owner and operator of golf courses, from February 2003 to November 2005. He was President and Chief Executive Officer of AMF Bowling Worldwide, Inc., an owner and operator of bowling centers, from April 1999 until January 2003. Mr. Smith has been a director of Carmike Cinemas, Inc. s (Carmike) since June 2009, and currently serves as Chairman of the Board and Chairman of the Compensation and Nominating Committee and as a member of the Executive Committee of Carmike s board.

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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.

Risks Related to the Staples Acquisition

On February 4, 2015, we entered into the Staples Merger Agreement with Staples, a Delaware corporation and Staples AMS, Inc., a Delaware corporation and a wholly owned subsidiary of Staples (Merger Sub), providing for, among other things, that, upon the terms and subject to the conditions set forth therein, Merger Sub will merge with and into the Company, with the Company surviving as a wholly owned subsidiary of Staples. In connection with the proposed merger, we are subject to certain risks including, but not limited to, those set forth below.

For additional information related to the Staples Merger Agreement, please refer to the Staples Merger Form 8-K. The foregoing description of the Staples Merger Agreement is qualified in its entirety by reference to the full text of the Merger Agreement attached as Exhibit 2.1 to the Staples Merger Form 8-K.

The pendency of the Staples Acquisition could adversely affect our business, results of operations and financial condition.

The pendency of the Staples Acquisition of our company with Staples could continue to cause disruptions in and create uncertainty surrounding our business, including affecting our relationships with our existing and future customers, suppliers and employees, which could have an adverse effect on our business, results of operations and financial condition, regardless of whether the proposed Staples Acquisition is completed. In particular, we could potentially lose additional important personnel as a result of the departure of employees who decide to pursue other opportunities in light of the Staples Acquisition. We could also potentially lose additional customers or suppliers, and new customer or supplier contracts could be delayed or decreased. In addition, we have allocated, and will continue to allocate, significant management resources towards the completion of the transaction, which could adversely affect our business and results of operations.

We are subject to restrictions on the conduct of our business prior to the consummation of the Staples Acquisition as provided in the Staples Merger Agreement, including, among other things, certain restrictions on our ability to acquire other businesses, sell or transfer our assets, amend our organizational documents, issue stock, and incur indebtedness. These restrictions could result in our inability to respond effectively to competitive pressures, industry developments and future opportunities, retain key employees and may otherwise harm our business, results of operations and financial condition.

Failure to complete the proposed Staples Acquisition could adversely affect our business and the market price of our common stock.

There is no assurance that the closing of the Staples Acquisition will occur. Consummation of the Staples Acquisition is subject to certain conditions, including, among other things, the absence of laws or judgments prohibiting or enjoining the merger and the receipt of certain regulatory approvals. We cannot predict with certainty whether and when any of these conditions will be satisfied. In addition, the Staples Merger Agreement may be terminated under certain specified circumstances, including, but not limited to, a termination of the Staples Merger Agreement by us to enter into an agreement for a superior proposal . If the Staples Merger Agreement is terminated by us, we may be required to pay Staples a termination fee of $185 million. Our common stock price has been impacted by the pending Staples Acquisition. Our common stock price will likely continue to be impacted by the developments and outcome of the Staples Acquisition. We will have incurred

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significant costs, including, among other things, the diversion of management resources, for which we will have received little or no benefit if the closing of the Staples Acquisition does not occur. A failed transaction may result in negative publicity and a negative impression of us in the investment community. The occurrence of any of these events individually or in combination could have a material adverse effect on our results of operations and the market price of our common stock.

Risks Related to Our Business

Our ongoing business is subject to certain risks related to our merger with OfficeMax and restructuring activities.

We completed a merger with OfficeMax on November 5, 2013, pursuant to which OfficeMax became an indirect, wholly-owned subsidiary of our Company. The Merger involved the integration of two companies that previously operated independently with principal offices in two distinct locations. We have devoted, and will continue to devote, significant management attention and resources to integrating the companies. The combined company is expected to capture more than $750 million in synergy benefits when the integration is fully implemented. Additionally, in response to economic and competitive factors in our industry, we may, from time to time, undertake certain restructuring activities within our business divisions to improve our performance. In recent years, the International Division has undergone significant restructuring activities, including disposing of assets and streamlining processes, primarily in Europe in an effort to be more responsive to customer needs and further improve processes. In 2015, we substantially completed the European-wide restructuring plan to realign the business organization from a geographic focus to a business channel focus.

We may not be able to achieve the expected Merger synergies or restructuring benefits due to certain risks, among other things, risks that:

- the continued integration of the businesses of Office Depot and OfficeMax may take longer, be more difficult, time-consuming or costly to accomplish than expected;
- we may experience business disruption during periods of restructuring activities, including adverse effects on employee retention and loss of employee focus during periods of restructuring activities;
- we may be unable to avoid potential liabilities and unforeseen increased expenses or delays associated with the Merger integration or other restructuring activities, including in Europe;
- there may be unanticipated changes in the markets for the combined Company s business segments;
- branding or rebranding initiatives may involve substantial costs and may not be favorably received by customers;
- there may be unanticipated downturns in business relationships with customers;
- there may be competitive pressures on the combined Company s sales and pricing;
- we may be unable to close all of the stores targeted for closure or such store closures may not result in the benefits or cost savings at levels that we anticipate due to factors such as sales transfers to stores remaining open being below our projections and costs to close stores being higher than our projections, because of the terms of the existing lease, the condition of the local property market, demand for the specific property, our relationship with the landlord, the availability of potential sub-lease tenants and employee severance and other costs;

the benefits of any restructuring activity, including in Europe, may not be fully realized due to competitive, regulatory or operational difficulties; and

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we may be unable to successfully manage the complex integration of systems, technology, networks and other assets of the combined Company in a manner that minimizes any adverse impact on our customers, vendors, suppliers, employees and other constituencies.

Accordingly, there can be no assurance that: (i) the Merger and restructuring activities will result in the realization of the full benefits of synergies, innovation and operational efficiencies that we currently expect; (ii) these benefits will be achieved within the anticipated timeframe: (iii) we will be able to fully and accurately measure any such synergies; or (iv) we will be able to implement new strategies to transform the combined Company. Failure to successfully integrate the businesses and realize the projected synergies, innovation and operational efficiencies may have a material adverse effect on our business and results of operations.

Our business is highly competitive and failure to adequately differentiate ourselves or respond to the decline in general office supplies sales or 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 office supply stores, including Staples, wholesale clubs such as Costco, Sam s Club and BJs, mass merchandisers such as Wal-Mart and Target, computer and electronics superstores such as Best Buy, Internet-based companies such as Amazon.com, food and drug stores, discount stores, and direct marketing companies. 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, ink and toner, physical file storage and general office supplies. If we are unable to: (i) provide technology solutions and services that meet consumer needs; (ii) continuously stock products that are up-to-date and among the latest trends in the rapidly changing technological environment; (iii) differentiate ourselves from other retailers who sell similar products; and (iv) effectively compete, our sales and financial performance could be negatively impacted.

Failure to execute effective advertising efforts may adversely impact the Company s financial performance.

Effective advertising and marketing efforts play a crucial role in maintaining high customer traffic. The Company focuses on developing new marketing initiatives and maintaining effective promotional strategies that target further growth the Company s business. Failure to execute effective advertising efforts to attract new customers or retain existing customers may adversely impact the Company s financial performance.

If we are unable to successfully maintain a relevant multichannel experience for our customers, our results of operations could be adversely affected.

With the increasing use of computers, tablets, mobile phones and other devices to shop in our stores and online, we offer full and mobile versions of our website and applications for mobile phones and tablets. In addition, we are increasing the use of social media as a means of interacting with our customers and enhancing their shopping experiences. Multichannel retailing is rapidly evolving and we must keep pace with the changing expectations of our customers and new developments by our competitors. If we are unable to attract and retain team members or contract third parties with the specialized skills needed to support our multichannel platforms, or are unable to implement improvements to our customer-facing technology in a timely manner, our ability to compete and our results of operations could be adversely affected. In addition, if our website and our other customer-facing technology systems do not function as designed, the customer experience could be negatively affected, resulting in a loss of customer confidence and satisfaction, and lost sales, which could adversely affect our reputation and results of operations.

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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. 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 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.

A breach of our information technology systems could adversely affect our reputation, business partner and customer relationships and operations and result in high costs.

Through our sales, marketing activities, and use of third-party information, we collect and store certain personally identifiable information that our customers provide to purchase products or services, enroll in promotional programs, register on our website, or otherwise communicate and interact with us. This may include, but is not limited to, names, addresses, phone numbers, driver license numbers, e-mail addresses, contact preferences, personally identifiable information stored on electronic devices, and payment account information, including credit and debit card 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 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, burglaries, cyber-attack, errors by employees or employees of third-party vendors, faulty password management, misappropriation of data by employees, vendors or unaffiliated third-parties, or other irregularity, and result in persons obtaining unauthorized access to our data or accounts. Despite instituted safeguards for the protection of such information, we cannot be certain that all of our systems and those of our vendors and unaffiliated third-parties are entirely free from vulnerability to attack or compromise given that the techniques used to obtain unauthorized access, disable or degrade service, or sabotage systems change frequently. During the normal course of our business, we have experienced and we expect to continue to experience attempts to breach our systems, and we may be unable to protect sensitive data and the integrity of our systems or to prevent fraudulent purchases. Moreover, an alleged or actual security breach that affects our systems or results in the unauthorized release of personally identifiable information could:

- materially damage our reputation and brand, negatively affect customer satisfaction and loyalty, expose us to negative publicity, individual claims or consumer class actions, administrative, civil or criminal investigations or actions, and infringe on proprietary information; and

- cause us to incur substantial costs, including but not limited to costs associated with remediation for stolen assets or information, payments of customer incentives for the maintenance of business relationships after an attack, litigation costs, lost revenues resulting from unauthorized use of proprietary information or the failure to retain or attract customers following an attack, and increased cyber security protection costs. While we maintain insurance coverage that may, subject to policy terms and conditions, cover certain aspects of our cyber risks, such insurance coverage may be unavailable or insufficient to cover our losses or all types of claims that may arise in the continually evolving area of cyber risk.

We do a significant amount of business with government entities, various purchasing consortiums, and through sole- or limited- source distribution arrangements, and loss of this business could negatively impact our results.

One of our largest customer groups consists of various national and international governmental entities, government agencies and non-profit organizations, such as purchasing consortiums. Contracting with U.S. state

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and local governments 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. Our business with governmental entities and agencies is also sensitive to changes in national and international priorities and their respective budgets, which in the current economy continue to decrease. We also service a substantial amount of business through agreements with purchasing consortiums and other sole- or limited-source distribution arrangements. If we are unsuccessful in retaining these customers, or if there is a significant reduction in sales under any of these arrangements, it could adversely impact our business and results of operations.

Macroeconomic conditions have had and may continue to 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. In the past, the decline in business and consumer spending resulting from the global recession 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 in the U.S. and internationally, including, without limitation, the level of consumer debt, high levels of unemployment, higher interest rates and the ability of our customers to obtain credit, which may cause a continued or further decline in business and consumer spending.

Increases in fuel and other commodity prices could have an adverse impact on our earnings.

We operate a large network of stores, delivery centers, and delivery vehicles around the globe. As such, we purchase significant amounts of fuel needed to transport 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, other commodity prices, such as paper, may increase and we may not be able to pass along such costs to our customers. Fluctuations in the availability or cost of our energy and other commodity prices could have a material adverse effect on our profitability.

Our business may be adversely affected by the actions of and risks related to the activities of our third-party vendors.

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. When the global economy is experiencing weakness as it has over the last several years, 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 or require cash on delivery, which could have an adverse impact on our operating cash flow and result in severe stress on our liquidity. Borrowings under our existing credit facility could reach maximum levels under such circumstances, causing us to seek alternative liquidity measures, but we may not be able to meet our obligations as they become due until we secure such alternative measures.

We use and resell many manufacturers branded items and services. As a result, we are dependent on the availability and pricing of key products and services, including ink, toner, paper and technology products. As a reseller, we cannot control the supply, design, function, cost or vendor-required conditions of sale of many of the products we offer for sale. Disruptions in the availability of these products or the products and services we provide to our customers may adversely affect our sales and result in customer dissatisfaction. Further, we cannot control the cost of manufacturers products, and cost increases must either be passed along to our customers or will result in erosion of our earnings.

Failure to identify desirable products and make them available to our customers when desired and at attractive prices could have an adverse effect on our business and our results of operations. In addition, a material interruption in service by the carriers that ship goods within our supply chain may adversely affect our sales. Many of our vendors are small or medium sized businesses which are impacted by current macroeconomic conditions, both in the U.S., Asia and other locations. We may have no warning before a vendor fails, which may have an adverse effect on our business and results of operations.

Our product offering also includes many of our own branded products. While we have focused on the quality of our own branded products, we rely on third-party manufacturers for these products. Such third-party manufacturers may prove to be unreliable, the quality of our globally sourced products may not meet our expectations, such products may not meet applicable regulatory requirements which may require us to recall those products, or such products may infringe upon the intellectual property rights of third-parties. Furthermore, economic and political conditions in areas of the world where we source such products may adversely affect the availability and cost of such products. In addition, our own branded products compete with other manufacturers branded items that we offer. As we continue to increase the number and types of our own branded products that we sell, we may adversely affect our relationships with our vendors, who may decide to reduce their product offerings through us and may increase their product offerings through our competitors. Finally, if any of our customers are harmed by our own branded products, they may bring product liability and other claims against us. Any of these circumstances could have an adverse effect on our business and results of operations.

Disruption of global sourcing activities and our own brands quality concerns could negatively impact brand reputation and earnings.

Economic and civil unrest in areas of the world where we source products, as well as shipping and dockage issues, could adversely impact the availability or cost of our products, or both. 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. In addition, in recent years, we have substantially increased the number and types of products that we sell under our own brands including Office Depot ®, OfficeMax ® and other proprietary brands. While we have focused on the quality of our proprietary branded products, we rely on third-parties to manufacture these products. Such third-party manufacturers may prove to be unreliable, the quality of our globally sourced products may vary from our expectations and standards, such products may not meet applicable regulatory requirements which may require us to recall those products, or such products may infringe upon the intellectual property rights of third-parties. 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 foreign jurisdictions make it more likely that we may have to respond to claims or complaints from our customers.

A downgrade in our credit ratings or a general disruption in the credit markets could make it more difficult for us to access funds, refinance indebtedness, obtain new funding or issue securities.

While Merger-related costs have been significant between 2013 and 2015, 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. A deterioration in our financial results or the impact of significant Merger and integration costs could negatively impact our credit ratings, our liquidity and our access to the capital markets. If we need to refinance all or a portion of that indebtedness, there is no assurance that we will be able to secure such refinancing at the same or more favorable terms than the terms of our existing indebtedness.

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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 governing our credit facility (the Amended Credit Agreement as defined in Note 8, Debt, of the Consolidated Financial Statements) 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 Amended Credit Agreement. Upon the occurrence of an event of default under our Amended 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 our obligations under our credit facilities would permit the holders of our other material debt to accelerate their obligations.

We have incurred significant impairment charges and we continue to incur impairment charges.

In recent years, we recognized significant non-cash asset impairment charges related to under-performing stores in North America. These charges reflect greater than anticipated downturns in sales at certain lower performing stores and in some cases, early closures associated with the Real Estate Strategy. We regularly assess past performance and make estimates and projections of future performance at an individual store level. Reduced sales, our shift in strategy to be less promotional, as well as competitive factors and changes in consumer spending habits resulted in a downward adjustment of anticipated future cash flows for the individual stores that resulted in the impairment. We foresee challenges in the market and economy that could adversely impact our operations. To the extent that forward-looking sales and operating assumptions are not achieved and are subsequently reduced, or if we commit to a more aggressive store downsizing strategy, including allocating capital to further modify store formats, additional impairment charges may result. We have also recognized non-cash asset impairment charges from the abandonment of assets identified as not to be used in the post-Merger organization and from certain lease-related intangible assets that were deemed unrecoverable based on the Real Estate Strategy. Additional asset impairments may be recognized based on future decisions and conditions.

Changes in the numerous variables associated with the judgments, assumptions and estimates we make, in assessing the appropriate valuation of our goodwill, including changes resulting from macroeconomic challenges in international markets, or disposition of components within reporting units, could in the future require a reduction of goodwill and recognition of related non-cash impairment charges. If we were required to further impair our store assets, our goodwill or intangible assets, it could have a material adverse effect on our business and results of operations.

Our quarterly operating results are subject to fluctuation due to the seasonality of our business.

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. As a result, our operating results have fluctuated from quarter to quarter in the past, with sales and profitability being generally stronger in the second half of our fiscal year than the first half of our fiscal year. Factors that could also cause these quarterly fluctuations include: the pricing behavior of our competitors; the types and mix of products sold; the level of advertising and promotional expenses; severe weather; macroeconomic factors that affect consumer confidence; and the other risk factors described in this section. Most of our operating expenses, such as occupancy costs and associate salaries, are not variable, and so short term adjustments to reflect quarterly results are difficult. As a result, if sales in certain quarters are significantly below expectations, we may not be able to proportionately reduce operating expenses for that quarter, and therefore such a sales shortfall would have an adverse effect on our net income for the quarter.

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We have retained responsibility for liabilities of acquired companies that may adversely affect our financial results.

OfficeMax sponsors defined benefit pension plans covering certain terminated employees, vested employees, retirees, and some active employees (the Pension Plans). The Pension Plans are frozen and do not allow new entrants, however, they are under-funded and we may be required to make contributions in subsequent years in order to maintain required funding levels. Required future contributions could have an adverse impact on our cash flows and our financial results. Additional future contributions to the Pension Plans, financial market performance and Internal Revenue Service (IRS) funding requirements could materially change these expected payments.

In connection with OfficeMax s sale of its paper, forest products and timberland assets in 2004, OfficeMax agreed to assume responsibility for certain liabilities of the businesses sold. These obligations include liabilities related to environmental, asbestos, health and safety, tax, litigation and employee benefit matters. Some of these retained liabilities could turn out to be significant, which could have an adverse effect on our results of operations. Our exposure to these liabilities could harm our ability to compete with other office products distributors, who would not typically be subject to similar liabilities.

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. Additionally, because of recent operating losses, the Company has significant valuation allowances on deferred tax assets, limiting the amount of deferred tax benefits that can be recognized on current operations. The loss of or modification to one or more agreements with taxing jurisdictions, whether as a result of a third party challenge, negotiation, or otherwise, 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, changes in valuation allowances, or adverse outcomes from the tax audits that regularly are in process in any of the jurisdictions in which we operate could result in substantial volatility, including an unfavorable change in our overall tax rate and/or our effective tax rate.

Failure to attract and retain key personnel could have an adverse impact on our business.

We depend on our executive management team and other key personnel, and the recruitment and retention of certain personnel could adversely affect our performance and result in the loss of management continuity and institutional knowledge. We depend heavily upon our retail labor force to identify new customers and provide desired products and personalized customer service to existing customers. The market for qualified employees, with the right talent and competencies, is highly competitive, and may subject us to increased labor costs during periods of low unemployment. The loss of the services of key employees or the inability to attract additional qualified managers for our retail stores and other lines of business may adversely affect our ability to conduct operations in accordance with the standards that we have set.

Although certain members of our executive team have entered into agreements relating to their employment with us, most of our key personnel are not bound by employment agreements, and those with employment or retention agreements are bound only for a limited period of time. If we are unable to retain our key personnel, we may be unable to successfully develop and implement our business plans, which may have an adverse effect on our business and results of operations.

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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, state and federal governmental inquiries, audits and investigations, environmental matters, employment, tort, state false claims act, 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 settlement expenses, 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 our 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, strategic alliances 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, strategic alliances 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 joint venture, strategic alliances and franchise arrangements may also add complexity to our processes, and may require unanticipated operational adjustments in the future that could adversely impact our business and results of operations.

Our international operations subject us to risks as foreign currency fluctuations, potential unfavorable foreign trade policies or unstable political and economic conditions.

As of December 26, 2015, we sold to customers in 59 countries throughout North America, Europe, Asia/Pacific, and Latin America. We operate wholly-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 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 matters relating to our corporate conduct and the conduct of our business, including securities laws, consumer protection laws, advertising regulations, privacy and cybersecurity laws, and wage and hour regulations and anti-corruption legislation. 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.

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We could be adversely affected by violations of the U.S. Foreign Corrupt Practices Act and similar worldwide anti-bribery laws.

The U.S. Foreign Corrupt Practices Act, the U.K. Bribery Act and similar anti-bribery laws in other jurisdictions generally prohibit companies and their intermediaries from making improper payments for the purpose of obtaining or retaining business. Recent years have seen a substantial increase in anti-bribery law enforcement activity with more frequent and aggressive investigations and enforcement proceedings by both the Department of Justice and the U.S. Securities and Exchange Commission, increased enforcement activity by non-U.S. regulators and increases in criminal and civil proceedings brought against companies and individuals. Our policies mandate compliance with all anti-bribery laws. However, we operate in certain countries that are recognized as having governmental and commercial corruption. Our internal control policies and procedures may not always protect us from reckless or criminal acts committed by our employees or third-party intermediaries. Violations of these anti-bribery laws may result in criminal or civil sanctions, which could have a material adverse effect on our business and results of operations.

Increases in the cost of employee health benefits could impact the Company s financial results and cash flow.

The Company s expenses relating to employee health benefits are significant. Healthcare costs have risen significantly in recent years, and recent legislative and private sector initiatives regarding healthcare reform have resulted and could continue to result in significant changes to the U.S. healthcare system. Unfavorable changes in the cost of such benefits could have a material adverse effect on the Company s financial results and cash flow.

Our business could be disrupted due to weather-related factors.

Our operations are heavily concentrated in the Southern and Midwestern U.S. (including Illinois, Ohio, Florida and the Gulf Coast). Because of our concentration in the Southern U.S., we may be more susceptible than some of our competitors to the effects of tropical weather disturbances, such as tornadoes and hurricanes. In addition, winter storm conditions in areas that have a large concentration of our business activities could also result in reduced demand for our products, 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 mitigate the adverse effect of 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 organization efforts from labor unions. The potential for unionization could increase if federal legislation is passed that would facilitate labor organization. Significant union representation would 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.

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 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.

As of December 26, 2015, our wholly-owned entities operated the following retail stores, which are presented in the tables below by Division and location.

STORES

North American Retail Division

State	#	State	#
UNITED STATES:			
Alabama	29	Montana	5
Alaska	5	Nebraska	12
Arizona	35	Nevada	25
Arkansas	12	New Jersey	9
California	160	New Mexico	13
Colorado	52	New York	28
District of Columbia	1	North Carolina	52
Florida	152	North Dakota	4
Georgia	64	Ohio	57
Hawaii	10	Oklahoma	18
Idaho	9	Oregon	23
Illinois	69	Pennsylvania	26
Indiana	25	Puerto Rico	13
Iowa	9	South Carolina	21
Kansas	15	South Dakota	4
Kentucky	19	Tennessee	35
Louisiana	40	Texas	192
Maine	1	Utah	16
Maryland	20	U.S. Virgin Islands	2
Massachusetts	5	Virginia	42
Michigan	45	Washington	47
Minnesota	39	West Virginia	5
Mississippi	19	Wisconsin	36
Missouri	40	Wyoming	4
		TOTAL UNITED STATES	1,564

International Division

Country	#
Australia	3
France	59
New Zealand	17
South Korea	21
Sweden	47
TOTAL	147

The supply chain facilities which we operate in the United States support our North American Retail and North American Business Solutions Divisions and the facilities in Canada support our North American Business Solutions Division. We also operate DCs outside of the United States and Canada, which support our International Division. The following tables set forth the locations of our principal supply chain facilities as of December 26, 2015. The number of facilities in the United States and Canada in the tables below excludes or

includes certain locations reported in the prior year because of our updated assessment. Included in the prior year count were 31 locations operated by us which constitute a part of larger facilities. Our 2015 assessment does not count these as separate locations.

DCs and Crossdock Facilities (United States)

State	#	State	#
Alabama	1	Maine	1
Arizona	1	Minnesota	2
California	3	Mississippi	1
Colorado	2	Nevada	1
Florida	3	Ohio	2
Georgia	2	Pennsylvania	3
Hawaii	1	Puerto-Rico	1
Illinois	2	Texas	3
Kansas	1	Washington	3
		TOTAL	33

DCs and Crossdock Facilities (Canada)

Country	#
Canada	12

DCs (International Division)

Country	#	Country	#
Australia	6	New Zealand	2
China	3	South Korea	1
Czech Republic	1	Spain	1
France	3	Sweden	1
Germany	1	Switzerland	1
Ireland	1	The Netherlands	1
Italy	1	United Kingdom	2
		TOTAL	25

Our corporate office in Boca Raton, FL consists of approximately 625,000 square feet. 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.

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Item 3. Legal Proceedings.

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

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

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

In addition to the foregoing, Heitzenrater v. OfficeMax North America, Inc., et al. was filed in the United States District Court for the Western District of New York in September 2012 as a putative class action alleging violations of the Fair Labor Standards Act and New York Labor Law. The complaint alleges that OfficeMax misclassified its assistant store managers (ASMs) as exempt employees. OfficeMax vigorously defended itself in this lawsuit and in November 2015 reached a settlement in the amount of $3.5 million which the court preliminarily approved on November 23, 2015. Final settlement approval and dismissal of the case are expected by mid-2016.

Further, Kyle Rivet v. Office Depot, Inc., formerly known as Constance Gibbons v. Office Depot, Inc., a putative class action that was instituted in May 2012, is pending in the United States District Court for the District of New Jersey. The complaint alleges that Office Depot s use of the fluctuating workweek (FWW) method of pay was unlawful because Office Depot failed to pay a fixed weekly salary and failed to provide its ASMs with a clear

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and mutual understanding notification that they would receive a fixed weekly salary for all hours worked. The plaintiffs seek unpaid overtime, punitive damages, and attorneys fees. The Company believes in this case that adequate provisions have been made for probable losses and such amounts are not material. However, in light of the early stage of the case and the inherent uncertainty of litigation, the Company is unable to estimate a reasonably possible range of loss in this matter. Office Depot intends to vigorously defend itself in this lawsuit.

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

Item 4. Mine Safety Disclosures.

Not applicable.

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PART II

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

In connection with the voluntary transfer of the listing of the Company s common stock from the NYSE to NASDAQ, the Company s common stock ceased trading on the NYSE effective at the close of business on September 25, 2014 and, commenced trading on NASDAQ at market open on September 26, 2014. The Company s common stock continues to trade under the ticker symbol ODP .

As of the close of business on January 22, 2016, there were 9,559 holders of record of our common stock. The last reported sale price of the common stock on the NASDAQ on January 22, 2016 was $5.07.

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

	High	Low
2015		
First Quarter	**$ 9.77**	**$ 7.40**
Second Quarter	**9.41**	**8.80**
Third Quarter	**8.98**	**6.64**
Fourth Quarter	**7.99**	**5.24**
2014		
First Quarter	$ 5.45	$ 3.97
Second Quarter	5.85	3.84
Third Quarter	5.91	4.83
Fourth Quarter	8.90	4.26

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

Our common stock price has been, and likely will continue to be, impacted by the pending Staples Acquisition.

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The following graph compares the five-year cumulative total shareholder return on our common stock with the cumulative total returns of the S&P 500 index and the S&P Specialty Stores index.

The foregoing graph shall not be deemed to be filed as part of this Annual Report 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 we specifically incorporate 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 26, 2015. It should be read in conjunction with the Consolidated Financial Statements and Notes thereto in Part IV Item 15. Exhibits and Financial Statement Schedules and Part II Item 7. MD&A of this Annual Report.

(In millions, except per share amounts and statistical data)	**2015**	2014	2013[1]	2012	2011[2]
Statements of Operations Data:					
Sales	**$ 14,485**	$ 16,096	$ 11,242	$ 10,696	$ 11,489
Net income (loss) [3][4][5][6]	**$ 8**	$ (352)	$ (20)	$ (77)	$ 96
Net income (loss) attributable to Office Depot, Inc. [3][4][5][6]	**$ 8**	$ (354)	$ (20)	$ (77)	$ 96
Net income (loss) available to common shareholders [3][4][5][6]	**$ 8**	$ (354)	$ (93)	$ (110)	$ 60
Net earnings (loss) per share:					
Basic	**$ 0.01**	$ (0.66)	$ (0.29)	$ (0.39)	$ 0.22
Diluted	**$ 0.01**	$ (0.66)	$ (0.29)	$ (0.39)	$ 0.22
Statistical Data:					
Facilities open at end of period:					
United States:					
Office supply stores	**1,564**	1,745	1,912	1,112	1,131
Distribution centers and crossdock facilities	**33**	66	81	15	15
International[7]:					
Office supply stores	**147**	146	163	123	131
Distribution centers and crossdock facilities	**37**	43	46	23	27
Call centers	**12**	14	19	21	22
Total square footage North American Retail Division (in millions)	**35.4**	39.6	43.6	25.5	26.6
Percentage of sales by segment:					
North American Retail Division	**41.5%**	40.6%	41.0%	41.7%	42.4%
North American Business Solutions Division	**39.4%**	37.4%	31.8%	30.0%	28.4%
International Division	**19.1%**	21.1%	26.8%	28.3%	29.2%
Balance Sheet Data:					
Total assets[8]	**$ 6,442**				